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DATE 24 April 1998

TO/DEST. Co-ordinator
 Corporate Services and Economic Development Committee

FROM/EXP. Finance Commissioner

SUBJECT/OBJET **JOINT INVESTMENT OF SURPLUS FUNDS - CITY OF
 OTTAWA**

DEPARTMENTAL RECOMMENDATIONS

That the Corporate Services and Economic Development Committee recommend Council approve that the Finance Commissioner be authorized to complete an agreement with the City of Ottawa for the provision of investment management services whereby the Region jointly invests and administers surplus funds on behalf of the City of Ottawa.

PURPOSE

The purpose of this report is to request that approval be given to the Finance Commissioner to enter into an agreement with the City of Ottawa for the joint investment of surplus funds of Ottawa and the Region and that the Finance Department provide investment management services for an annual fee of \$50,000.

BACKGROUND

Under Section 167.4 of the Municipal Act, Ontario municipalities may enter into an agreement with other municipalities for the joint investment of their funds. As a result of budget pressures confronting the City of Ottawa and the resultant reduction in staff resources, discussions were held concerning the joint investment of surplus funds with the Region to provide efficient cash management and the timely investment of these funds. Regional Finance staff proposed the purchase of service on an annual basis which would enable Ottawa to benefit from the Region's investment and funds management systems.

The value of investments managed by the Region throughout 1997 was approximately \$415M including a Sinking Fund portfolio of \$198M. The daily cash management program of investing surplus funds results in financial market transactions in excess of \$2.0 billion which results in investment income earned during the year amounting to \$32M. The proposed joint investment of funds would result in surplus funds of the City of Ottawa, which are estimated to average approximately \$100M during 1998, being invested with the funds of the Region. Such investments would be made in accordance with the investment policy of the Region which is governed by Ontario Regulation 438/97 which sets out the investment instruments that are approved for Ontario municipalities.

TERMS OF AGREEMENT

City of Ottawa Council approved a report on February 5, 1998 recommending that the Treasurer be given authority to negotiate a contract with the Region to invest and administer surplus funds and that the City accept the investment policy and practices of the Region as a framework for the short term investment of funds. The proposed agreement provides that the Region act as agent for the investment and administration of surplus funds for Ottawa. The term of the agreement is two years and either party may terminate the agreement by giving a thirty day written notice. To facilitate the investment of funds, the City of Ottawa will provide a regular update of its projections of cash-flow. Surplus funds will be electronically transferred to the Region for investment. Minimum transfer amounts have been established for advances and withdrawals to ensure efficiency of investment. Based upon preliminary cash-flow estimates, the surplus funds of the City of Ottawa will be invested in short term investments and returns will be calculated based upon the earnings of the money market fund of the Region. The City will participate in the earnings from pooled investments based upon the proportionate share of the investments owned by Ottawa at any given time. It is proposed to pay out investment earnings on surplus funds on a monthly basis.

The Region will provide the City with detailed reports on investment holdings, status of account, details of advances and withdrawals made from the fund, and the interest earnings and realized capital gains received by the investment fund. The agreement also provides for the orderly withdrawal of funds in the event that the agreement is terminated and any unusual costs or losses on the sale of investments incurred as a result of a windup of the agreement will be the responsibility of the party giving notice of the termination. In consideration of this service, the Region will receive an annual fee of \$50,000. In accordance with similar legislation, the Municipal Finance Officers Association of Ontario (MFOA) provide investment services through their "One Fund" where municipalities may invest their surplus funds jointly with other Ontario municipalities in this fund. The management fee for this service is .0019% of the funds invested in the Fund. As a comparison, based upon the latest cash forecast from the City of Ottawa, this would require a fee of \$190,000. The provision of investment services by the Region will provide benefit to both municipalities and to the ratepayers of Ottawa-Carleton.

FINANCIAL COMMENT

The Treasury and Debt Branch of the Finance Department will provide the investment services to Ottawa within the existing program budget. The investment management fee recovered from the City of Ottawa will reduce the net tax requirement of the Region.

CONSULTATION

The public consultation process is not applicable in this matter.

CONCLUSION

The Region is able to provide investment services to the City of Ottawa within existing resources. The addition of surplus funds from the City of Ottawa is incremental to the investment activities required to be carried out for the daily cash and investment activities of the Region. The agreement will enable Ottawa to realize increased return on its surplus funds and will also provide additional cost recovery to the Region of its costs to manage and invest its financial resources.

*Approved by Kent Kirkpatrick
on behalf of J.C. LeBelle*

DG/dg