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# HALDIMAND COUNTY

Report FIN-10-2019 Investment Status Report – December 31, 2018

For Consideration by Council in Committee on June 18, 2019

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## OBJECTIVE:

To provide Council with information regarding the County's investment position, as at December 31, 2018, and to allocate any surplus or deficit exceeding \$100,000 to or from the Investment Income Stabilization Reserve, as well as to report on the Hydro Legacy Fund transactions for 2018, including accrued interest to be applied to that fund.

## RECOMMENDATIONS:

1. THAT FIN-10-2019 Investment Status Report be received;
2. AND THAT, in accordance with Section 8.0 of the Cash Management and Investments Policy #2001-11, as revised, \$202,557 be allocated from the Investment Income Stabilization Reserve to mitigate investment income fluctuations in the 2018 fiscal year;
3. AND THAT, in accordance with Section 3(b)(i) of the Hydro Legacy Fund Policy #2018-01, the weighted average yield to maturity be set at 3.77% for the purpose of accruing investment interest earnings to the Hydro Legacy Reserve Fund for 2018.

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**Respectfully submitted:** Mark Merritt, CPA, CA, General Manager of Financial & Data Services

**Approved:** Donald G. Boyle, Chief Administrative Officer

## EXECUTIVE SUMMARY:

The Municipal Act requires that the Treasurer present a report to Council on an annual basis with respect to the performance of the County's investment portfolio, in addition to other specifics as noted below. This report addresses the performance of the County's investment portfolio for the period January 1, 2018 to December 31, 2018. The total unaudited book value of the County's investment portfolio, as at December 31, 2018, is approximately \$159.9 million, which is comprised of \$67.9 million in fixed income investments, and \$92.0 million in growth/equity investments.

The County is required to report the carrying value of its investments (and investment earnings) based on the lower of cost or market, which means any accrued market gains are not reported as income unless the underlying investment is liquidated. "Realized" earnings means actual cash income from the investment which has been deposited with the County. "Market" gains, on the other hand, relate to the growth in the investment portfolio, but the gain has not been received since the investment was not liquidated. Upon review by the Investment Committee and with the assistance/advice of the County's investment manager, the County did not liquidate any of its growth portfolio in 2018. Therefore, cash interest earnings was only realized on the fixed income portfolio for 2018. The realized return on this portion of the portfolio was 3.79% for 2018, or approximately \$2.6 million of actual cash interest received by the County, net of applicable investment fees.

The County's net investment interest income is allocated annually as follows:

- Apportioned back to interest bearing reserve funds (including the Hydro Legacy Reserve Fund as outlined in CS-GM-02-2018 and described in more detail below) to help offset inflationary pressures when used to fund future expenses;
- Conversely, "funds" in a negative cash position (e.g. Community Vibrancy Fund (CVF), Development Charges) are charged "interfund" interest since we are internally borrowing from other "general fund" sources to cover that fund's expenses in advance of receipt of the related deposits;
- The remaining cash interest received in a calendar year is credited to the County's "general fund" and helps to reduce the annual tax levy. Historically, a budget of \$1.6 million in interest income is allocated to the "general fund". Any annual surplus/deficit in the general fund's realized interest income, greater than \$100,000, is to be funded from the Investment Income Stabilization Reserve as outlined in the County's Cash Management and Investment Policy.

On March 27, 2018, staff presented report CS-GM-02-2018 Hydro Legacy Fund Policy & By-law. Through that report, Council approved that interest be accrued on an annual basis to the Hydro Legacy Reserve Fund based on a weighted average yield to maturity, which would then be reconciled as longer term investments matured or were liquidated. The County's Investment Committee recently met with the CIBC investment manager to determine what the appropriate weighted average yield to maturity would be based on 2018 performance, as well as to set a projection for 2019. As a result of this analysis and discussion, it is proposed that a full rate of return of **3.77%** be allocated to the Hydro Legacy Reserve Fund for 2018. This is a weighted average of the 3.79% realized return (actual cash received, as noted above) and 2018 market growth of 3.75% on the equity portion of the investment portfolio that will not be realized until the investment is liquidated. Using the 3.77% earnings figure results in total interest earnings of approximately \$2.67 million being accrued to the Hydro Legacy Reserve Fund for 2018. The Investment Income Stabilization Reserve will be used to balance the accrual, as outlined in the Hydro Legacy Fund Policy. Even with such an accrual, it is expected that there will still be some gains in the investment return when the growth investments are liquidated in future years. This accrual approach will avoid such future "windfalls" due solely to timing, and will allow utilization of some of the earnings from the Hydro sale proceeds while preserving the principal.

CIBC has a team of advisors which have been managing the majority of the County's investment portfolio since the later part of 2013. This relationship began with the management of the County's bond portfolio, but has grown to involve a more comprehensive and diversified portfolio built upon a relationship of communication and monitoring that is based on CIBC's proven track record in the municipal investment market. Finance staff have regular communication with the CIBC team. The County's investment committee (consisting of the Mayor, Chief Administrative Officer, Chief Financial Officer/General Manager of Financial and Data Services and the Treasurer) meet at least semi-annually with the CIBC team to review the portfolio's performance. In addition, monthly internal investment performance reports are provided to the committee for monitoring. A projected weighted average yield to maturity of **4.03%** is proposed as a target for 2019. This 2019 rate will be what the County uses to benchmark actual performance during 2019.

## **BACKGROUND:**

### Legislated Investment Reporting

As provided for under the Municipal Act, the County can invest funds not required to meet current expenditures in accordance with prescribed restrictions and rules. Intended to preserve and protect the security of these public funds, Provincial regulations restrict the nature and term of eligible investments. These regulations require all municipalities to adopt a policy outlining its investment policies and goals.

The County's "Cash Management and Investment Policy" (2001-11, amended in 2016) was enacted to meet the legislative requirements. The County's policy: describes the eligible investments and restrictions; establishes priority objectives of adherence to the statutory requirements; and balances liquidity and cash flow needs with a competitive return on the portfolio of investments. The Policy delegates the authority of control and management of these investments to the Treasurer, with reporting oversight by senior staff, as well as input and advice from the external investment manager.

The County's Investment Policy, as well as legislation, requires the Treasurer to present an investment report to Council on an annual basis. The investment report is to provide the following information:

- a statement related to the performance of the securities held in the investment portfolio;
- estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment;
- a statement by the Treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the County.

Staff also continue to indirectly communicate investment performance to Council on a semi-annual basis through the reporting of investment income in the Tax Supported Operating Budget Variance report and the Tax Supported Operating Budget document.

Furthermore, through CS-FI-08-2016 *RE: Investment Status Report and Investment Policy Update*, Council approved the establishment of an Investment Committee consisting of the Mayor, Chief Administrative Officer, Chief Financial Officer/General Manager of Financial and Data Services and the Treasurer. As per revised Policy No. 2001-11 *Cash Management and Investments*, the Investment Committee is mandated to meet *at least* semi-annually to review performance and obtain advice on future trends from the external investment manager. The Investment Committee met formally twice to review 2018 investment performance (once mid-year and once to review the unaudited year end performance). Finance staff also meet regularly with the investment manager to review trends and projected performance.

The intent of this report is to meet the formal reporting requirements of the County's investment policy, as well as to provide Council with an indication of the market value of the investment portfolio.

It should be noted that legislative amendments have been enacted by the Province that have changed some of the eligible investment regulations as well as provided a framework for a "Prudent Investor" status. These regulations came into effect January 2019, requiring a future report to Council in 2019 which will outline the changes, a review of best practices, performance, options and any recommended amendments, if any, to the County's current investment policy.

#### Hydro Legacy Reserve Fund

Staff Report CS-GM-02-2018 Hydro Legacy Fund & By-law was presented for Council's consideration on March 27<sup>th</sup>, 2018. In that report, it was recommended that the interest allocated to the Hydro Legacy Reserve Fund be based on the weighted average yield to maturity, not the realized income as is the practice for other interest bearing reserve fund accounts. As longer term investments mature or are liquidated, a reconciliation process will occur to ensure the interest allocated to the Hydro Legacy Reserve Fund is not materially over or understated due to timing. Based on the analysis of the 2018 returns, a weighted average interest earnings rate of 3.77% is recommended to be allocated to the Hydro Legacy Reserve Fund for 2018, as outlined in further detail below.

## ANALYSIS:

This investment report reflects activity for the period of January 1, 2018 to December 31, 2018. The County's external investment portfolio is comprised of funds available from reserves, reserve funds and operating funds, as well as the proceeds from the 2015 Haldimand County Utilities Inc. divestiture, the net proceeds of which have been set aside by Council resolution into the Hydro Legacy Reserve Fund. A summary of the County's Investment Holdings, as of December 31, 2018, can be found in Attachment 1.

Provincial regulations establish the type of investments the County can hold, while the County's Investment Policy establishes limits for the allowable types of investments. As of December 31, 2018, the County's portfolio was comprised of holdings ranging from fixed income investments (daily money market instruments, long term bonds and debentures, as well as principal protected notes with an annual fixed income) and growth income investments (equity related principal protected notes). The total unaudited book value of the holdings, as at December 31, 2018, was \$159.9 million compared to a book value of \$170.9 million at December 31, 2017. The 2018 year end book value is comprised of approximately \$67.9 million in fixed income investments, compared to \$78.9 million in 2017, while the 2018 growth/equity year end book value remain equivalent to 2017 year end of \$92.0 million. Of the \$159.9 million 2018 year end investment portfolio balance, approximately \$79.9 million (50%) pertains to the monies held in the Hydro Legacy Reserve Fund.

In accordance with the requirements of the Municipal Act, in the opinion of the Treasurer, all investments held during 2018 were consistent with the investment policies and goals adopted by the County.

### **Fixed Income Investment Performance – 2018**

The fixed income investment earnings, comparing 2018 to 2017, are summarized as follows, and are limited to the County's external investment portfolio so do not include any inter-fund interest allocation (i.e. allocation between operating fund, capital funds or reserve funds):

**Table 1 – Realized Fixed Income Performance**

	2018 Unaudited Realized Income Returns				2017 Audited Realized Income Returns			
	Year End Book Value (million)	Percent of Portfolio	Realized Earnings	Average Yield (%)	Year End Book Value (million)	Percent of Portfolio	Realized Earnings	Average Yield (%)
Fixed Income Investments	\$ 67.87	42%	\$ 2,644,721	3.79%	\$ 78.87	46%	\$ 2,542,258	3.13%

*Note 1 – Yields for individual holdings within each category above vary based on the timing of purchase and the maturity date.*

*Note 2 – Annualized average yield to December 31*

*Note 3 – All earnings are net of investment fees*

*Short term investments included under Fixed Investments include cash. Cash is held under an interest bearing account that provides an interest rate of Monthly Average Prime (MAP) less 1.75% or 2.00% depending on the cash balance.*

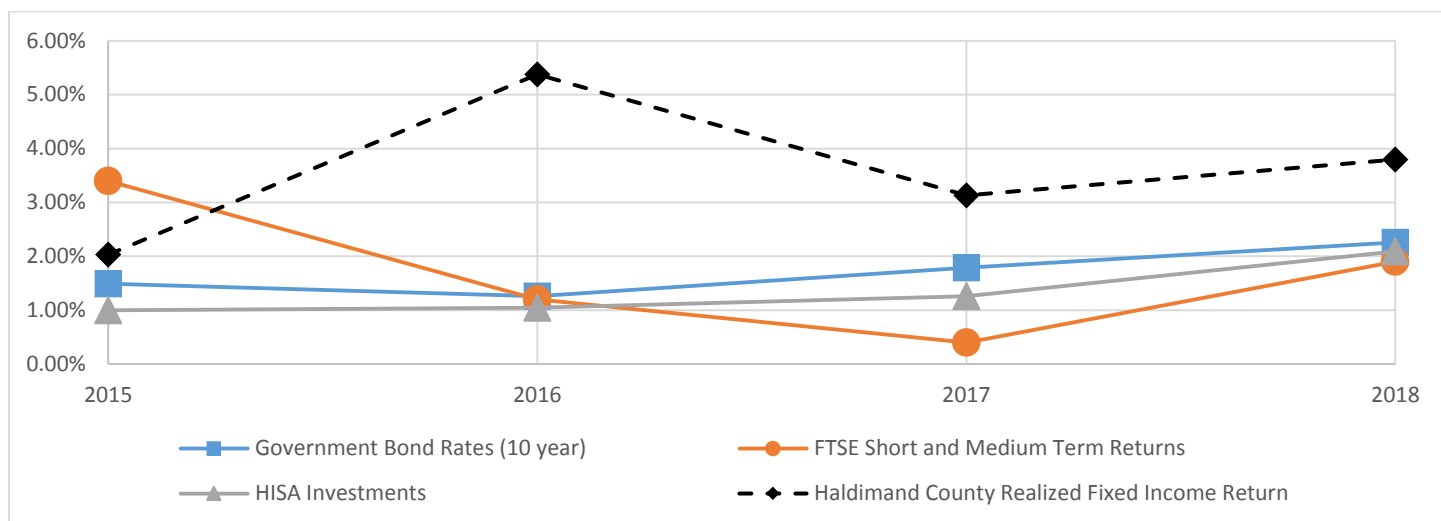
From Table 1 above, it can be seen that \$67.9 million or 42% of the entire investment portfolio was in fixed income investments in 2018, with actual cash realized earnings of approximately \$2.6 million, or 3.79%. The remainder of the County's \$159.9 million portfolio is held in growth income investments, as outlined in Table 2. It should be noted that the 2018 the average yield of 3.79% was strong, particularly compared to related benchmarks, as discussed below.

Chart 1 below compares the County's actual annual return on the fixed income portfolio to a set of industry benchmarks. These benchmark indices are recommendations from our external investment manager to compare the performance of County's current investment returns to the following: the

Government Bond 10 year-over-year average; the Financial Times Stock Exchange (FTSE) TMX Canada Short-Term Bond Index (this index is a broad measure of Canadian one to five year term bonds); and the One Fund High Interest Savings Account (HISA) offered to municipalities as provided under Provincial legislation.

This continues to show that Haldimand's realized investment income is positive in 2018. It should be noted that in 2016 the County realized substantial income from liquidating a strip bond that it held for quite some time, thus resulting in a larger than average yield for 2016.

**Chart 1 – Realized Fixed Income Performance Compared to Benchmarks**



### **Growth Income Investment Performance – 2018**

Growth income performance relates to growth in the value of the investment portfolio, but the gain has not been received since the investment was not liquidated or did not mature. The following table displays the market growth in the County's investment portfolio between December 31, 2017 and December 31, 2018:

**Table 2 – Growth Income Investment Performance**

	2018 - Market Growth					2017 Market Growth				
	Portfolio Balance (million)	Market Value Balance (million)	Market Growth (million)	Market Return at December 31, 2018	WAYM* Recorded	Portfolio Balance (million)	Market Value Balance (million)	Market Growth (million)	Market Return at December 31, 2017	WAYM* Recorded
Growth/Equity Investments	\$ 92.00	\$ 93.77	\$ 1.77	1.92%	3.77%	\$ 92.00	\$ 101.59	\$ 9.58	10.42%	4.34%

\*WAYM=Weighted Average Yield to Maturity

Table 2 provides details regarding the 2018 and 2017 performance of Growth Income Investment portfolio. The table provides a comparison of Market Growth and the Weighted Average Yield to Maturity (WAYM). The growth portfolio can be affected positively and negatively from market conditions. As you can see above, the December 2018 Market Growth experienced a decline over 2017 (1.92% versus 10.42%). However, as of May 1, 2019, the market rebounded, resulting in a 10.41% market growth, and growth continues to be solid, with earnings expected to continue to improve.

The Market Growth above reflects investment value increases as of December 31st. As previously mentioned, a substantial portion of the invested funds will not generate income until maturity or sold, it is important to recognize these changes in value over the life of the investment. Realized and unrealized gains or losses are based on the difference between the cost (book) and market value (current market price) of securities at any point in time.

As per the Hydro Legacy Fund Policy #2018-01, the Weighted Average Yield to Maturity (WAYM) is determined annually, by the Investment Committee, based on advice from the external Investment Manager on the performance to date of the overall investment portfolio and expected future market conditions. Establishing a benchmark rate for the purpose of accruing unrealized earnings for the Hydro Legacy Reserve Fund, will help avoid significant reconciliations in future years.

For 2018, included in Table 2, the Growth Income Investments resulted in a 3.77% WAYM, which will be recorded as a year-end accrual for the Hydro Legacy Reserve Fund, however, the 2018 projected WAYM benchmark was projected at 4.88%. This variance is primarily due to higher estimated returns in 2017 resulting in lower revenue recognition in 2018. The WAYM benchmarking for 2019, after review by the committee and taking into account actual holdings at May 1, 2019, is recommended to be set at 4.03%.

It is critical to note that the market growth shown in the table above has not been realized (cash not yet received) as the related investments have not matured, thus creating the return. Significant cash inflows are expected in future years when any of the individual notes comprising this portion of the investment portfolio are liquidated or mature.

**Chart 2 – Growth Income Investment Performance Compared to Benchmarks**

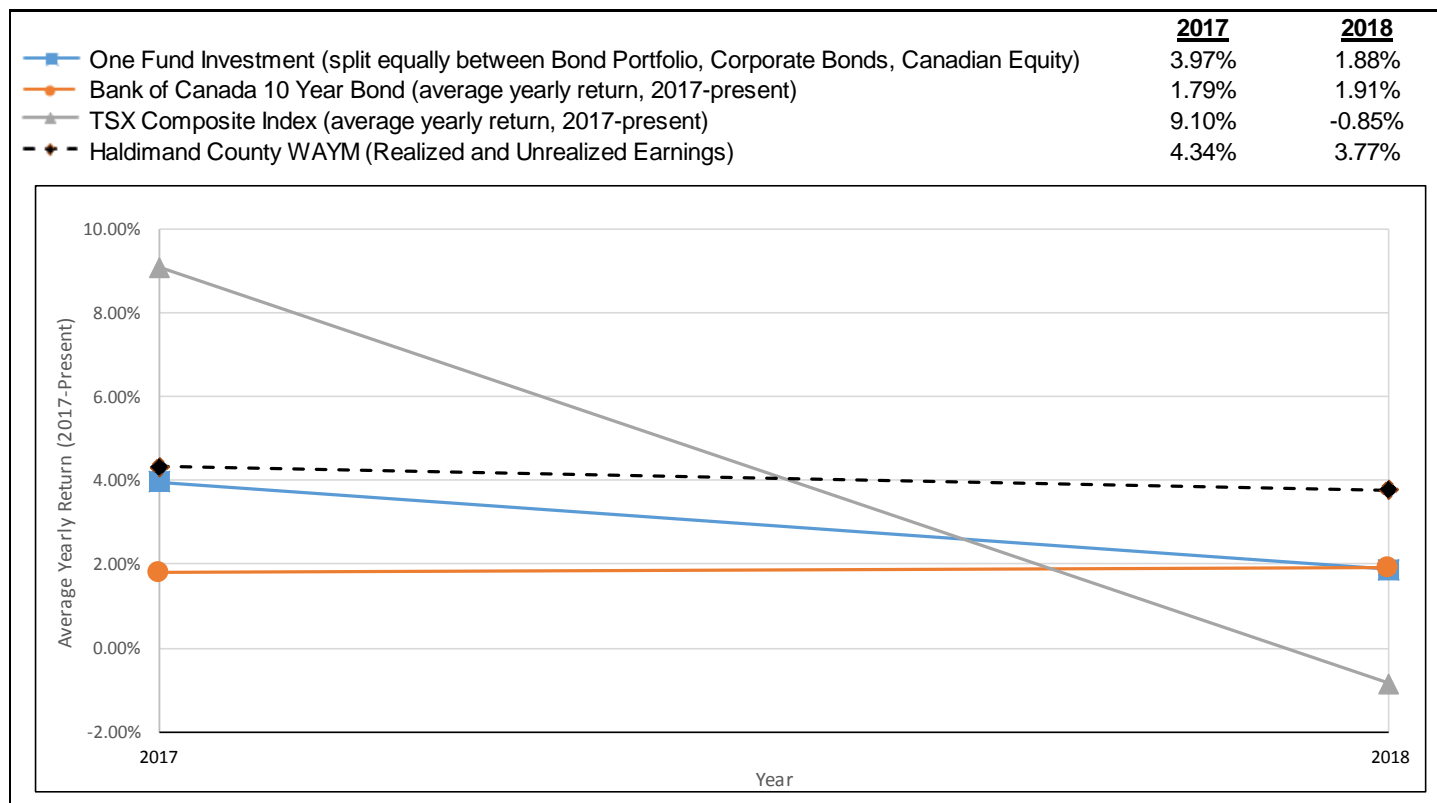


Chart 2 above compares the County's WAYM Growth Income of over the past 2 years (returns in 2017 were 4.34% and 2018 was 3.77%) to a set of selected industry benchmarks. These benchmarks were selected based on a review of industry standards and recommendations from our external investment Manager. These indices reflect performance of other available municipal investment options and comparison to a well established stock composite index. The performance of the One Fund Investment program is based on the average annual returns of their three main growth related investment products. The Bank of Canada returns reflect the average yearly return on a 10 year Bank of Canada bond. It should be noted that these indices are also used to benchmark the One Fund's annual investment returns. Although the 2018 WAYM results were lower than the internally establish benchmark by the Investment Committee, the County's overall investment performance exceeds the investment market

comparators and generally has well performed over the past two years – despite a significant market decline at the end of 2018.

### **External Investment Manager**

In late 2013, the County obtained investment management services from CIBC. Given the size of the investment portfolio at the time, as well as the pending increase in available funds from the sale of Haldimand County Hydro, staff determined it was prudent to utilize an external investment management team as the County did not have the in-house resources and expertise to manage such a large investment portfolio. This allowed staff to deal directly with one broker and better manage cash flows and timing of transfers in and out of our investment portfolio.

When the County received the proceeds from the sale of Haldimand Hydro, the available investment portfolio nearly doubled to over \$145 million. This precipitated a review of the County's portfolio mix, eligible investments and use of external fund managers. County staff met with several investment fund managers (current CIBC manager, Association of Municipalities Ontario (AMO)/Local Authority Services (LAS's) One Investment Program, TD Wealth Private Investment, BMO Nesbitt Burns, Raymond James and Meridian Credit Union) to review their product mix offerings and projected market returns. Both CIBC and the One Investment Program made formal presentations to the now formally established "Investment Committee". Based on this review, available products and proposed portfolio mix, it was recommended to continue to utilize CIBC and to move to a more balanced investment mix, which included making investments into Principal Protected Notes (PPNs) – both Fixed Income and Equity.

The recommended portfolio mix required the current Investment Policy to be updated and approved by Council in the spring of 2016. The main revisions to the County's policy were as follows:

- Authorized Investment Limits/Mix and Individual Issuer Limitations
- Ability to Invest in the *One Investment Program* to allow for investment in Canadian Bonds and Equities
- Provision for establishment of an Investment Income Stabilization Reserve
- Establishment of an internal investment committee, consisting of the Mayor, Chief Administrative Officer, Chief Financial Officer/General Manager of Corporate Services and Treasurer
- Requirement to report annual investment returns in comparison to selected benchmarks

When considering the need for a secure, yet attractive return, from the investment of public funds, some of the key features of CIBC deposit notes (PPNS) include:

- Capital Preservation – 100% principal protection at maturity with CIBC issuer guarantee
- Diversification – Can be linked to a variety of asset classes including equities
- Enhanced Income and/or Growth Potential – can be designed to generate minimum guaranteed returns, enhanced income or long-term growth potential
- Asset/Liability Matching – Ensure the availability of sufficient capital to meet future funding obligations over defined time horizons
- Liquidity – Daily secondary market (which could result in a value above or below par if the Deposit Notes are liquidated prior to maturity.)

Some additional factors that led to the selection of CIBC as the portfolio manager were:

- a) CIBC has a track record of investment expertise including:
  - they have the longest running secondary market for Structured Notes in Canada and their secondary market has been open every day since the notes program began, with the exception of September 11, 2001;
  - they issued their first Structured Note in 1994 and have originated more than \$20 billion in notes to date;
  - they were named Canada Derivative House of the Year (the 2014 & 2015 Global Capital Derivatives Awards);

- #1 in Structure Products Market Share (Brendan Wood International 2015 Investment & Corporate Banking World Watch).
- b) The team at CIBC offers a number of key services that prove them to be the best fit with the County, at this time:
- Specialization in the development of municipal investment products that are tailored to specific market views and risk tolerances;
  - The ability to invest in principal protected notes (PPNS) that not only improve portfolio diversification, they provide full principal protection at maturity. They may also generate higher potential return than traditional fixed income investments;
  - CIBC Deposit Notes combine key fixed income and equity investments. They rank equal to CIBC bank deposit and qualify as eligible investments under the Municipal Act.

Although the revised investment approach is relatively new, staff are very satisfied with both the performance to date and the services provided by CIBC. Regular internal reporting and meetings with the external advisors will ensure that the investment portfolio is meeting the County's objectives.

### **Hydro Legacy Reserve Fund Reporting:**

Section 3(e) of the Hydro Legacy Fund Policy #2018-01 outlines the reporting requirements related the Hydro Legacy Reserve Fund.

Under this section of the Policy, the Treasurer is required to report to Council, at least annually, on the financial position of the Hydro Legacy Fund. This report must:

- Review the investment performance and earnings related to this Fund, including market versus realized gains/losses, as well as a reconciliation of actual to accrued earnings from prior periods;
- Outline the recommended benchmark interest rate for accruing of investment income to this Fund for the coming year;
- Provide an accounting of all transactions, with specific details, affecting this Fund;
- Outline any transactions affecting the litigation allowance (originally set at \$7 million);
- Outline the projected maximum amount of investment earnings that could be considered for use in the upcoming budget, based on the priorities and parameters stipulated in the Policy; and
- Include any other information pertinent to the Hydro Legacy Fund as deemed appropriate.

Section 3(e) also stipulates that Haldimand County's website will contain a section devoted to the Hydro Legacy Fund where the public may access:

- Information regarding the Hydro Legacy Fund Policy;
- Any associated reports, including the above-noted Treasurer's financial reports;
- Notice of projects funded by the Hydro Legacy Fund, with a focus on promotion and awareness of such benefit;
- Public notice of any meeting whereby users of the Hydro Legacy Fund or changes to the Hydro Legacy Fund Policy will be considered; and
- Any other relevant information.

The information noted above will also be publicized through the County's social media network, as well as in local newspapers, and specific signage at capital project locations, as deemed appropriate.

An unaudited statement showing all of the transactions affecting the Hydro Legacy Fund, to the end of 2018, is presented as Attachment 2 of this report.



## FINANCIAL/LEGAL IMPLICATIONS:

As noted in Table 1, actual cash investment earnings realized in 2018 amounted to **\$2,644,721** (unaudited.) The allocation of this cash income is as follows:

Interest bearing reserve funds (excluding Hydro Legacy Reserve Fund)	\$ 0.80 million
Hydro Legacy Reserve Fund interest (earned)	\$ 1.27 million
Interest expense charged on unfinanced capital	\$ (0.20 million)
Interest expense charged on Community Vibrancy Fund timing deficit	\$ (0.44 million)
Miscellaneous interest expense	\$(0.08 million)
General Tax Supported Interest Income (remaining balance)	\$ 1.30 million

It should be noted that, although some of the Reserve Funds are in negative balances (i.e. internally borrowed from other sources), the internal interest rate achieved is greater than interest earnings that could have been achieved from available benchmark investment options. In fact, in most cases, the interest returns exceed the underlying borrow rates if the County had borrowed the funds externally.

Some of the significant factors affecting the above include:

- Strong results in the County's fixed income portfolio
- No liquidation in the County's equity/growth income portfolio
- The allocation of interest earnings to various interest-bearing reserve funds at a rate equal to the average investment earning

### **General Tax Supported Interest Income**

The 2018 interest income related to the County's general fund (unallocated) was budgeted at \$1,600,000 (including inter-funding), whereas this fund's share of the remaining balance equated to \$1,297,443 (per above) leaving an overall projected deficit of \$302,557. It should be noted that this actual cash interest income is realized only on the fixed income portion of the portfolio, meaning it does not reflect any market earnings which can be expected in future years, given that over 50% of the portfolio is in growth/equity investments.

The Investment Policy requires variances in investment earnings, greater than \$100,000, to be transferred to or from the Investment Income Stabilization Reserve so a transfer of approximately \$203,000 will be made in 2018. The purpose of this reserve is to mitigate the impact of annual fluctuations in investment returns, particularly due to the timing of liquidating the growth/equity investments.

There are a number of factors that come in to play when analyzing the performance on the County's investment portfolio. These factors include:

- liquidation: In order for the County to meet its short term cash obligations, a critical characteristic of the investment portfolio is the existence of liquidity. This limits the County's ability to invest more of its portfolio in longer term, higher yielding instruments;
- market conditions: Similar to all investors, the County's investment portfolio may be affected, either positively or negatively, by the market conditions at any given point in time;
- timing: An important aspect to take into account when examining the performance of the County's investment portfolio is timing. Given the magnitude of the portfolio, particularly since the sale of Haldimand County Hydro, the County relies heavily on its external investment manager, CIBC, to keep abreast of the market conditions. County staff are in regular contact with the external investment manager and the County's Investment Committee meets with CIBC to ensure the County's resources are being managed effectively and that the portfolio is achieving the best returns possible.

## **Hydro Investment Earnings**

Through CS-GM-02-2018, Council approved the Hydro Legacy Fund Policy. Contained in this Policy is the requirement for market earnings to be accrued to the Hydro Legacy Reserve Fund based on an average weighted yield to maturity, starting in 2017.

The annual market yield to be accrued to the Hydro Legacy Reserve Fund is to be determined by the Investment Committee, with advice from the external investment manager. Based on these requirements, the Investment Committee met with the external investment manager and determined that a weighted average yield to maturity of **3.77%** should be accrued to the Hydro Legacy Reserve Fund for 2018. This results in a total interest allocation of \$2,666,840 for 2018 – of which \$1,272,688 is Hydro's share of the realized income and \$1,394,152 is to be accrued and later reconciled as the related growth income matures or is liquidated (as per the terms of the Hydro Legacy Fund Policy).

The accrued income allocated to this Fund will be offset by the Investment Income Stabilization Reserve as per the Hydro Legacy Fund Policy. As per the policy, it can be expected that there will be a difference between the accrued and realized gains and accrued market growth on these investments from the initial purchase which will be recognized in future years when these investments are either liquidated or they mature - the recording of which will be part of the annual interest reconciliation process.

## **Investment Income Stabilization Reserve**

Currently, the Investment Income Stabilization Reserve is utilized for two key functions: to smooth out any annual surplus/deficit in the realized investment income in excess of +/- \$100,000, and to allow for the allocation of accrued interest to the Hydro Legacy Reserve Fund, which is then reconciled as longer-term income is realized, as per the terms of the Hydro Legacy Fund Policy.

As at December 31, 2017, there was a negative balance in the Investment income Stabilization Reserve of (\$1,732,725). Based on the information presented within this report, the estimated balance of this reserve at December 31, 2018 is anticipated to be approximately (\$3,329,434), as outlined below:

2018 Unaudited Investment Income Stabilization Reserve Balance:

Opening balance, January 1, 2018	<b><u>(\$1,732,725)</u></b>
Less: Operating Investment income deficit in excess of \$100,000	(\$202,557)
Less: Accrued income allocated to Hydro Legacy Fund	(\$1,394,152)
<b><u>Ending Balance, December 31, 2018</u></b>	<b><u>(\$3,329,434)</u></b>

Though the balance is currently projected to be in a negative position, under the terms of the Hydro Legacy Fund Policy, as the County's longer term investments mature or are liquidated, the annual accruals associated with the Hydro Legacy Fund are to be reviewed and reconciled. Over time, it is anticipated that there will be significant positive contributions to the Investment Income Stabilization Reserve as these longer time investments mature.

## **Growing Communities Fund**

Council approved a maximum annual transfer of \$750,000 from the Hydro Legacy Fund's investment earnings to the Growing Communities Fund, conditional on being compliant with Section 3(c) (ii) of the Hydro Legacy Fund Policy, which states that any contributed amount towards the cost of major assets/infrastructure that benefit Haldimand County cannot exceed 60% of the year's net investment earnings (realized and unrealized), after deducting the sum first needed for inflation/annual indexing protection.

After deducting the interest allocated to the annual indexing of the principal balance, totaling \$3.5 million, there are no interest funds remaining. As such, the maximum \$750,000 annual transfer noted above is not compliant with the terms of the Hydro Legacy Fund Policy, and the transfer from the Hydro Legacy Reserve Fund to the Growing Communities Fund is not eligible for 2018.

## **STAKEHOLDER IMPACTS:**

Not applicable.

## **REPORT IMPACTS:**

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

## **ATTACHMENTS:**

1. Summary of Investment Holdings as of December 31, 2018
2. Draft Hydro Legacy Reserve Fund Statement