

# **INFORMATION ITEMS**

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**Week Ending October 6, 2017**

## **REPORTS**

1. 2017 Interim Investment Performance Report

## **INTERGOVERNMENTAL CONSULTATIONS**

1. EBR Registry Number 013-1381 – Green Commercial Vehicle Program

## **CORRESPONDENCE**

1. City of Guelph Response to Intergovernmental Consultation re: EBR Registry Number 013-1381 – Green Commercial Vehicle Program

## **BOARDS & COMMITTEES**

1. None

## **ITEMS AVAILABLE IN THE CLERK'S OFFICE**

1. None

# Information Report

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Service Area	Corporate Services
Date	Friday, October 6, 2017
Subject	<b>2017 Interim Investment Performance Report</b>
Report Number	CS-2017-23

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## **Executive Summary**

### **Purpose of Report**

To report on the interim 2017 investment portfolio performance and holdings as required by Ontario Regulation 438/97 of the Municipal Act, 2001, and the City's Council approved Investment Policy.

### **Key Findings**

Interest earned on investments and cash as of June 30, 2017 was \$4.2 million, slightly more than budget by \$507 thousand, and has increased from June 30, 2016 earnings of \$3.5 million.

The average rate of interest return on investments in the first half of 2017 has declined to 1.48% as compared to 1.77% as at June 30, 2016. Staff expects the average rate of return to increase by year-end due to the announcement by the Bank of Canada to increase the prime rate by .25 basis points on July 12, 2017, and again on September 6, 2017. This represents a more favourable market to purchase term deposits and GICs maturing in the near future. As of June 30, 2017, the City was carrying excess cash in anticipation of the first planned rate increase because the market had speculated the increase in advance of the announcement.

The City has managed its investment portfolio in accordance with Ontario Regulation 438/97 of the Municipal Act, 2001 and in accordance with the current Council approved Investment Policy.

## **Financial Implications**

Investment income reduces the amount otherwise required from property taxation to finance City services, as well as increasing the value of reserve funds used to finance capital projects.

## **Report**

### **BACKGROUND**

Ontario Regulation 438/97 of the Municipal Act, 2001, requires a municipality to adopt a statement of investment policies and goals and requires an investment report to be provided to Council at least annually. This report has been prepared in compliance with this regulation.

The primary objectives of the investment policy are as follows:

- Adherence to statutory requirements,
- Preservation of capital,
- Maintaining liquidity, and
- Earning a competitive rate of return.

Provincial legislation requires that the Treasurer submit an investment report to Council, each year or more frequently as specified by Council. The City's current Investment Policy requires a report on the financial position, investment performance, market value, and compliance status of the portfolio at least twice per year.

### **Definitions**

Carrying Value – Also known as book value. The portion of an asset's value that is not depreciated. Carrying value is not market value, which is determined by market forces, such as stock prices.

Face Value - Also called par value. The value of a bond or another type of debt instrument at maturity.

Market Value - The price at which a security currently can be sold.

## A. Statement of Performance

The cash and investment positions (carrying value) of the City are as follows:

	<b>Jun 30, 2017</b> (Carrying Value)	<b>Jun 30, 2016</b> (Carrying Value)
Long-Term	\$ 205,273,325	\$ 186,035,726
Short-Term	\$ 72,473,649	\$ 65,065,393
Total Investments	\$ 277,746,974	\$ 251,101,119
Cash	\$ 91,673,049	\$ 63,976,803
<b>Total</b>	<b>\$369,420,023</b>	<b>\$315,077,922</b>

The total investment and cash market value as at June 30, 2017 was \$372.8 million (2016–318.6 million). The details of the City’s specific investment portfolio as at June 30, 2017 are attached in the Investment Portfolio by Issuer (ATT-3) and the Investment Portfolio by Security (ATT-4).

Interest earned on investments and cash as of June 30, 2017 was \$4.2 million, slightly more than budget by \$507 thousand, and has increased from June 30, 2016 earnings of \$3.5 million.

The carrying value of the total investment portfolio as of June 30, 2017 was \$277.7 million, plus cash holdings of \$91.6 million. This computes to an average rate of return of 1.48% (2016–1.77%).

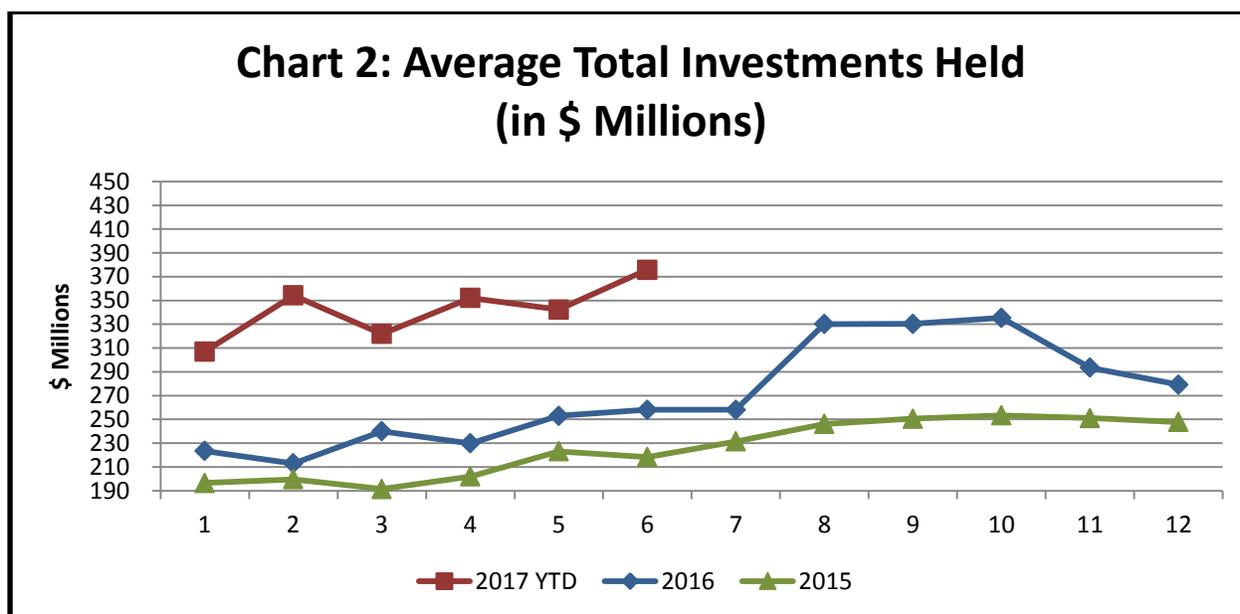
Investment income earned on investments and cash balances will be allocated to the reserve and reserve funds at year-end in proportion to their average balances. This is in accordance with the City’s General Reserve and Reserve Fund Policy.

### 2017 Interim Investment Activity - Cash

The low interest rate environment has been negatively affecting the City’s investment returns. City staff continues to analyze and manage the City’s investment portfolio in order to optimize earnings and minimize risk in the present climate. Recent changes to the Bank of Canada prime rate in the third quarter have provided more opportunity to turn positive returns on guaranteed investments for the remaining portion of the year.

## 2017 Interim Investment Activity – Investment Portfolio

The City has earned a total of \$2.6 million from the investment portfolio (excluding interest earned on cash balances). This represents a return of 1.55% as at June 30, 2017 compared with \$2.2 million and 1.87% return for 2016. See **Chart 2** below for a comparison of average total investments held in 2017, 2016 and 2015.



### RISK / OPPORTUNITY IDENTIFICATION

Following are the risks and opportunities for the City in the current low interest environment;

i) As at June 30, 2017, the City of Guelph held two investments totalling \$30 million purchased in 2013 and 2014 which were to provide for higher than normal interest returns. With the drop in the Bank of Canada prime rate in 2015, these investments are no longer within the lower limit of the note terms and therefore were no longer earning any return.

During the month of June 2017, there was speculation that the Bank of Canada rate would increase which opened up investment opportunities to move these funds to earn positive returns. The City decided to act upon the opportunity to sell the two range accrual investments. We then purchased a four year accrual note at 1.783% earning approximately \$534 thousand annually. Please note the investment purchase transaction date occurred at the start of July therefore you will not see the transaction reflected in ATT-3 of this report.

ii) The City's perpetual cash flow model continues to enable staff to identify and act on timely opportunities for investing (within the City's investment policies), with the intent to optimize the returns on available cash throughout the year. Further, realizing the current interest rates on term deposits and bonds was stationary, the City decided to capitalize on higher interest rates in the secondary market which GICs were trading on average at 1.88% for short-term and 2.36% for long-term investments. An additional \$15 million was invested into the secondary market in 2017.

iii) The Bank of Canada prime rate has been stable for the past year and the majority of the City's investments are GICs and term deposits which are based upon prime rate. Therefore, due to the current market conditions, we were unable to guarantee the same return for short term investments that were maturing during the first two quarters that had initially been invested at higher rates in the past. Staff chose not to reinvest the funds from maturing investments during the second quarter and hold a higher cash balance to ensure we were able to act upon changes in the prime rate if necessary. This move deemed profitable as we were able to invest approximately \$45 million at a higher interest rate once the Bank of Canada announced raising its overnight rate on July 12, 2017.

### **Asset-Backed Commercial Paper (ABCP) Restructuring**

As of January 2017, the Class A-1, Class A-2 and Class B Master Asset Vehicle II Notes (MAV) were paid down in full as per agreements communicated by the investment custodians of these assets. For the City, this meant a full recovery of the carrying value of its Class A & B holdings and the majority of its Class Cs. As of December 31, 2016, these assets were adjusted only for a partial payout received in October (\$192 thousand) with no change to the impairment provision of \$157,664.

As of June 30, 2017, the impairment provision was adjusted to agree to the current carrying value of the MAV II C asset of \$14,946 which amounts to a carrying value of zero. Further, the City has decided to divest in the remaining MAV assets taking into consideration the value of the investments was zero. This decision to divest has no financial impact as there is no materiality in the transaction to divest an asset that has a carrying value of zero.

## **B. Own Securities**

The City has not invested in its own long-term or short-term securities.

## **C. Investment Policy and Regulation Investment Standard Compliance**

To aid in the achievement of the primary objectives of the Investment Policy, the policy places restrictions and limitations on investment quality, diversification, and term. The current portfolio is in compliance with the Municipal Act and Ontario Regulation 438/97 as well as the City's Investment Policy.

## **Financial Implications**

Investment income reduces the amount otherwise required from property taxation to finance City services, as well as increasing the value of reserve funds used to finance capital projects.

## **Consultations**

No consultations were required.

## **Corporate Administrative Plan**

### **Overarching Goals**

Financial Stability

### **Service Area Operational Work Plans**

Our Services - Municipal services that make lives better

Our Resources - A solid foundation for a growing city

## **Attachments**

- ATT-1 Investment Reporting Requirements
- ATT-2 City of Guelph Investment Portfolio by Issuer - Short-term and Long-term Investments at June 30, 2017
- ATT-3 City of Guelph Investment Portfolio by Security at June 30, 2017

## **Departmental Approval**

Jade Surgeoner, CPA, CA, CIA  
Manager of Financial Reporting and Accounting

## Report Author

Jenna Francone, CPA, CA  
Senior Corporate Analyst, Financial Reporting & Accounting

*Tara Baker*

*Trevor Lee*

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### Approved By

Tara Baker, CPA, CA  
GM Finance & City Treasurer  
Corporate Services  
519-822-1260 Ext. 2084  
tara.baker@guelph.ca

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### Recommended By

Trevor Lee,  
Deputy CAO, Corporate Services  
519-822-1260 Ext. 2281  
trevor.lee@guelph.ca

## Investment Reporting Requirements

These investment reporting requirements are in accordance with Ontario Regulation 438/97 of the *Municipal Act, 2001*.

### 1. Statement of Performance

The City of Guelph has earned an average return of 1.48% on its investments and cash as at June 30, 2017.

### 2. Investments in Own Securities

None of the 2017 investments of the City have been invested in its own long-term or short-term securities.

### 3. Record of Own Security Transactions

None of the 2017 investments of the City have been invested in its own long-term or short-term securities.

## Statement of Treasurer re: City of Guelph Investment

### Policy Compliance

I, Tara Baker, GM Finance and City Treasurer for the City of Guelph, hereby state that all investments have been made in accordance with the investment policies adopted by the City of Guelph.

### Statement of Treasurer re: O.R. 438/97 Investment Standard Compliance

I, Tara Baker, GM Finance and City Treasurer for the City of Guelph, hereby state that:

All investments have been made in accordance with the O.R. 438/97.

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**Tara Baker, GM Finance and City Treasurer**

# Investment Portfolio by Issuer as at June 30, 2017

## Short-term Investment Portfolio

Issuer	Yield	Maturity	Carrying Value \$	Term to Maturity (Days)		
				At 06/30/17	Max	Exceeded
Meridian Credit Union	1.00%	Liquid	106,267	N/A	365	-
RBC Dominion Securities	0.05%	Liquid	251,980	N/A	365	-
RBC Dominion Securities	0.7%	Liquid	3,586,214	N/A	365	-
RBC Dominion Securities	1.25-2.75%	Various<1year	13,321,640	<364	365	-
Scotiabank	1.70%	28-Jul-17	10,000,000	28	365	-
Scotiabank	1.75%	29-Nov-17	20,000,000	152	365	-
Meridian Credit Union	2.00%	03-Mar-18	7,059,548	246	365	-
Meridian Credit Union	1.85%	04-May-18	8,148,000	308	365	-
BMO Wealth Management	1.90%	07-May-18	10,000,000	309	365	-
<b>Short-term Investment Total</b>			<b>\$ 72,473,649</b>			

## Long-term Investment Portfolio

Issuer	Yield	Maturity	Carrying Value \$	Term to Maturity (Years)		
				June 30	Restriction	Exceeded
Joint Municipal Investments	Variable	Liquid	41,223,147	Current	N/A	-
RBC Dominion Securities	1.25-2.90%	Various>1year	3,231,087	>365-4.5	5	-
TD Wealth	1.50%	6-Aug-18	5,000,000	1.1	10	-
Meridian Credit Union	2.00%	03-Sep-18	17,297,500	1.2	10	-
TD Wealth	1.81%	15-Apr-19	10,000,000	1.8	10	-
Bank of Nova Scotia	1.54%	20-Apr-19	10,000,000	1.8	10	-
CIBC	2.009%	06-Dec-19	19,051,878	2.4	10	-
TD Wealth	2.5%	06-Jan-20	15,000,000	2.5	10	-
CIBC	2.25%	21-Jan-21	14,500,000	3.6	10	-
TD Wealth	1.783%	30-Jun-21	11,976,000	4.0	10	-
BMO Wealth Mgmt	3.066%	02-Dec-22	5,000,010	5.4	10	-
TD Wealth	1.783%	05-May-23	17,978,400	5.85	10	-
CIBC-Provincial	3.296%	02-Dec-24	7,946,612	7.4	20	-
TD Wealth	2.05%	13-Aug-25	10,000,000	8.2	10	-
CIBC-Provincial	4.08%	02-Dec-26	7,068,691	9.4	20	-
National Bank	2.00%	04-May-27	10,000,000	9.8	10	-
<b>Long-Term Investment Total</b>			<b>\$ 205,273,325</b>			

TOTAL SHORT AND LONG-TERM INVESTMENTS

\$277,746,974

# City of Guelph

ATT-3

## Investment Portfolio by Security as at June 30, 2017

Securities	Investment Value \$	Investment Percentage of Holdings	Policy Maximum Portfolio Percentage Limit
<b>Federal</b>			
Government of Canada			100%
Federal Guarantees			50%
<b>Provincial Governments &amp; Provincial Guarantees</b>	20,015,313	5.4%	75%
<b>Country Other than Canada</b>			5%
<b>Municipal</b>			
City of Guelph			50%
Other Municipalities & OSIFA – AAA & AA			50%
Other Municipalities & OSIFA – A			10%
<b>School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.</b>			20%
<b>Financial Institutions</b>			
Schedule I Banks	275,570,248	74.6%	75%
Schedule II and III Banks			25%
Loan or Trust Corporations, Credit Union	32,611,315	8.8%	10%
<b>Supranational Financial Institution or Government Organization</b>			25%
<b>Corporate Debt</b>			25%
<b>Commercial Paper</b>			15%
<b>Joint Municipal Investment Pools</b>	41,223,147	11.2%	15%
<b>TOTAL</b>	<b>\$369,420,023</b>	<b>100.00%</b>	

Provincial/Federal Consultation Alert							
Title	Ministry	Consultation Deadline	Summary	Proposed Form of Input	Rationale	Lead	Link to Ministry Website
EBR Registry Number 013-1381 – Green Commercial Vehicle Program	MTO	October 6, 2017	<p>The Ministry is requesting comments on a proposal to provide incentives to adopt fuel saving technologies and alternative fuels in the commercial transportation sector.</p> <p>Building on the Ministry's previous experience of a Green Commercial Vehicle Program, a modernized program is being considered to further drive adoption of fuel saving technologies and alternative fuels in the commercial transportation sector. The program proposes to provide incentives to encourage the purchase/lease of alternative fuel vehicles including:</p> <ul style="list-style-type: none"> <li>• Fully electric vehicles</li> <li>• Those that operate using only natural gas or diesel/natural gas dual fuel configurations;</li> <li>• Conversions of existing conventional fuel vehicles to natural gas; and</li> <li>• Provides incentives to encourage the purchase of technologies to improve fuel efficiency: <ul style="list-style-type: none"> <li>• Aerodynamic devices, such as boat tails or side skirts;</li> <li>• Anti-idling devices, such as auxiliary power units or cab heaters and coolers; and</li> <li>• Trailer refrigeration units.</li> </ul> </li> </ul> <p>Additionally, a second Commercial Transportation Innovation Pilot funding stream will support innovative projects and technologies which are not yet widely commercially available but have the potential for significant reductions in GHG emissions today and in the future.</p> <p>Eligible projects could include:</p>	EBR comment submission	Implementation of this program is of interest to the City, as some City fleet vehicles would benefit from the program, with some minor changes. A staff-level response is therefore warranted.	Alex Chapman	<a href="#">Click here</a>

			<ul style="list-style-type: none"><li>• Testing of fuels and/or technologies that are not yet commercially available, or existing fuels/technologies which currently have low to non-existent market presence</li><li>• Testing of innovative fuels/technologies that support commercial vehicles providing passenger-related services (e.g., electric transit buses, CNG coach buses, etc.)</li><li>• Testing of fuelling/charging infrastructure as well as vehicles</li></ul>				
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October 6, 2017

Katerina Minaeva  
Senior Policy Analyst  
Ministry of Transportation  
Policy and Planning Division  
Transportation Planning Branch  
Environmental Policy Office (Toronto)  
777 Bay Street  
Suite 700  
Toronto Ontario M7A 2J8

Dear Ms. Minaeva:

**RE:** EBR Registry Number 013-1381 – Green Commercial Vehicle Program

The following comments are in response to the Minister's invitation to provide input into Ontario's Environmental Bill of Rights Registry No. 013-1381 – Green Commercial Vehicle Program. We would like to take this opportunity to thank the Ministry for the invitation to participate in this important discussion and applaud the government's intention to build on the previous experience of the Green Commercial Vehicle Program and further drive adoption of fuel saving technologies and alternative fuels in the commercial transportation sector.

Responses to the Environmental Registry discussion points are provided below:

### **Program Design Discussion Questions**

Please comment on the selection of alternative fuel vehicles, and fuel saving devices that have been identified as eligible for funding.

- It is not clear whether fuel cell drive systems (including those fuelled by hydrogen) are eligible. These may be considered a sub-category of electric, but it would be helpful if this were explicit.
- Only natural gas-fuelled refuse vehicles will be subsidized, and it is not clear whether waste packers (used for curbside municipal waste collection, compaction, and transportation) are considered as having "a primary use for on-road transport". There are electric waste packers on the market, albeit in limited variety. For example, the City of Chicago has implemented one developed by Motiv Power Systems. It would be in keeping with the objectives of the program if these were eligible.

**City Hall**  
1 Carden St  
Guelph, ON  
Canada  
N1H 3A1

T 519-822-1260  
TTY 519-826-9771

[guelph.ca](http://guelph.ca)

Will the incentive values proposed support and promote adoption? How appropriate are the percentages and funding caps proposed for the incremental costs for each supported vehicle fuel type or fuel saving device?

- The values should be related to net present value of the conversion compared to the status quo, considering both capital cost (conversion or new purchase of the vehicle, fuelling infrastructure such as CNG filling stations and EVSE, new equipment for maintenance) and operating cost (fuel cost savings, maintenance savings, reduced emissions compliance requirements, any capital costs converted to leasing). Without a detailed market scan and NPV analysis, it is difficult to say whether the proposed incentives will make the alternative fuel option competitive with the base case.

Are there any potential barriers to successful uptake of the program as designed?

- Some organizations may not be prepared to accept the risk of product non-performance associated with unproven technology. These cases will be quite different from those where participants are adopting mature technologies, and may require additional assistance to "de-risk" the project (e.g. by providing alternative measures to provide business continuity in the event that an innovative product fails to perform).

### **Application and Funding Process Discussion Questions**

Are the eligibility requirements realistic and achievable? Is a process where dealer/vendors apply for the rebate on behalf of purchasers preferred? Are there any issues with this approach?

- One barrier to adoption of private passenger EV adoption has been dealers; they often do not understand the vehicles, do not keep one on hand and charged for test drives, and are reluctant to accept the reduced maintenance revenue associated with EVs. It is not clear whether the same is true for commercial vehicles, but it may be of value to examine ways to incentivize dealers to promote EV alternatives over mainstream ICE models.

Is there another funding mechanism that you think would be better suited to fund vehicles and devices?

- It may be of value to combine the program with awareness-building, education, and outreach to help potential participants overcome the reluctance to consider an alternative fuel vehicle. This could include case studies of successful deployments,

disseminated through industry associations.

Are there any approaches that could be used to streamline or simplify the process of determining eligibility and incentive amounts for specific models of vehicles?

- The City of Guelph have no suggestions to this question

### **Data Collection Discussion Questions**

Participation in a data collection program is a mandatory requirement for funding and a sample of applicants may be required to install telematics devices.

Where fleet vehicles already have telematics devices on board, could this electronic data be shared, both for baseline and funded vehicles, in order to facilitate documentation of GHG reductions?

- The City of Guelph do not have such devices installed so are unable to comment.

Are there any considerations or concerns regarding data privacy?

- The principal concern is less likely to be over privacy as it is about providing intelligence to competitors. Municipalities are unlikely to have such concerns.

Should other types of data be collected in the context of GHG emission reductions?

- Deceleration data would be helpful to demonstrate the benefit of regenerative braking on vehicle range.

### **Innovation Pilot Discussion Questions**

What type of pilot projects could be funded under this category?

- Electric waste packers, electric street sweepers, electric ice resurfacers, electric street vacs

What are some future trends that you believe will have an impact on the commercial transportation sector?

- Continued electrification, vehicle sharing services (e.g. Uber, community car share), autonomous vehicle technology, and alternative transportation methods such as aerial drones and the Hyperloop are all likely to impact the sector.

Katerina Minaeva

October 3, 2017

RE: EBR Registry Number 013-1381 - Green Commercial Vehicle Program

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Please do not hesitate to contact me if you require any clarification.

Thank you again for the opportunity to comment and trust these recommendations will be considered as your Ministry moves forward with this important initiative.

Sincerely,

**Alex Chapman**, Manager, Climate Change Office  
Facilities Management, **Infrastructure, Development and Enterprise**

T 519-822-1260 x 3324

E [Alex.Chapman@Guelph.ca](mailto:Alex.Chapman@Guelph.ca)