

**To:** COUNCIL

**Meeting Date:** 4/29/2025

**Subject:** 2024 Year End Report on Investments

**Submitted By:** Sheryl Ayres, Chief Financial Officer

**Prepared By:** David Lin, Senior Financial Analyst - Investments & Treasury

**Report No.:** 25-011-CRS

**File No.:** C11

**Wards Affected:** All Wards

**RECOMMENDATION(S):**

THAT Report 25-011-CRS 2024 Year End Report on Investments be received.

**EXECUTIVE SUMMARY:**

**Purpose**

To report on the 2024 investment portfolio performance and holdings as required by Ontario regulation 438/97 of the Municipal Act.

**Key Findings**

The carrying value of the City's reserve fund and general fund investments as of December 31, 2024, was \$249.6 million. In addition, the City had cash balances of \$30.7 million, for a combined total of \$280.3 million.

The carrying value of investments increased by \$20.9 million compared to the previous year, while the cash balance decreased by \$10.6 million, resulting in a net increase of \$10.3 million. This is mostly a result of the overall growth in the balance of the reserve and reserve funds, with the largest increases from the waived development charges reserve by \$11.8 million and the development charge reserve funds by \$8.2 million.

Investment income in 2024 was \$14.4 million, which is \$1.5 million greater than in 2023. This was mainly due to higher overall interest rates in 2024.

The City's investment returns were 4.52%, which is higher than the Ontario CPI inflation rate of 2.39%.

The 2025 investment income outlook is expected to weaken in the short to medium term. The Bank of Canada has noted that lower interest rates are contributing to increased household spending and is closely monitoring tariff developments to assess their implications for Canadian monetary policy.<sup>1</sup>

## **Financial Implications**

Investment income helps reduce the amount needed from property taxes to finance City services and increases the value of reserve funds for future expenses.

The City's investment income in 2024 was as follows:

- General or tax-supported fund: \$5,241,947
- Reserve fund: \$9,181,677

## **STRATEGIC ALIGNMENT:**

☐ Strategic Action

**Objective(s):** Not Applicable

**Strategic Action:** Not Applicable

**OR**

☒ Core Service

**Program: Finance**

**Core Service:** Financial Accounting and Reporting

Reporting on the City's 2024 investment performance supports transparency in the City's financial management.

## **BACKGROUND:**

Ontario Regulation 438/97 of the Municipal Act requires an investment report to be provided to Council at least annually. This report has been prepared in compliance with this regulation.

## **ANALYSIS:**

### **Investment Portfolio**

The investment and cash portfolio position of the City are as follows:

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<sup>1</sup> <https://www.bankofcanada.ca/2025/01/fad-press-release-2025-01-29/>

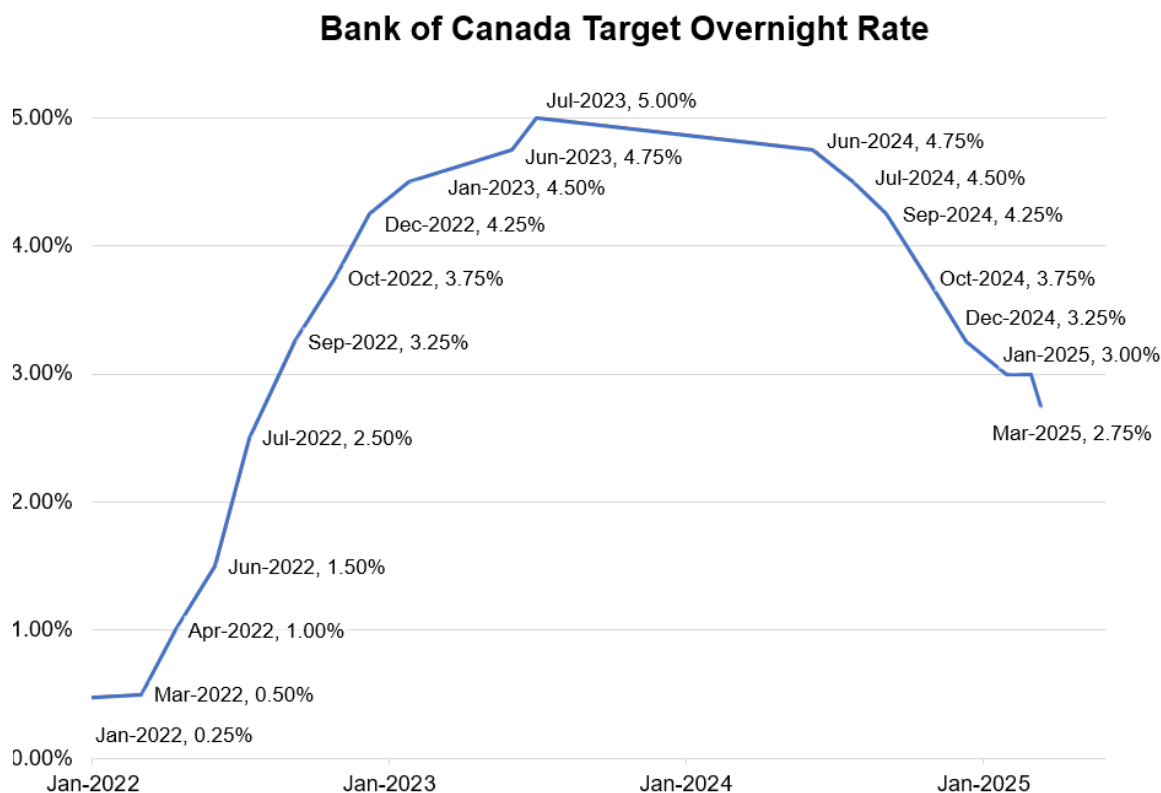
Investment Type	December 31, 2023 Carrying Value	December 31, 2024 Carrying Value	December 31, 2024 Market Value
Short Term Investments	\$75,105,780	\$119,912,817	\$124,553,396
Long Term Investments	\$153,629,212	\$129,714,523	\$132,622,287
<b>Total Investments</b>	<b>\$228,734,992</b>	<b>\$249,627,340</b>	<b>\$257,175,683</b>
Cash	\$41,318,237	\$30,711,472	\$30,711,472
<b>Total Investments and Cash</b>	<b>\$270,053,229</b>	<b>\$280,338,812</b>	<b>\$287,887,155</b>

The carrying value (“value”), also referred to as book value, is the part of an asset’s value that has not been depreciated. On the other hand, the market value is the price an investment can be sold for at a specific time, influenced by things like stock prices and interest rates. As of December 31, 2024, the value of the City’s reserve fund and general fund investments was \$249.6 million, plus \$30.7 million in cash, for a total of \$280.3 million. The market value of these investments was \$257.2 million, plus \$30.7 million in cash, for a total of \$287.9 million. The difference between the market and carrying value resulted in an unrealized gain of \$7.6 million. However, since the City usually holds investments until they mature instead of selling them, this gain is not recorded as realized revenue.

The value of investments increased by \$20.9 million compared to last year, while the cash balance decreased by \$10.6 million, leading to a net increase of \$10.3 million. This shows the overall growth in the balance of reserve and reserve funds. The biggest increase in reserves was in the waived development charges reserve, which increased by \$11.8 million due to under-budget waived development charges in 2024. Of this amount, \$5.9 million was due to approved transfers under 24-042-CRS Reserve and Reserve Fund By-law, which transferred \$5.9 million cumulatively from the tax rate stabilization reserve, wastewater rate stabilization reserve, and water rate stabilization reserve to the new waived development charges reserve in 2024. These funds were set aside to reduce future financial risks related to the waived development charges. Additionally, the largest increase in reserve funds was in the development charge reserve funds which grew by \$8.2 million due to the timing of incoming development charge revenues compared to cash flow requirements for capital projects. Other capital reserve funds with large increases include the water capital reserve fund, which grew by \$6.5 million and the wastewater capital reserve fund, which grew by \$2.6 million. The growth in these funds is mainly due to the budgeted contribution from the wastewater and water operating budgets, as well as the one-time 2023 year-end surplus transfer as approved by Council. These funds are set aside in reserve funds to provide long-term

sustainable funding for the replacement and major rehabilitation of the City’s wastewater and water infrastructure. Another reason for the increase in the value of investments in 2024 is that the City allocated a larger portion of its cash balances to investments compared to 2023 to secure long-term interest rates amid the Bank of Canada’s ongoing quantitative tightening.<sup>2</sup>

The Bank of Canada lowered its target overnight rate five times in 2024 because inflation was slowing. The rate cuts totaled 175 basis points, with the latest reduction on December 11, 2024. The graph below shows the Bank of Canada’s target overnight rate, which was 0.25% in January 2022, peaked at 5.00% between July 2023 and May 2024, and ended 2024 at 3.25%.



Source: <https://tradingeconomics.com/canada/interest-rate>

The Bank of Canada’s overnight interest rate is a primary driver in the City’s investment income performance. The City’s investment strategy aims to get the best returns while managing risk within acceptable limits, in accordance with the Municipal Act and related regulations, while ensuring sufficient cash flow to meet operational needs.

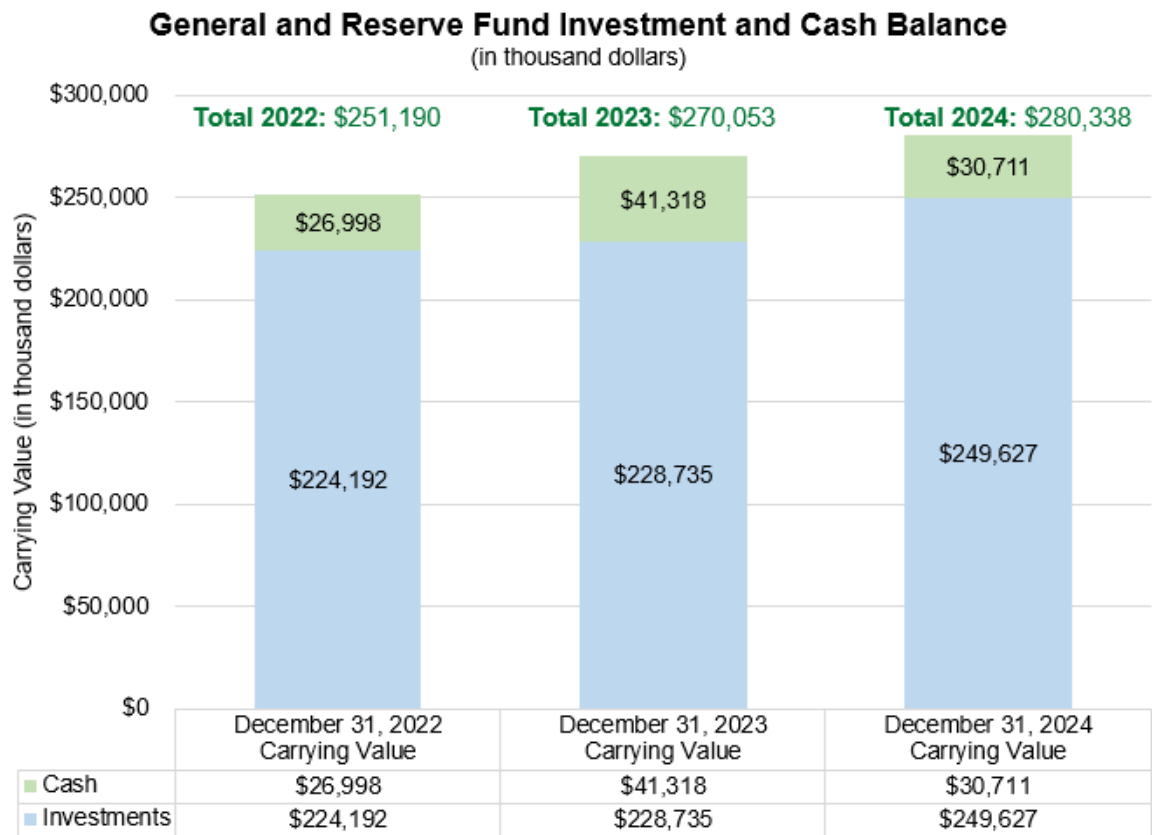
<sup>2</sup> **Quantitative Tightening:** a process where the central bank slows the flow of money in the economy by reducing the amount of cash it makes available to banks. This helps control inflation but can also lead to higher borrowing costs.

The City’s investment portfolio includes both short and long-term investments. With a high overnight interest rate of 5.00% in the first half of 2024, the City’s bank rate remained high. As the City’s investments matured throughout the year, finance staff quickly secured favourable long-term investment rates to reduce interest rate risk.<sup>3</sup>

The details of the City’s investment portfolio as of December 31, 2024, are attached in Appendix A.

General Fund and Reserve Fund Values

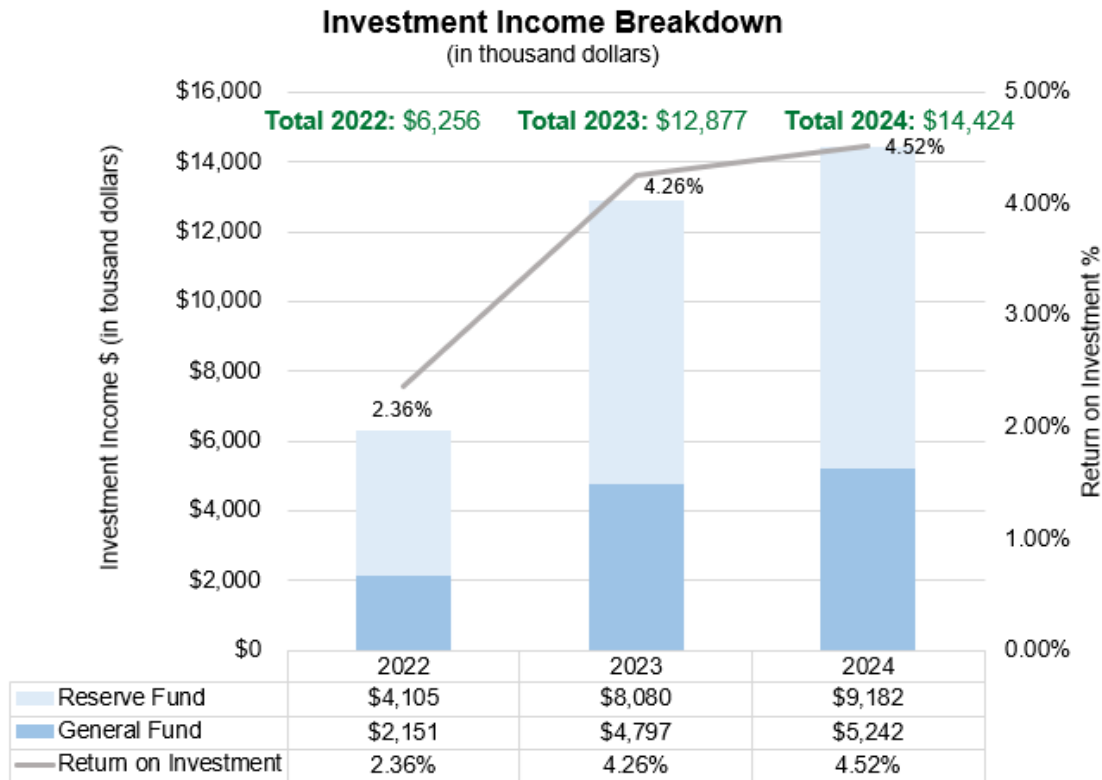
The graph below summarizes the general and reserve fund values from 2022 to 2024:



Investment Income

The graph below summarizes the general and reserve fund investment income from 2022 to 2024:

<sup>3</sup> **Interest rate risk:** The risk that the market value of an investment will fluctuate due to changes in interest rates.



The table below compares the general and reserve fund balances, investment income, as well as the return on investment from 2022 to 2024.

Category	Description	2022	2023	2024	Increase/ (Decrease) from 2023 to 2024
<b>General Fund</b>	Investment Income	\$2,150,859	\$4,797,393	\$5,241,947	\$444,554
<b>Reserve Fund</b>	Investment Income	\$4,105,375	\$8,080,211	\$9,181,677	\$1,101,466
<b>Total General and Reserve Fund</b>	Investment Income	\$6,256,234	\$12,877,604	\$14,423,624	\$1,546,020
<b>Total General and Reserve Fund</b>	Fund Balance	\$251,189,838	\$270,053,229	\$280,338,813	\$10,285,584
<b>Total General and Reserve Fund</b>	Return on Investment	2.36%	4.26%	4.52%	0.26%

In 2024, the City's total investment income was \$14.4 million, which is \$1.5 million more than the \$12.9 million earned in 2023. This increase was mainly due to the Bank of Canada's overnight interest rate, which affects the City's banks' prime interest rate and investment opportunities. The overnight rate started at 0.25% in 2022 and ended at 4.25%. In 2023, it started at 4.25% and rose to 5.00% by the end of the year. In 2024, the rate began at 5.00% and dropped to 3.25% by the end of the year.

One reason for the higher return on investments in 2024 was that the City kept long-term, high-yielding investments purchased in 2023, many of which had not yet matured. Even though investment rates in 2024 were lower than in 2023 due to expectations of declining interest rates and inflation, the overall increase in fund balances from the previous year also contributed to a rise in investment income.

The investment income from general funds in 2024 was \$5.2 million, which is \$0.4 million more than the \$4.8 million earned in 2023. The investment income from reserve funds was \$9.2 million in 2024, an increase of \$1.1 million from \$8.1 million in 2023. These increases in both general and reserve investment income were due to higher fund balances and favourable interest rates throughout 2024.

In summary, the return on investments is as follows:

- The return on investment for general and reserve funds in 2024 was 4.52%, compared to 4.26% in 2023.
- The return on cash balances was 5.04% in 2024, compared to 5.19% in 2023.

The City uses a Key Performance Indicator (KPI) to measure investment portfolio performance, aiming to achieve investment returns above provincial inflation. In 2024, Ontario's CPI was 2.39%<sup>4</sup>, while the return on investment for the general and reserve fund was 4.52%, confirming that the City met this KPI in 2024.

## **2025 Investment Income Outlook**

On January 29, 2025, and on March 12, 2025, the Bank of Canada lowered the overnight rate by 25 basis points each time, bringing the overnight rate down to 2.75%.<sup>5,6</sup> While inflation has been trending down at both the federal and provincial levels, there are still concerns about the risks to inflation because of the new US administration's tariffs on Canadian exports. These tariffs could impact inflation by increasing production costs, which might be passed on to consumers, raising the cost of goods and CPI.<sup>7</sup>

The Bank of Canada has noted that historically, cost increases take three years to be fully reflected in the Canadian CPI, as businesses gradually adjust prices. During this three-year period, CPI inflation is subject to sustained upward pressure.<sup>7</sup> However, the

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<sup>4</sup> <https://data.ontario.ca/dataset/ontario-consumer-price-index/resource/cfeca07a-7752-4e54-b109-fe20467413a2>

<sup>5</sup> <https://www.bankofcanada.ca/2025/01/fad-press-release-2025-01-29/>

<sup>6</sup> <https://www.bankofcanada.ca/2025/03/fad-press-release-2025-03-12/>

<sup>7</sup> <https://www.bankofcanada.ca/publications/mpfr/mpfr-2025-01-29/in-focus-1/>

Bank of Canada also highlighted that in certain scenarios, such as during the pandemic, businesses adjusted their prices more rapidly. If the tariffs lead to a similar acceleration, the total impact on CPI could happen within one and a half years instead of three years.<sup>7</sup>

This faster adjustment of costs to consumers, known as the pass-through rate,<sup>8</sup> may cause inflation to rise more quickly in the short term, but could subside faster than usual.<sup>7</sup> Stable inflation is important for maintaining predictable economic conditions because rapid inflation increases uncertainty, reduces purchasing power, and can erode confidence in the economy. The Bank of Canada acknowledged that lower interest rates are driving increased household spending and is closely monitoring tariff developments to assess the impact on Canadian monetary policy.<sup>9</sup>

The City's investment strategy remains focused on maximizing returns while managing risk within acceptable limits, in accordance with the Municipal Act and related regulations, and ensuring enough cash flow for daily needs. As investments mature in 2025, the City will have opportunities to re-invest in financial products but at lower rates than in 2022, 2023, and 2024. The declining interest rate environment has resulted in reduced yields, especially for short-term investments that are more sensitive to changes in the Bank of Canada's overnight rate.

#### **EXISTING POLICY / BY-LAW(S):**

Corporate Policy FIN 013 Investment Policy was approved by Council on February 25, 2025. This policy identifies the City's primary objectives, listing authorized investments, limitations, and ratings in compliance with Section 418 of the Municipal Act, S.O. 2001 c.25, and Ontario Regulation 438/97, as amended. The goal of FIN 013 Investment Policy is to invest all available funds of the City in a prudent manner as to maximize the rate of return while minimizing the degree of risk and ensuring an adequate level of liquidity.

#### **FINANCIAL IMPACT:**

Investment income reduces the amount required from property taxation to finance City service and increases the value of reserve funds used to finance future expenditures. The amount of investment income earned in 2024 was as follows:

- General or tax-supported fund: \$5,241,947
- Reserve fund: \$9,181,677

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<sup>8</sup> **Pass-through rate:** The speed at which businesses fully pass on cost increases to consumers.

<sup>9</sup> <https://www.bankofcanada.ca/2025/01/fad-press-release-2025-01-29/>



## **PUBLIC VALUE:**

This report supports the financial sustainability of the City by ensuring appropriate oversight and governance towards the City's financial investments. This report also provides transparency in the City's investment portfolio mix and year end performance. Furthermore, this report ensures the City remains compliant with the requirements of Ontario Regulation 438/97 of the Municipal Act.

## **ADVISORY COMMITTEE INPUT:**

Not Applicable.

## **PUBLIC INPUT:**

Posted publicly as part of the report process.

## **INTERNAL / EXTERNAL CONSULTATION:**

There was no internal/external consultation undertaken.

## **CONCLUSION:**

This report follows Ontario Regulation 438/97 of the Municipal Act which requires an investment report be provided to Council annually. As of December 31, 2024, the carrying value of the City's reserve and general fund investments totalled \$249.6 million, with cash balances of \$30.7 million. Over the past year, the carrying value of investments went up by \$20.9 million, while cash decreased by \$10.6 million, resulting in a net increase of \$10.3 million. Investment income for 2024 was \$1.5 million more than the previous year. This increase was driven higher by overall interest rates in 2024 compared to 2023 and increased carrying value of investments.

Looking ahead to 2025, the investment income outlook presents challenges for the short to medium term. Inflation concerns due to the US tariffs might keep pushing the CPI up over the next one and a half to three years. Also, expected drops in interest rates could affect the City's investment returns in the short to medium term. The City will continue to monitor economic conditions and adjust its investment strategy as needed to get the best returns while maintaining prudent financial management.

## **REPORT IMPACTS:**

Agreement: **No**

By-law: **No**

Budget Amendment: **No**

Policy: **No**

**APPROVALS:**

This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:

Director

Deputy City Manager

Chief Financial Officer

City Solicitor

City Manager

**ATTACHMENTS:**

1. 25-011-CRS Appendix A – 2024 Report on Investments