THE One INVESTMENT PROGRAM

Financing Your Asset Management Plans

Dan Cowin – MFOA

Agenda

- Municipalities own lots of assets
- Cost to repair/rehab/replace is large
- Challenges vary from place to place
- Whats in the ‘tool box’?
- Can investments help

Services = Assets

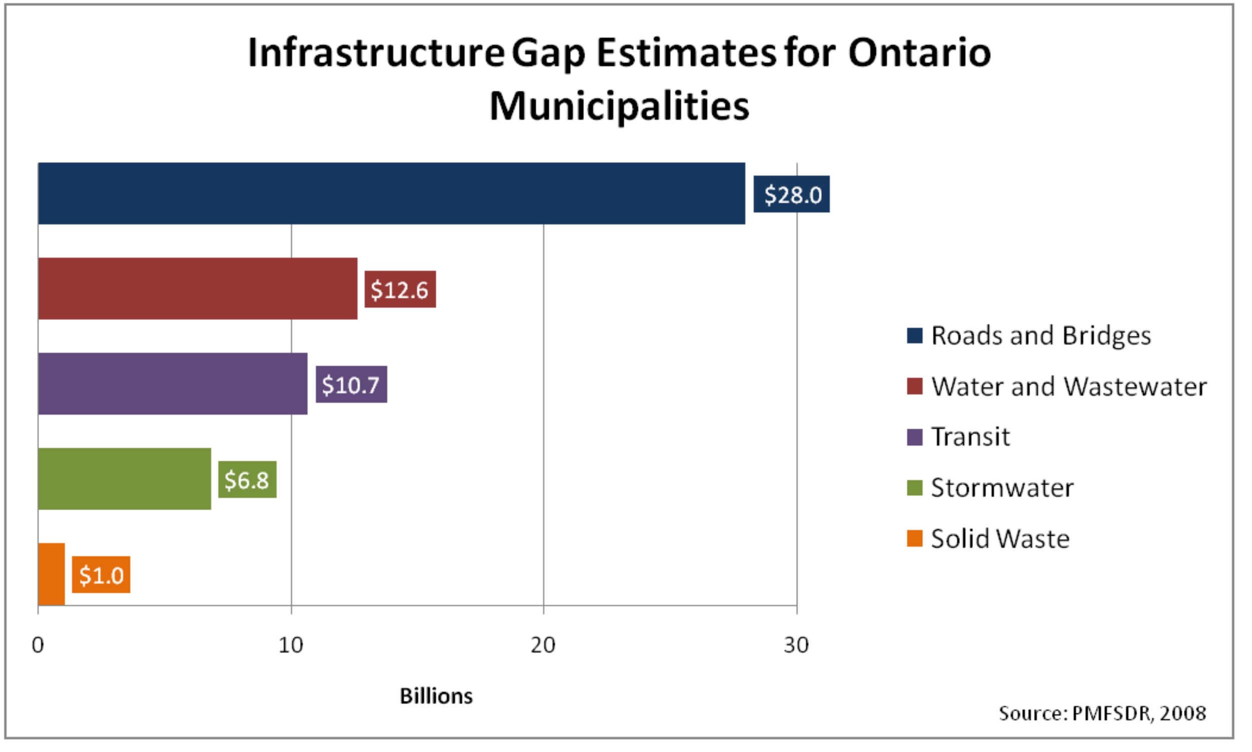
	Federal	Provincial	Local
1961	31%	31%	38%
2005	10%	22%	67%

Source: StatsCan, From Roads to Rinks, Table 1-A, Sept. 2007

- Assets matter to residents because it is the vehicle to deliver services
- Assets also matter to senior governments

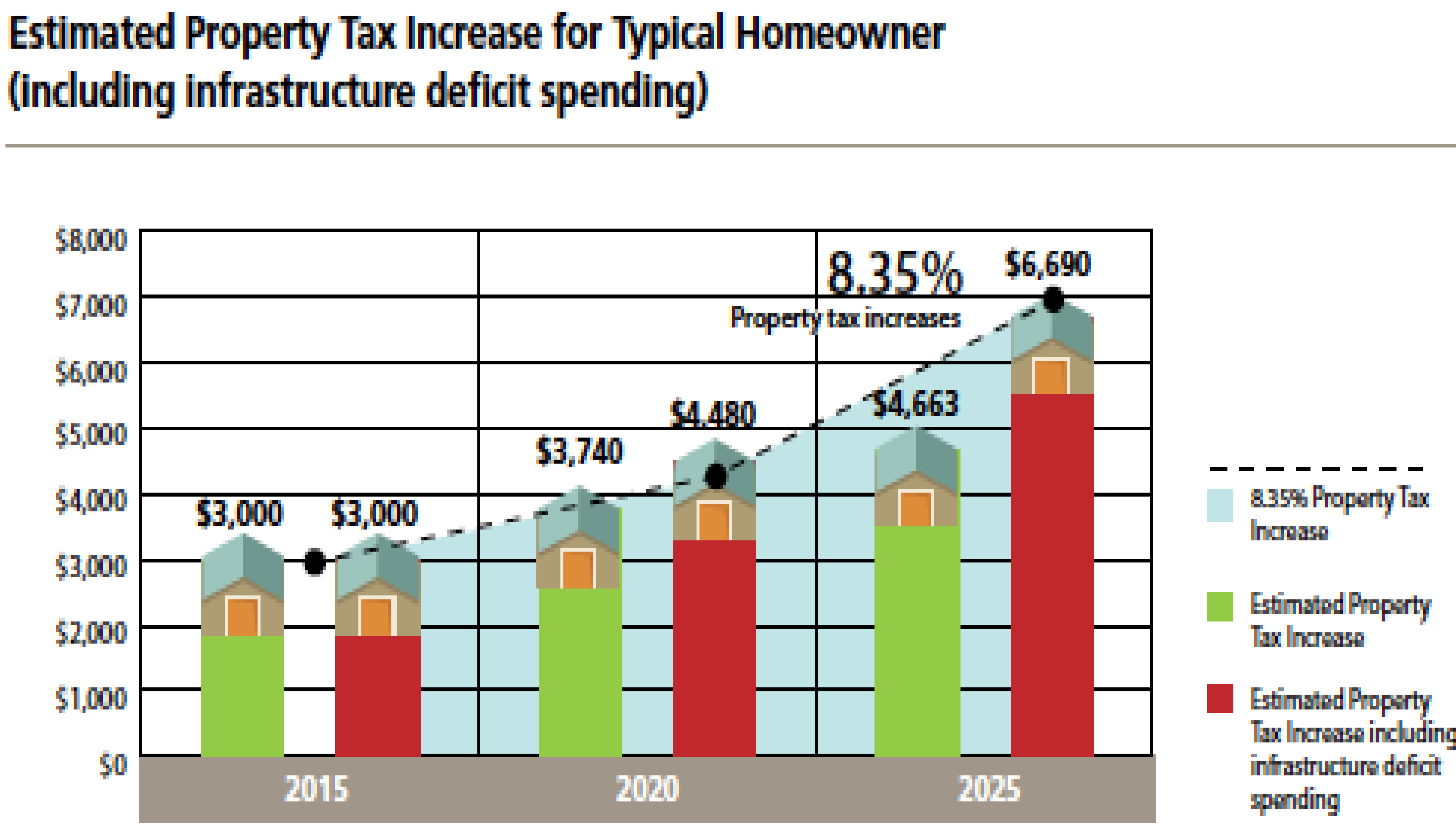
Municipal Infrastructure Gap

- The municipal infrastructure gap in Ontario has been estimated at nearly $60 billion



Source: Towards a new federal long-term infrastructure plan, AMO 2012

Big tax impacts



Source: AMO, What's Next Ontario, p. 24

Municipalities not all the same

- Rural vs. urban
- Status - growth, stable, declining
- Range of services
- # of assets
- Strength of revenue base

Financing Sources

- **Grants**
  - Sustainable?
- **Property Taxes**
  - Already high in places
  - Weak tax base in many places
- **User Fees**
  - Some shift to user fees
  - Water rates in particular have risen dramatically
- **Development Charges**
  - Pays for first round capital only, not rehabilitation
  - Pays for growth-related costs and not all municipalities are growing

Financing Sources (con't)

- **Reserves**
  - High reserve balances can be an issue for taxpayers and councilors
- **Debt**
  - A tool to leverage funds now and spread costs into future
- **New revenues**
  - Primarily an option in urban municipalities
- **Investment income**
  - Traditionally not a significant source of financing for capital plans
  - Expanded investment powers could provide access to securities with higher rates of return

Rethinking Investments

Can investment income be a significant source of financing?

Relationship to AM plans

- A well planned investment program can make a contribution to funding your asset management plan
- Many infrastructure assets ideally suited for linking to an active investment policy

10 Year Capital Saving Plan

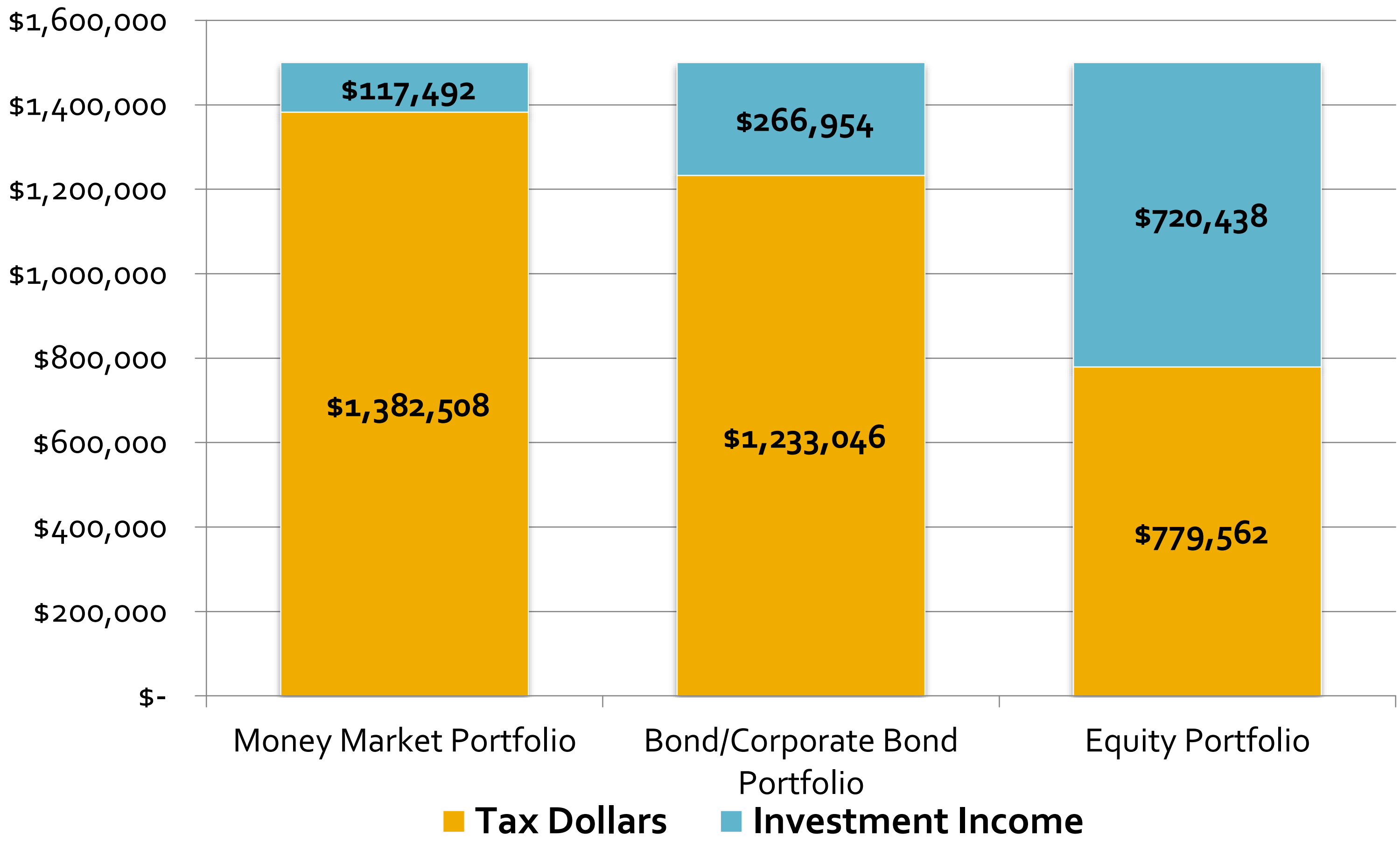
An Example…

- Invest \$100,000 each year for ten years for capital project (total = \$1M)
- Project to be built at the end of ten years with an estimated future cost of \$1.5 million

Looking back over the years…

- Money Market / Prime less 1.75% earned 2%
- One Bond (Bond and Corporate Bond) return ~4.25%
- TSX equity returned ~9.6%

10 Year Capital Project Plan



What should you do?

- **Sustainability requires long-term plans. It doesn't just happen**
- AMPs and financing strategies are critical
  - continue refining the AMP!
- Be open to making financial decisions differently and consider investment income as a potential source of financing for your AMP
- Recognize the power of compound interest

Overview of The One Investment Program

THE One
INVESTMENT
PROGRAM

What is The One Investment Program?

- A ‘co-mingled’ investment program for the Ontario public sector
- Established in 1993 and jointly operated by:
  - LAS *(a corporation of AMO)*
  - CHUMS *(a subsidiary of MFOA)*
- Oversight provided by municipalities
- 135 Ontario municipalities invest with One

Advocacy for Broader Investment Powers

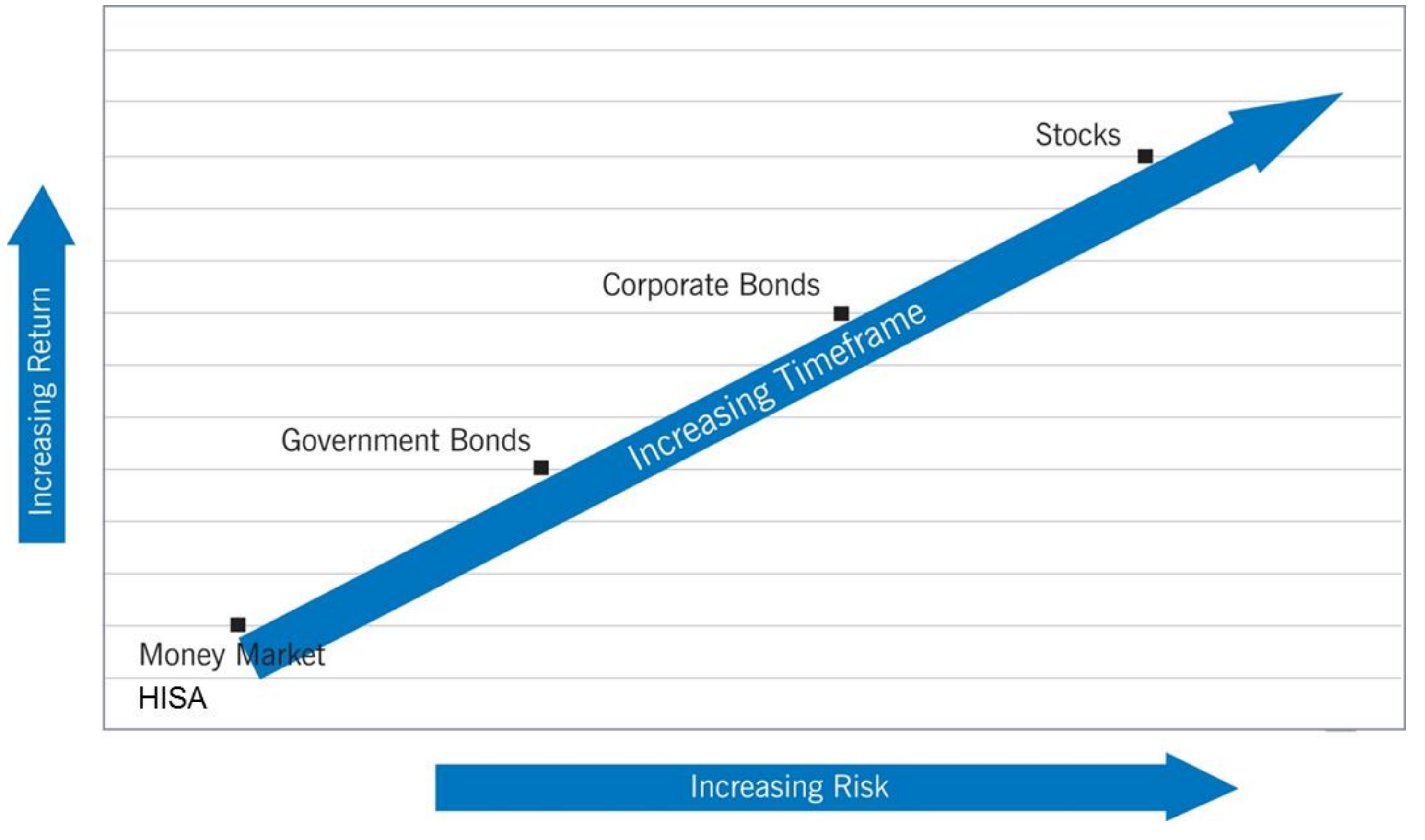
- Since 2012 LAS/AMO and MFOA have been advocating for regulatory changes to the *Municipal Act*
  - Prudent Investor Standard for municipal investments
  - Broader list of organizations that can co-mingle investments with municipalities
    - (i.e. AMO/LAS/MFOA, indigenous groups, etc.)

Who Invests in The One Program

Total One Investment by Investor Population (at Dec 31, 2016)					
			Investment ($M)		
Population	**# of investors**	**% of investors**	**Avg. Per Muni**	**Total**	**% of Total Investment**
Less than 5,000	45	33%	1.9	96.2	7.4%
5,001 to 25,000	55	41%	3.5	191.6	14.6%
25,001 to 50,000	12	9%	11.5	138.5	10.6%
50,001 to 100,000	10	7%	20.5	205.6	15.7%
100,000+	13	10%	52.1	676.7	51.7%
Totals	**135**	**100%**		**1,308.6**	**100.0%**

74 municipalities with populations of <25,000 invest in the One Program

The One Program Portfolios



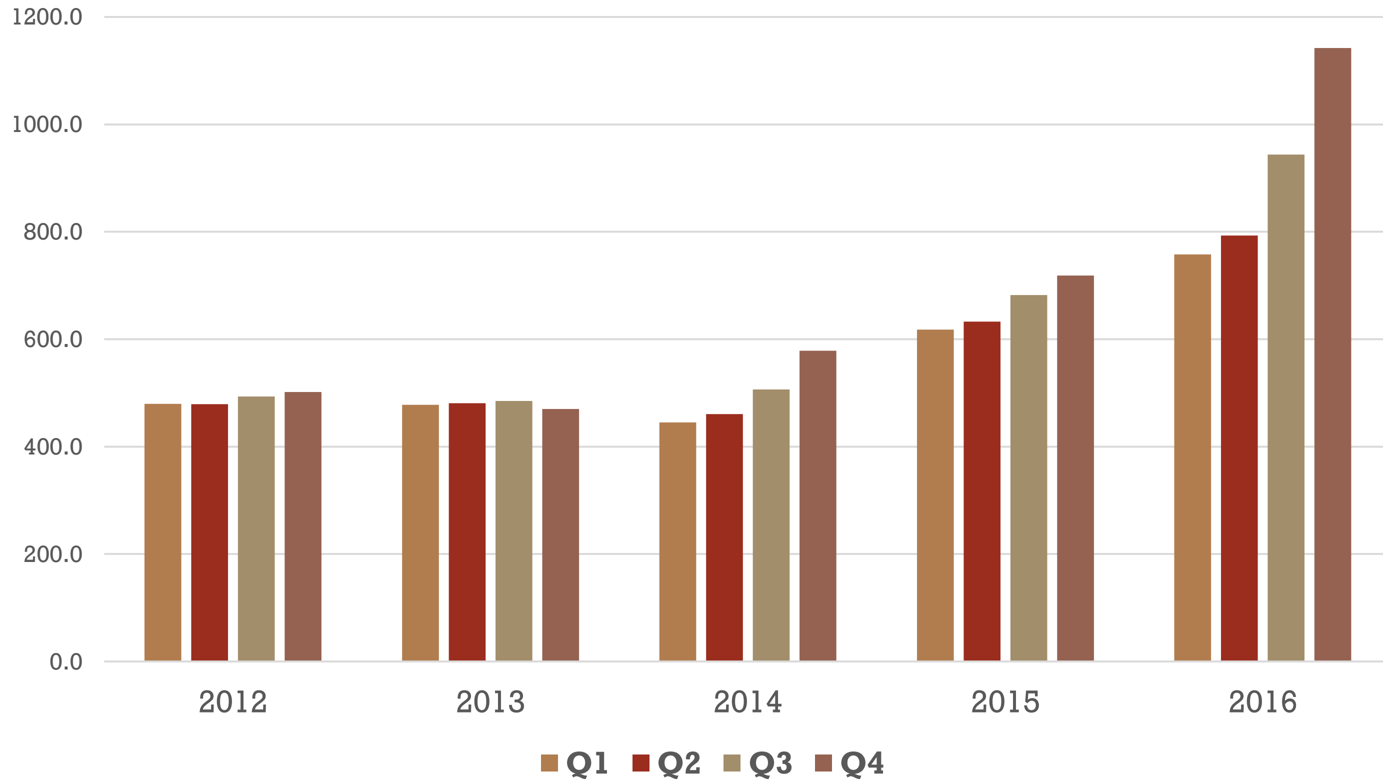
All One Investment Program investments are fully liquid but each portfolio is designed for a specific investment time horizon

Annualized Portfolio Returns
at February 28, 2017

	Manager/ Institution	6 month	1 year	2 year	3 year	5 year
High Interest Savings Account (HISA)	**CIBC Bank**	**1.12%**	**1.07%**	**-**	**-**	**-**
Money Market Portfolio	**MFS**	**0.49%**	**0.50%**	**0.60%**	**-**	**-**
Short-Term Bond Portfolio	**MFS**	**-**	**1.07%**	**0.7%**	**1.64%**	**1.80%**
Longer-Term Corporate Bond Portfolio	**MFS**	**-**	**2.02%**	**0.52%**	**3.62%**	**3.18%**
Canadian Equity Portfolio	**Guardian Capital LP**	**-**	**16.96%**	**4.85%**	**9.98%**	**13.00%**

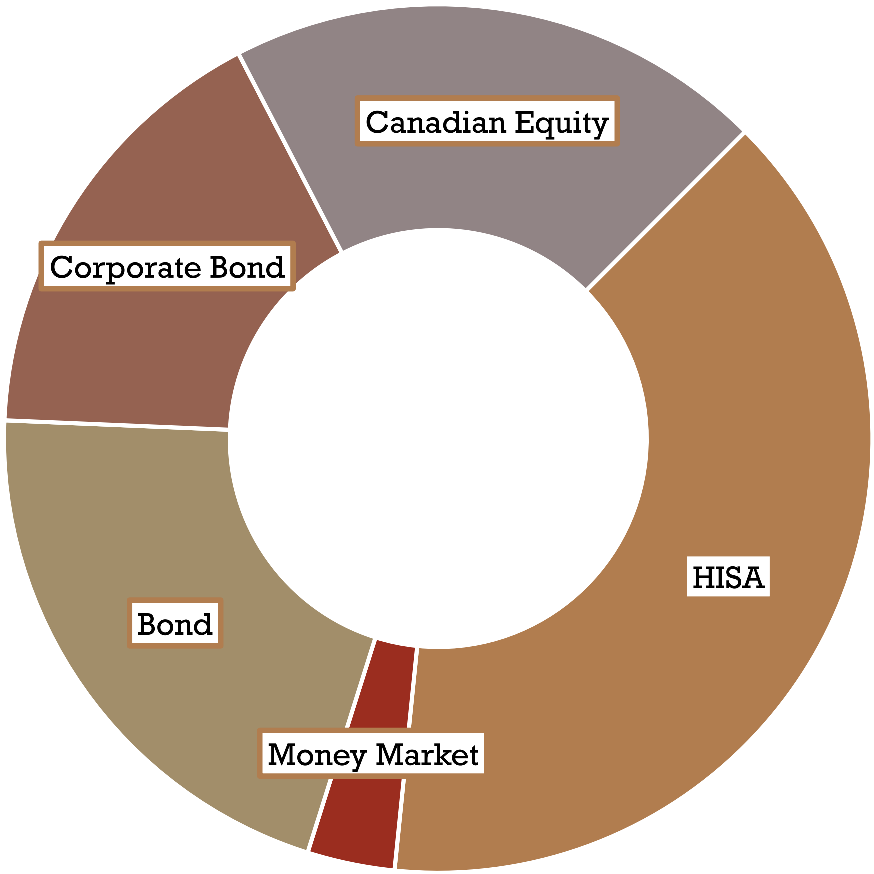
Portfolio Inception Dates	
Canadian Equity Portfolio	January 2007
Corporate Bond Portfolio	August 2008
Money Market Portfolio	1995
Short-Term Bond Portfolio	1993

5 Years of Program Quarterly Average Balances ($ Millions)



76% year-over-year program growth
between at December 2016

One Investment Program Breakdown (now)



With $1.3B invested More than 58% of investment is longer term funds – invested in bonds, corporate bonds and equities

High Interest Savings Account (HISA)

- Complete liquidity with no transaction fees
- Current Balance is $550M (at March 2017)

It Total HISA Balance is:	Interest Rate for All Deposits	Effective Rate *
Less than $100M	Prime less 1.7%	1.0%
>$100M but <$150M	Prime less 1.65%	1.05%
>$150M but <$250M	Prime less 1.6%	1.1%
NEW - Greater than $250M	Prime less 1.55%	1.15%
*Based on March 2017 bank prime rate of 2.7%		

The Canadian Equity Portfolio

- For investment durations of 5+ years
- Portfolio = diversified, conservatively managed portfolio of Canadian equity securities
- Performance benchmark:
  - Index is based on world-wide sector weightings as opposed to TSX weightings

Why?

- TSX is heavily weighted in the oils, mining and financials. It is subject to a greater degree of volatility

So… should You Invest in Equities?

Equity Investment: Long Term History (Jan 1956 to Feb 2017)

Total Return (Includes Dividends) Based on S&P/TSX Composite History

	Rolling	Rolling	Rolling	Rolling	Rolling	Rolling	Rolling	Rolling
Length of Investment (in Yrs)	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	10 Yrs
Total # of Periods	722	710	698	686	674	662	650	614
# of Negative Periods	197	126	78	30	15	1	0	0
% Of Negative Periods	27.3%	17.7%	11.2%	4.4%	2.2%	0.2%	0.00%	0.00%
Highest Period Returns	86.9%	54.6%	39.3%	33.2%	27.8%	24.7%	21.0%	19.5%
Lowest Period Return	-39.2%	-22.2%	-11.1%	-5.5%	-1.9%	-0.4%	1.9%	2.8%
Average Period Return	10.4%	9.6%	9.6%	9.5%	9.5%	9.5%	9.5%	9.6%

Source: Bloomberg

As the duration of an equity investment lengthens, volatility decreases

Questions?

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