

2007 Investment and Leasing Policy Compliance

Date:	October 24, 2008
To:	Audit Committee
From:	Acting Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2008\Internal Services\Cf\Ac08030Cf – (AFS #8106)

SUMMARY

To respond to the audit opinion and recommendations contained in the report "Investment Policy Compliance 2007" issued by Ernst and Young and to comply with the City's Statement of Lease Financing Policies and confirm the agencies, boards and commissions' compliance with the City's investment and leasing policies in 2007.

RECOMMENDATIONS

The Acting Deputy City Manager and Chief Financial Officer recommends that:

1. The 2007 Investment Compliance Audit Report and opinion from Ernst and Young be received.
2. The City's Investment Policy be revised to address the points raised in the Ernst and Young report and be presented to Council prior to the end of 2008.

Financial Impact

There is no financial impact resulting from this report.

DECISION HISTORY

On an annual basis, as required, the Deputy City Manager and Chief Financial Officer reports on the Investment Compliance audit opinion and recommendations issued by Ernst and Young as well as compliance by the City and its agencies, boards and commissions with the City's Statement of Lease Financing Policies.

ISSUE BACKGROUND

Investment Policy

The Investment Policy and Procedures approved by Council in January 1998 and June 2004 require that:

“The Deputy City Manager and Chief Financial Officer shall establish an annual process of independent review by the City’s Auditor. This review will provide assurance of compliance with governing legislation, this investment policy and procedures.”

This report provides a response from the Corporate Finance Division to the recommendations arising from the 2007 Compliance Audit as required by the City’s Investment Policy and Procedures.

Leasing Policy

The Statement of Lease Financing Policies was approved by Council at its meeting held on March 1, 2 and 3, 2004.

The following recommendations are contained in the Policy:

- (2) The Chief Financial Officer and Treasurer report to Council, on an annual basis, concerning the financing lease activity and its proportion to the City’s total outstanding debt, including a statement certifying that these leases were made in accordance with the City’s Statement of Leasing Policies and Goals as well as other items that are deemed to be relevant;
- (3) City Agencies, Boards and Commissions comply with the City’s Statement of Leasing Financing Policies.

COMMENTS

It should be noted for context that the City's cash management and investment program has been successful in achieving its performance objectives compared to its benchmarks while efficiently managing the City's capital market operations and funding obligations. The Corporate Finance Division continues to manage a combined investment portfolio in excess of \$3.0 billion and generates an annual combined investment income of \$166 million which is allocated between non-program revenue in the operating budget and reserve funds. This amount excludes the City's sinking funds which are not consolidated in the City’s financial statements.

The City does not invest in any sub-prime mortgage or foreign securities. Although the City’s policy does allow for investment in asset-backed commercial paper (ABCP) with an AAA credit rating, the City’s holdings were 2% of the portfolio’s value at the end of 2007

and were issued by the five major Canadian chartered banks and backed upon higher-quality assets such as bank credit card receivables and not sub-prime securities. These holdings were not affected by the credit market situation that froze the liquidity of approximately \$35 billion in ABCP in Canada that were issued by non-bank entities.

Corporate Finance Division's comments are contained in the Ernst and Young 2007 report as attached as Appendix "A".

Corporate Finance has now received confirmations from the appropriate Agencies, Boards and Commissions who have stated that they were in compliance during 2007 with the City of Toronto's Investment Policy and have provided Corporate Finance with a statement confirming that they were in compliance during 2007 with the City's Statement of Lease Financing Policies as approved by Council on March 1, 2 and 3, 2004.

Toronto Board of Health
Exhibition Place
Toronto Parking Authority
Toronto Library Board
Toronto Police Services Board
Toronto Transit Commission (TTC)
Toronto Zoo
Toronto Economic Development Corporation (TEDCO)
Hummingbird Centre

The City did not engage in any capital leasing activity during 2007.

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SIGNATURE

Cam Weldon
Acting Deputy City Manager and Chief Financial Officer

ATTACHMENTS

Appendix A – Auditor's Report on Compliance with Investment Policy, City of Toronto, Year Ended December 31, 2007
Appendix B – Letter from Ernst & Young dated May 8, 2008