



Investing for the future



Stephen Rettie (CPA, CMA) is Chief Administrative Officer for the Town of Bracebridge and a member of the ONE Investment Joint Investment Board. He previously served as Bracebridge's Director of Finance/Treasurer and was also Treasurer for the Township of Muskoka Lakes and a Controller in the private sector.

Even before COVID-19, people expected a lot from their municipalities. They wanted good roads, quality recreational facilities, and somewhere safe to call home. An ageing population and climate change added further to the demands on municipal government. The pandemic has further increased the load on municipal services and depleted finances.

On the upside, however, Ontario municipalities now have a new path to help raise funds for capital investments in infrastructure and other needs.

New Prudent Investor Standard

With the introduction of the prudent investor standard for Ontario municipalities, local governments have the potential to earn more revenue over the long-term. That's because, under the prudent standard, they can invest in a more diverse range of options, including non-Canadian securities.

Given the range of fiscal issues facing all orders of government during the COVID-19 pandemic, any new source of revenue is a welcome addition to the municipal toolbox.

Bracebridge was among the first municipalities in Ontario to pursue prudent investing. The City of Toronto received permission earlier and has been doing so for a couple of years. Even as a smaller municipality, the town wanted to find a way to take advantage of the new opportunity.

One of the main criteria to participate in the prudent investor standard is that the municipality must

have at least \$100 million in money and investments that it does not require immediately.

Fortunately, the regulation allows municipalities to pool their investments to meet the \$100 million threshold. Bracebridge opted to become a founding member of the ONE Joint Investment Board (JIB). Collectively with five other municipalities, the town meets the threshold, opening the door to significant future revenues. The other municipalities include the towns of Huntsville, Innisfil, and Whitby, the District of Muskoka, and the City of Kenora. Thus far, they have formed the only joint investment board in Ontario. It makes sense to work collaboratively with other municipalities when tackling this challenge.

Bracebridge Plans for the Future

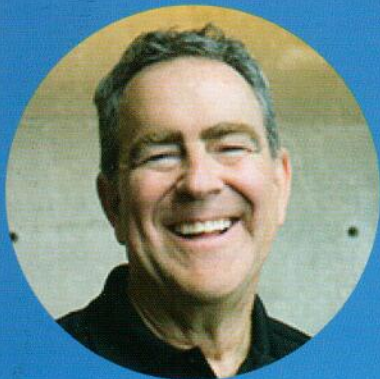
While some elected officials may be wary of investing public dollars, Bracebridge Mayor Graydon Smith was supportive early on.

"This is a new tool for municipalities like ours to plan for the future, without relying entirely on tax revenue or grants to fund projects," Mayor Smith said. "It's a critical opportunity to help fund our asset management plan and we did not want to miss out."

The mayor pointed to the town's ongoing project to build a new multi-use community centre. Through its investment plan, Bracebridge is able to offset the increase in construction costs that occur normally over the long time required to plan a large project. This is important because the benefits of

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saving for a project are diminished if the money saved won't buy as much in future years.

While this particular project got underway before the rules around the prudent investor standard were changed, it illustrates how investing smartly can reap rewards for municipalities. With the new powers in place, there is even more potential for lower risk, greater reward investing.

"With all the financial challenges we face, it made sense for us to take advantage of this opportunity," Mayor Smith added. "Besides pooling financial resources through the JIB, we are able to access greater investment expertise than we could locally to ensure our investment strategy will be on target."

Riding Out Fluctuations and Uncertainty

The combination of a more flexible, diverse portfolio with professional oversight is particularly helpful in current financial markets. And because municipalities are making long-term investments, it means that they can ride out the fluctuations and uncertainty due to COVID-19 and still meet their goals.

Linking investments to the management of municipal assets and infrastructure is a key priority. As Bracebridge builds its new community centre, investment revenue will be key to restocking savings for the next important project. Investments will be based on the local asset management plan, which every Ontario municipality is required to have.

Bracebridge's investments fall into three main categories:

- **Contingencies** – Long-term savings set aside for emergencies, such as flooding.
- **Stable returns** – Investments that will provide stable returns with minimal risk to principle, to fund regular infrastructure needs like ongoing maintenance of an arena.
- **Target date project** – Long-term investments monitored and adjusted to mature at a specific time to fund a specific project, like a bridge replacement in 30 years.

Treasurers know that some council education is required about investing public tax dollars in equities. But once informed, most will understand that a broader, more diverse portfolio actually reduces risk, especially when time is on your side.

The municipality has control over the level of risk exposure through an investment policy statement, which is approved by council. While elected officials are not allowed to directly make investment decisions under the rules, ample oversight and reporting ensures accountability.

Because of the resources in place through the Joint Investment Board, Bracebridge went through all the steps without needing to add further staff capacity or hire additional expertise, although that is another option.

Reduce Risk, Maximize ROI

Because of the regulations, working with other municipalities and outside experts helps treasurers navigate the way to better returns over the long run.

"It is essential, of course, that public money is spent correctly and for the greater good of the community in which it is being invested," Mayor Smith added. "The prudent investor standard, while offering a way to maximize returns on investments, does set high standards. This reduces risk and is the right thing for our town and our residents." **MW**