City of Richmond

# Agenda

## Finance Committee

### Anderson Room, City Hall
### 6911 No. 3 Road

### Monday, February 4, 2019
### Immediately Following the Open General Purposes Committee meeting

| Pg. # | ITEM | |
|---|---|---|
| | | **MINUTES** |
| FIN-4 | | ***Motion to adopt the minutes of the meeting of the Special Finance Committee held on February 11, 2019.*** |
| | | **DELEGATION** |
| FIN-13 | 1. | CJ James, Partner KPMG Chartered Accountants, to present the Audit Planning Report for the year ended December 31, 2018. |
| | | RECOMMENDATION |
| | | ***That the Audit Planning Report for the year ended December 31, 2018 from KPMG LLP dated December 3, 2018, be received for information.*** |
| | | **FINANCE AND CORPORATE SERVICES DIVISION** |
| | 2. | **2018 INVESTMENT REPORT** (File Ref. No. 03-0900-01) (REDMS No. 6089751 v. 2) |
| FIN-46 | | See Page **FIN-46** for full report |
| | | ***Designated Speaker: Venus Ngan*** |

STAFF RECOMMENDATION

***That the staff report titled "2018 Investment Report" dated February 6, 2019 from the Director, Finance be received for information.***

3. **INVESTMENT POLICY 3703 AMENDMENT**
(File Ref. No. 03-0900-01) (REDMS No. 6006535 v. 4; 6101472)

**FIN-52** See Page **FIN-52** for full report

***Designated Speaker: Venus Ngan***

STAFF RECOMMENDATION

***That Council Policy 3703 (Investment Policy) be amended as proposed in the staff report titled "Investment Policy 3703 Amendment" dated February 6, 2019 from the Director, Finance.***

4. **CREDIT CARD PAYMENT SERVICE FEE BYLAW NO. 9536, AMENDMENT BYLAW NO. 9963**
(File Ref. No. 12-8060-20-009963; 03-0900-01) (REDMS No. 6022858 v. 4; 6119619)

**FIN-65** See Page **FIN-65** for full report

***Designated Speaker: Venus Ngan***

STAFF RECOMMENDATION

***(1) That the staff report titled "Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 9963" dated February 11, 2019 from the Director, Finance, be endorsed; and***

***(2) That Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 9963 be introduced and given first, second and third readings.***

5. **REVENUE ANTICIPATION BORROWING (2019) BYLAW NO. 9997**
(File Ref. No. 12-8060-20-009997; 03-0900-01) (REDMS No. 6095250; 6095252)

**FIN-72** See Page **FIN-72** for full report

***Designated Speaker: Venus Ngan***

STAFF RECOMMENDATION

***That Revenue Anticipation Borrowing (2019) Bylaw No. 9997 be introduced and given first, second and third readings.***

ADJOURNMENT

City of Richmond

# Minutes

## Special Finance Committee

| | |
|---|---|
| Date: | Monday, February 11, 2019 |
| Place: | Anderson Room<br>Richmond City Hall |
| Present: | Mayor Malcolm D. Brodie, Chair<br>Councillor Chak Au<br>Councillor Carol Day<br>Councillor Kelly Greene<br>Councillor Alexa Loo<br>Councillor Bill McNulty<br>Councillor Linda McPhail<br>Councillor Harold Steves<br>Councillor Michael Wolfe |
| Call to Order: | The Chair called the meeting to order at 3:31 p.m. |

## MINUTES

It was moved and seconded
***That the minutes of the meeting of the Finance Committee held on February 4, 2019, be adopted as circulated.***

**CARRIED**

## FINANCE AND CORPORATE SERVICES DIVISION

1. **ALTERNATIVE FUNDING SOURCES FOR THE 2019 ONE-TIME EXPENDITURES**
(File Ref. No. 03-0970-01) (REDMS No. 6121598 v. 3)

In response to questions from Committee, staff advised the following:

- the Enterprise Fund (i) has been accumulated over numerous years sourced from excess debt funding and surpluses through various accounts, (ii) is maintained by staff to ensure projects are funded where there is no funding source and a payback is available, and (iii) is self-sustaining;

- as part of the existing gaming revenue allocation model any excess gaming revenue is put to the capital building and infrastructure reserve and there is an additional $500,000 approximately in that reserve from this allocation model;
- in total for 2018, $16.7 million was received in gaming revenue and staff follow the allocation model with any surplus put into the capital building and infrastructure reserve;
- the Shipyard Operations Supervisor position would be operational in nature, overseeing the operations related to boat building and repair activities on the site and is a one-time request;
- the Cultural Precinct Study would require an architect and specialized expertise to complete the building assessment and make recommendations on how to best utilize the space and ensure planning for the City's facilities;
- a majority of the Automated External Defibrillators (AED) were gifted in 2010 and 2011 as a legacy of the Olympics and have been utilized for life saving measures since their installation;
- PeopleSoft has gone through two major upgrades as well as significant changes in workflows and the PeopleSoft Review and Knowledge Development would provide necessary training to pertinent staff; and
- the Community Needs Assessment is recommended in five year intervals to measure effectiveness over time and align with other strategies which are also completed every five years and the intent is to start in 2019 for launch in 2020.

Discussion then took place on (i) the Gaming Revenue Provision and the Enterprise Fund, (ii) the status of staffing and the requirement of a Shipyard Operations Supervisor at Britannia Shipyards National Historic Site, (iii) the use of staff to complete the Cultural Precinct Study, and (iv) installing library book vending technology at Minoru Centre for Active Living.

As a result of the discussion, the following **motion** was introduced:

It was moved and seconded
***That the recommended one-time expenditures totaling $1,315,909 and an additional $110,000 for Minoru Aquatic Centre operational maintenance for a total of $1,425,909 as outlined in Table 1, be approved with funding from the Rate Stabilization Account (RSA).***

The question on the motion was not called as the following **amendment motions** were introduced:

It was moved and seconded
***That the Cultural Precinct Study ($100,000) be removed from the recommended 2019 one-time expenditures.***

**DEFEATED**
Opposed: Mayor Brodie
Cllrs. Greene
Loo
McPhail
Steves
Wolfe

It was moved and seconded
***That the Resources to Conduct a Community Needs Assessment ($125,000) be removed from the recommended 2019 one-time expenditures.***

**DEFEATED**
Opposed: Mayor Brodie
Cllrs. Au
Greene
Loo
McPhail
Wolfe

It was moved and seconded
***That the Cultural Precinct Study ($100,000) be funded from the Gaming Revenue Provision.***

**DEFEATED**
Opposed: Mayor Brodie
Cllrs. Au
Loo
McNulty
McPhail
Steves

It was moved and seconded
***That the Resources to Conduct a Community Needs Assessment ($125,000) be funded from the Gaming Revenue Provision.***

**DEFEATED**
Opposed: Mayor Brodie
Cllrs. Au
Loo
McNulty
McPhail
Steves

It was moved and seconded
***That the PeopleSoft Review and Knowledge Development ($100,000) be removed from the recommended 2019 one-time expenditures.***

**DEFEATED**
Opposed: Mayor Brodie
Cllrs. Au
Loo
McNulty
McPhail
Steves
Wolfe

It was moved and seconded
***That the funding for the 2019 one-time expenditure of the PeopleSoft Review and Knowledge Development be reduced to $50,000.***

**DEFEATED**
Opposed: Mayor Brodie
Cllrs. Au
Loo
McNulty
McPhail
Steves
Wolfe

It was moved and seconded
***That the Library Book Vending Technology at Minoru Centre for Active Living ($41,500) be added to the recommended 2019 one-time expenditures to be funded from the Council Community Initiatives Account (CCIA).***

The question on the amendment motion was not called as discussion ensued regarding the library book vending technology installation at Minoru Centre for Active Living. In response to queries from Committee, Susan Walters, Chief Librarian, commented that should a vending machine be installed at Minoru Centre for Active Living, the materials would be targeted to seniors with a regularly rotating collection available.

The question on the amendment motion was then called and it was **CARRIED** with Cllrs. Greene and Wolfe opposed.

As a result of further discussion regarding the potential to install signage at the Steveston Tram Building, the following additional **amendment motions** were introduced:

It was moved and seconded
***That the Steveston Tram Building Signage ($30,000) be added to the recommended 2019 one-time expenditures to be funded from the Council Community Initiatives Account (CCIA).***

**DEFEATED**
Opposed: Cllrs. Au
Day
Greene
Steves
Wolfe

It was moved and seconded
***That the Steveston Tram Building Signage be reduced to $15,000 and added to the recommended 2019 one-time expenditures to be funded from the Council Community Initiatives Account (CCIA).***

The question on the amendment motion was not called as, in response to questions from Committee, Marie Fenwick, Manager, Museum and Heritage Services advised that a final decision on constructing the Steveston Tram Building Signage in house or externally has not been made and staff would review the signage plan for the site to remain consistent.

The question on the amendment motion was then called and it was **CARRIED.**

The question on the main motion, as amended, which now reads as follows:

*That the recommended one-time expenditures totaling $1,315,909 and an additional $110,000 for Minoru Aquatic Centre operational maintenance for a total of $1,425,909 as outlined in Table 1 be approved with funding from the Rate Stabilization Account (RSA), with the addition of the following:*

- *$41,500 for the Library Book Vending Technology at Minoru Centre for Active Living from the Council Community Initiatives (CCIA) Account; and*
- *$15,000 for the Steveston Tram Building Signage from the Council Community Initiatives (CCIA) Account.*

was then called and it was **CARRIED** with Cllrs. Day and Greene opposed.

As a result of the discussion, the following **motion** was introduced:

It was moved and seconded
***That the Consolidated 5 Year Financial Plan (2019-2023) be amended accordingly and brought to the Council meeting on February 11, 2019.***

**CARRIED**
Opposed: Cllr. Day

Discussion further took place and as a result, the following **referral motions** were introduced:

It was moved and seconded
***That staff look into the potential for charging admission to the Britannia Shipyards National Historic Site.***

**CARRIED**

It was moved and seconded
***That staff provide further details regarding the Enterprise Provision including its history and decisions regarding how the Provision is operating.***

**CARRIED**

It was moved and seconded
***That staff provide further details regarding the Gaming Revenue Provision including its history and outline of funds being deposited.***

**CARRIED**

2. **2019 PROPOSED OPERATING BUDGET – SAME LEVEL OF SERVICE REFERRAL RESPONSE**
(File Ref. No. 03-0970-01) (REDMS No. 6122324)

In response to questions from Committee, staff noted that (i) the $150,000 increase in criminal record checks is anticipated due to an increase in job application requirements for a criminal record check, (ii) the anticipated surplus for 2018 is $6 million and will be added to the $3.3 million balance of the Rate Stabilization Account, (iii) the Rate Stabilization Account has been utilized as a funding source to address expenditures in order to reduce the tax impact, (iv) staff anticipate bringing a report regarding 2020 Major Events to Council in the near future, and (v) the increase in business licence revenue and increase on other fines revenue is supported by reviewing the trend over the past three years.

*Councillor Harold Steves left the meeting (4:26 p.m.) and returned (4:29 p.m.).*

In further response to Committee's questions, Mr. Nazareth and Mr. Chong provided further clarification regarding (i) the use of the Rate Stabilization Account, (ii) the same level of service increase, (iii) the operating budget surplus, and (iv) the annual tax rate calculation.

Discussion then took place regarding the staff recognition event and direction was given to staff to provide further information including cost.

As a result of the discussion, the following **motion** was introduced:

It was moved and seconded
***That:***

*(1)* ***a same level of service budget increase, after tax growth, of $2,167,033 with a tax increase of 1.00% before additional levels of service be approved;***

*(2)* ***the 2019 Operating Budget overall tax increase of 4.82% as presented in Table 2 of the staff report titled "2019 Proposed Operating Budget – Same Level of Service Referral Response" be approved; and***

*(3)* ***the 2019 Operating Budget of 4.82% be included in the Consolidated 5 Year Financial Plan (2019-2023).***

The question on the motion was not called as, in response to queries from Committee, Mr. Nazareth and Mr. Chong advised that (i) staff have reduced the same level of service budget increase as much as possible without an impact to services, (ii) community safety accounts for 70% of the same level of service increase in 2019 and 61% of the overall increase of the proposed budget, (iii) if the operating budget for 2019 was approved as recommended by staff, the average household would see an approximate tax increase of $94.51.

As a result of the discussion, the following **amendment motion** was introduced:

It was moved and seconded
***That the 2.37% Rate Stabilization funding for the 2019 Operating Budget be reduced to 1.37 % with a resulting greater tax increase.***

The question on the amendment motion was not called as there was agreement to **table** the motion and the following **amendment motion** was introduced:

It was moved and seconded
***That the transfer to reserves be reduced from 0.5% to 0%.***

The question on the amendment motion was not called as discussion took place on the transfer to reserves and pursuing alternative revenue sources. In response to questions from Committee, Mr. Nazareth and Mr. Chong advised that at the end of November 2018 there was approximately $300 million in uncommitted reserves and $60 million in building reserves, which includes capital building and leisure facilities. Mr. Nazareth and Mr. Chong further remarked that the return on community infrastructures is approximately 2¾ %.

The question on the amendment motion was then called and it was **DEFEATED** with Mayor Brodie and Cllrs. Loo, McNulty, McPhail, Steves and Wolfe opposed.

There was agreement that the previous amendment motion to reduce the use of the Rate Stabilization Account be **lifted** from the table.

Discussion further took place on amending the reduction to the use of the Rate Stabilization Account and the amendment motion was **WITHDRAWN** and the following **amendment motion** was introduced:

It was moved and seconded
***That the 2.37% Rate Stabilization funding for the 2019 Operating Budget be reduced by 0.68 % with a resulting tax increase.***

The question on the amendment motion was not called as, in response to Committee's queries, staff noted that if the amendment motion were to pass, the resulting tax increase for 2019 would be 5.5% and 6.01% in 2020.

The question on the amendment motion was then called and it was **DEFEATED** with Mayor Brodie and Cllrs. Au, Day, Loo, McNulty, and McPhail opposed.

The question on the main motion was then called and it was **CARRIED** with Cllrs. Au, Greene, and Day opposed.

3. **CONSOLIDATED 5 YEAR FINANCIAL PLAN (2019-2023) BYLAW NO. 9979**
(File Ref. No. 12-8060-20-009979) (REDMS No. 6121102)

It was noted that an updated Consolidated 5 Year Financial Plan (2019-2023) Bylaw could be provided to Council at the February 11, 2019 Council meeting.

It was moved and seconded
*(1)* ***That the Consolidated 5 Year Financial Plan (2019-2023) Bylaw No. 9979 be introduced and given first, second, and third readings; and***

*(2)* ***That staff undertake a process of public consultation as required in Section 166 of the Community Charter.***

**CARRIED**
Opposed: Cllrs. Au
Day

## ADJOURNMENT

It was moved and seconded
***That the meeting adjourn (5:00 p.m.).***

**CARRIED**

Certified a true and correct copy of the Minutes of the meeting of the Finance Committee of the Council of the City of Richmond held on Monday, February 19, 2019.

| | |
|---|---|
| Mayor Malcolm D. Brodie<br>Chair | Amanda Welby<br>Legislative Services Coordinator |

KPMG

# City of Richmond

**Audit Planning Report for the year ended December 31, 2018**

KPMG LLP

**December 3, 2018**

kpmg.ca/audit

# Table of contents



FIN - 14

The contacts at KPMG in connection with this report are:


**C.J. James, CPA, CA**
Engagement Partner
Tel: 604-527-3635
cjjames@kpmg.ca

**Aanu Adeleye, CPA (Illinois), MBA**
Senior Manager
Tel: 604-527-3746
aadeleye@kpmg.ca

# Considerations in developing our Audit Plan

We are pleased to provide for your review the following information relating to the planned scope and timing for the audit of the consolidated financial statements of the City of Richmond ( the "City") for the year ended December 31, 2018.

## Changes in operations

Based on discussions with management, there are no significant changes in the operations that will impact the audit of the City of Richmond for the current year.

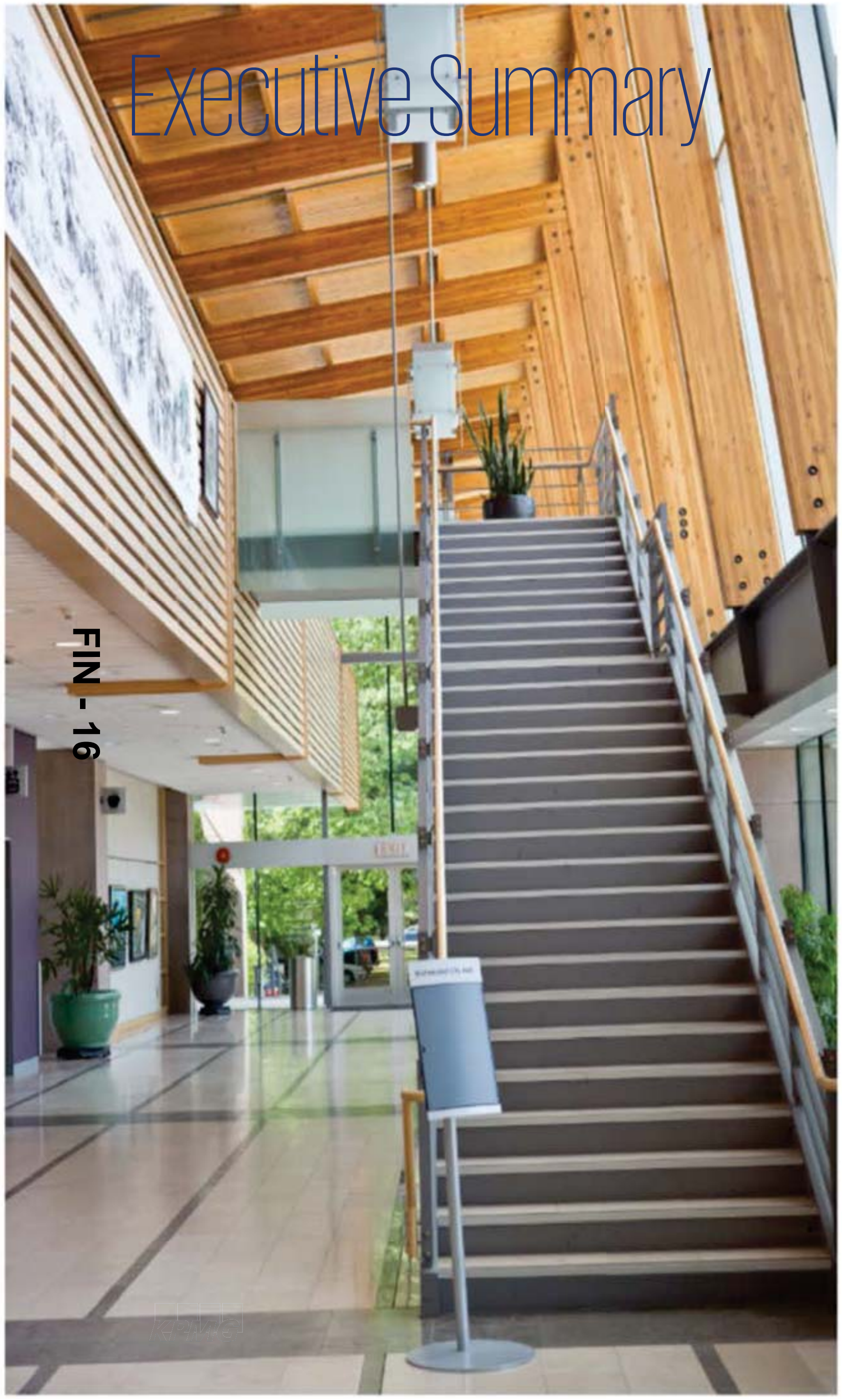
## Changes in accounting standards

The following new accounting standards have been approved by the Public Sector Accounting Board ("PSAB") and are effective for the City's 2018 fiscal year:

- Related party disclosures
- Inter-entity transactions
- Assets
- Contingent assets
- Contractual rights

Management has commenced work to adopt the new accounting standards.

# Executive Summary



## Areas of audit focus

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- deferred revenue and development cost charges
- valuation of post-employment benefits

See pages 7-8

## KPMG Team

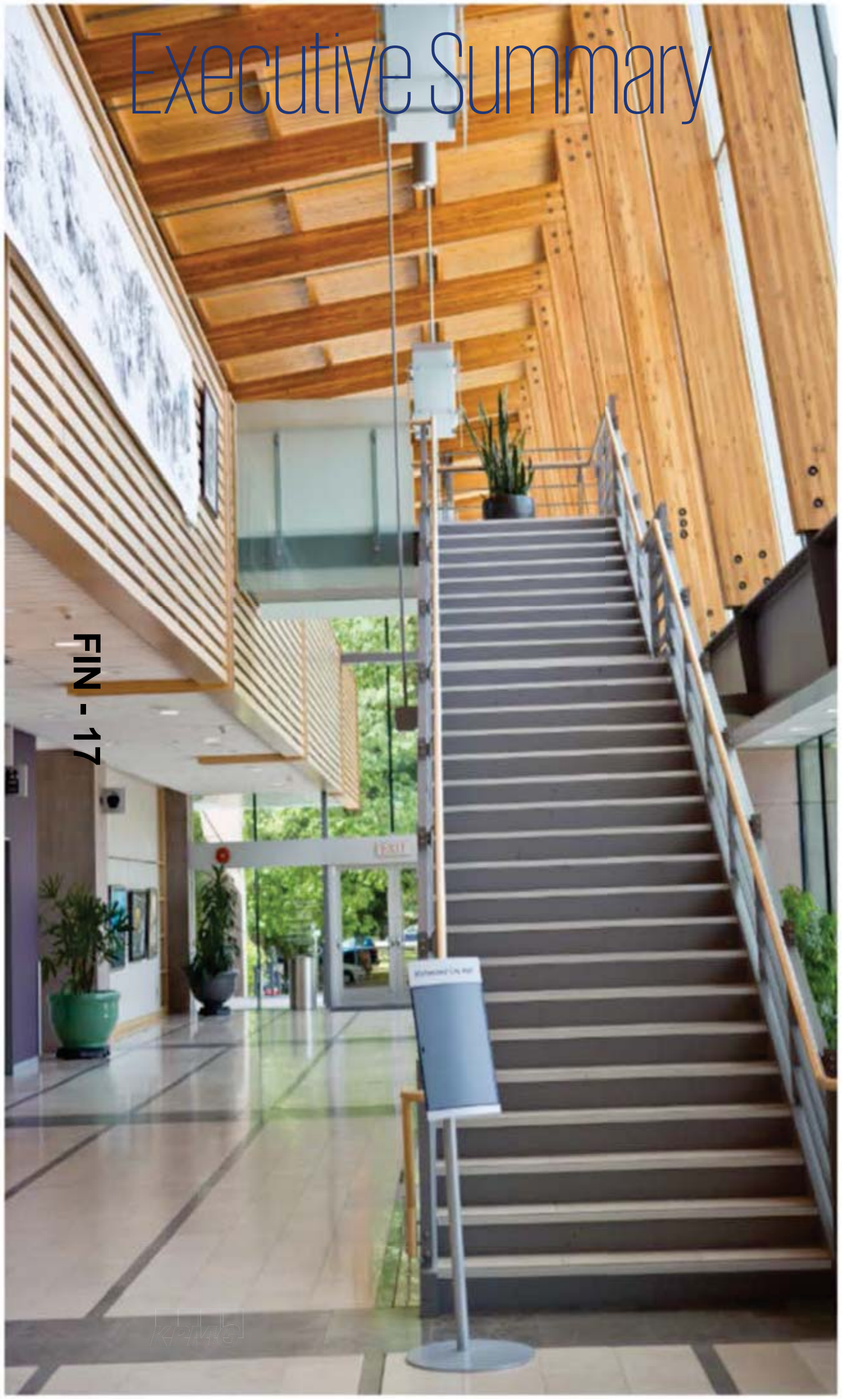
The KPMG will be led by CJ James. She will be supported by Aanu Adeleye. Subject matter experts will be involved, if deemed necessary, to ensure our approach is appropriate and robust.

## Materiality

We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. Materiality has been determined based on total expenses of the prior year. Materiality has been determined as $8,300,000.

See page 10

# Executive Summary



## Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow approved protocols as determined by those charged with governance.

## Effective communication

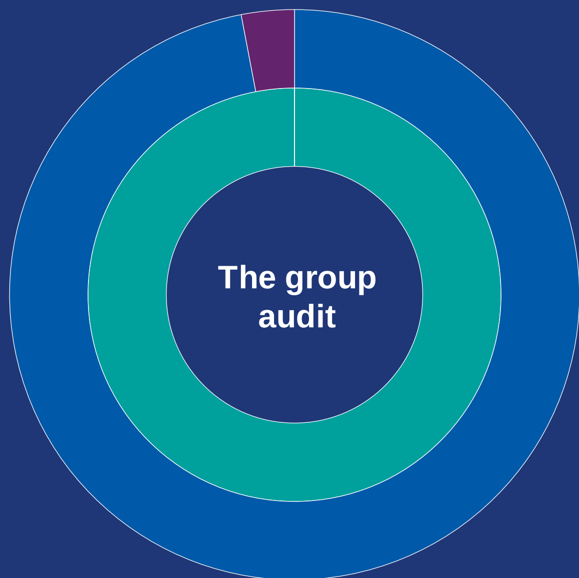
We are committed to transparent and thorough reporting of issues to management and the Mayor and Council. This is achieved through formal and informal meetings throughout the year.

*See Appendix 4.*

## Current developments

Please refer to pages 24 – 27 for upcoming accounting changes relevant to the City.

# Group Audit Scope




| Components | # of Components | Legend |
|---|---|---|
| **Individually Significant Components**<br>- City of Richmond | 1 | |
| **Other Components**<br>- Richmond Public Library<br>- Richmond Olympic Oval Corporation<br>- Lulu Island Energy Company | 3 | |

| Procedures performed by | Legend |
|---|---|
| Group team – KPMG | |

# Areas of audit focus

## Area of focus

Deferred Revenue and Development Cost Charges

## Why are we focusing here?

There is a significant amount of development and capital activity ongoing in the City. The City receives government grants and development cost charges for certain projects. As these amounts are for specified purposes and could contain stipulations, there is a need to determine whether the amounts should be deferred or recognized as revenue.

## Our audit approach

- Reconcile permits to new development cost charges during the year and inspect appropriate bylaws showing appropriation for the specified purpose of the amounts.
- Inspect specific contracts to determine whether there are stipulations or restrictions in place
- Assess whether the appropriate stipulations have been met by inspecting and recalculating expenses incurred for certain projects
- Assess whether the revenue recognition criteria have been met.

# Areas of audit focus



| Area of focus | Why are we focusing here? |
|---|---|
| Valuation of Post – Employment Benefits | The City provides post-employment benefits to its employees, creating a liability. Due to the variety of factors involved in calculating the estimate, a high degree of estimation uncertainty exists. |

## Our audit approach

- Obtain the reports prepared by Mercer (Canada) Limited and tie amounts from those reports into the financial statements
- Review the significant assumptions used in the actuarial report and test the data provided by the City to Mercer for completeness and accuracy.
- Perform an analytical review over these amounts

# Audit risks

| Professional requirements | Why is it significant? |
| --- | --- |
| Fraud risk from management override of controls | This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit. |

## Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments,
- Performing a retrospective review of estimates, and
- Evaluating the business rationale of significant unusual transactions.

# Materiality

**Materiality Benchmark**

Prior year (2017) total expenses

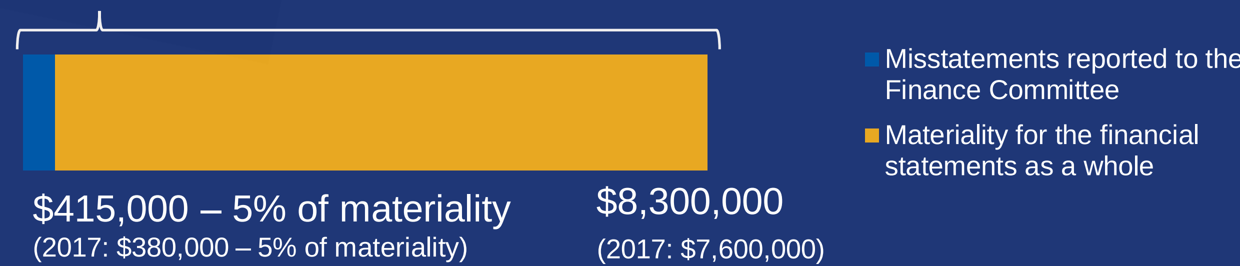
**$413.3 million**

(2017: $379.4 million – 2016 total expenses)

**Materiality**

$8,300,000

2% of 2017 total expenses
(2017:  $7,600,000 - 2% of 2016 total expense)




Materiality represents the level at which we think misstatements will reasonably influence users of  the financial statements. It considers both quantitative and qualitative factors

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

We will report:

- Corrected audit misstatements
- Uncorrected audit misstatements

# Key deliverables and milestones

| November | November | February/March | May |
| --- | --- | --- | --- |
| Planning year-end 2018 audit and provide Audit Planning Report | Interim Fieldwork | Year-end fieldwork | Present 2018 Audit Findings Report and auditors' report |

# Annual inquiries

Professional auditing standards require that we annually inquire concerning the Mayor and Council's oversight of management's process for identifying and responding to the risks of fraud with the City. Accordingly, we ask whether you:

- Are aware of, or have identified any instances of, actual, suspected, possible or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have these instances been appropriately addressed to your satisfaction?
- Are you aware of any significant fraud risks facing the City?
- Believe that the Mayor and Council exercises effective oversight of management's process for identifying and responding to the risk of fraud in the City and these internal controls that management has established to mitigate these fraud risks?
- Are aware of the City entering into any significant unusual transactions?

Please provide your response to the above questions to **CJ James,** Engagement Partner either by phone at **604-527-3635** or email at **cjjames@kpmg.ca**.

FIN - 24

# The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.


## Technology we use today

| Tool | Benefit to audit |
| --- | --- |
| Journal Entry Analysis | Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature. |

# The 2018 Auditors' Reports

## Background

In response to stakeholders demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board ("AASB") in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).



## Highlights of changes to your 2018 auditors' reports

- Re-ordering of the auditors' report including moving opinion to the first section.
- Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.
- Separate section on "Other Information" (e.g. annual report).
- Expanded descriptions of management's responsibilities, including those related to assessing the City's ability to continue as a going concern.
- New description of responsibilities of those charged with governance (the Mayor and Council).
- Expanded descriptions of auditors' responsibilities.

Currently, the reporting of Key Audit Matters ("KAMs") in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

# The 2018 Auditors' Reports (continued)

## Expected form of the City's auditors' report on the financial statements

### INDEPENDENT AUDITORS' REPORT

To the Mayor and Council of the City of Richmond

***Opinion***

We have audited the consolidated financial statements of the **City of Richmond** (the "City"), which comprise:

- the consolidated statement of financial position as at December 31, 2018
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the City as at December 31, 2018, and its consolidated results of operations, its changes in net consolidated financial assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***" section of our auditors' report.

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# The 2018 Auditors' Reports (continued)

## Expected form of the City's auditors' report on the financial statements (continued)

### *Other Information*

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the City's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 's financial reporting process.

# The 2018 Auditors' Reports (continued)

## Expected form of the City's auditors' report on the financial statements (continued)

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

# The 2018 Auditors' Reports (continued)

## Expected form of the City's auditors' report on the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the City to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Vancouver, Canada

DATE

# The 2018 Auditors' Reports (continued)

## Expected form of the City's auditors' report for the Home Owners' Grants

### INDEPENDENT AUDITORS' REPORT

To the City of Richmond and Ministry of Municipal Affairs and Housing

***Opinion***

We have audited the financial information in the accompanying Form C2 – Home Owner Grant: Treasurer/Auditor Certificate comprised of total Home Owner Grants of $XXX,XXX, total reimbursement by the Province of British Columbia (the "Province") of $XXX,XXX, , and total balance due from the Province of $XXX,XXX, of the City of Richmond (the "Entity") for the year ended December 31, 2018, and notes, comprising a summary of significant accounting policies (hereinafter referred to as the "Certificate").

In our opinion, the financial information in the accompanying Form C2 – Home Owner Grant: Treasurer/Auditor Certificate of the Entity for the year ended December 31, 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act.

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Certificate***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the Certificate in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# The 2018 Auditors' Reports (continued)

## Expected form of the City's auditors' report for the Home Owners' Grants (continued)

***Emphasis of Matter – Financial Reporting Framework***

We draw attention to Note 1 to the Certificate, which describes the applicable financial reporting framework.

The Certificate is prepared to assist the Entity to meet the requirements of Section 12(1) of the Home Owner Grant Act.

As a result, the Certificate may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

***Other Matter – Restriction on Use***

Our report is intended solely for the Entity and the Ministry of Municipal Affairs and Housing and should not be used by other parties.

***Responsibilities of Management and Those Charged with Governance for the Certificate***

Management is responsible for the preparation of the Certificate in accordance with the financial reporting provisions of Section 12(1) of the Home Owner Grant Act, and for such internal control as management determines is necessary to enable the preparation of a Certificate that is free from material misstatement, whether due to fraud or error.

In preparing the Certificate, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charges with governance are responsible for overseeing the Entity's financial reporting process.

***Auditors' Responsibilities for the Audit of the Certificate***

Our objectives are to obtain reasonable assurance about whether the Certificate as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

# The 2018 Auditors' Reports (continued)

## Expected form of the City's auditors' report for the Home Owners' Grants (continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Certificate.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the Certificate, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the Certificate or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants
Vancouver, Canada
DATE

# The 2018 Auditors' Reports (continued)

## Expected form of the City's report on compliance with the School Act

### INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT ON COMPLIANCE

To the Ministry of Municipal Affairs and Housing

We have undertaken a reasonable assurance engagement of the accompanying statement of the City of Richmond's compliance during the period of January 1, 2018 to December 31, 2018, with subsection 2 and 3 of section 124 of Part 8 of the School Act ("the specified requirements").

***Management's Responsibility***

Management is responsible for measuring and evaluating the City of Richmond's compliance with the specified requirements and for preparing the City of Richmond's statement of compliance. Management is also responsible for such internal control as management determines is necessary to enable the City of Richmond's compliance with the specified requirements.

***Our Responsibility***

Our responsibility is to express a reasonable assurance opinion on management's statement based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements 3530, *Attestation Engagements to Report on Compliance*. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether management's statement is fairly stated, in all material respects.

Reasonable assurance is a high level of assurance, but is not a guarantee that an engagement conducted in accordance with this standard will always detect a material instance of non-compliance with specified requirements when it exists. Instances of non-compliance can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. A reasonable assurance compliance reporting engagement involves performing procedures to obtain evidence about management's statement of the entity's compliance with specified requirements. The nature, timing and extent of procedures selected depends on our professional judgment, including an assessment of the risks of material misstatement of management's statement, whether due to fraud or error, and involves obtaining evidence about management's statement.

# The 2018 Auditors' Reports (continued)

## Expected form of the City's report on compliance with the School Act (continued)

We believe the evidence we obtained is sufficient and appropriate to provide a basis for our opinion. Information relevant the City of Richmond's compliance with the specified requirements is set out in management's statement of compliance.

***Our Independence and Quality Control***

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

***Opinion***

In our opinion, management's statement that the City of Richmond complied with the specified requirements established in subsection 2 and 3 of section 124 of Part 8 of the School Act during the period January 1, 2018 to December 31, 2018, is fairly stated, in all material respects.

We do not provide a legal opinion on the City of Richmond's compliance with the specified requirements.

***Purpose of Statement***

Management's statement of compliance has been prepared to report to the Ministry of Municipal Affairs and Housing on the City of Richmond's compliance with the specified requirements. As a result, management's statement of compliance may not be suitable for another purpose.

Chartered Professional Accountants
Vancouver, Canada
DATE

# Current developments

## Public Sector Accounting Standards

| Standard | Summary and implications |
|---|---|
| Asset Retirement Obligations | – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021.<br>– The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area.<br>– The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life.<br>– As a result of the new standard, the public sector entity would have to:<br>• consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset;<br>• carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements;<br>• begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. |
| Revenue | – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022.<br>– The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement.<br>– The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations.<br>– The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue. |

# Current developments (continued)

## Public Sector Accounting Standards (continued)

| Standard | Summary and implications |
|---|---|
| Financial Instruments and Foreign Currency Translation | – New accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* have been approved by PSAB and are effective for years commencing on or after April 1, 2021.<br>– Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the government's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable.<br>– Hedge accounting is not permitted.<br>– A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. |
| Employee Future Benefit Obligations | – The Public Sector Accounting Board ("PSAB") has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits.<br>– Two Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations.<br>– A third Invitation to Comment seeks guidance on non-traditional pension plans. The deadline for responses to the third Invitation to Comment is February 1, 2019.<br>– The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance. |

# Current developments (continued)

## Public Sector Accounting Standards (continued)

| Standard | Summary and implications |
| --- | --- |
| Public Private Partnerships (“P3”) | – A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets.<br>– A Statement of Principles (“SOP”) was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard is expected to be issued in December 2018.<br>– The SOP proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends.<br>– The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. |
| International Strategy | – PSAB is in the process of reviewing its c[illegible]ent approach towards International Public Sector Accounting Standards. This project may result in changes to the [illegible]e PSAB plays in setting standards in Canada.<br>– A consultation paper was released for c[illegible]ent in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects t[illegible]onsider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable. |

FIN - 38

# Current developments (continued)

## Public Sector Accounting Standards (continued)

| Standard | Summary and implications |
|---|---|
| Concepts Underlying Financial Performance | – PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards.<br>– A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018 and has closed.<br>– The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced.<br>– The SOP includes principles intended to replace PS 1201 *Financial Statement Presentation*. The SOP proposes:<br>• Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets.<br>• Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).<br>• Restructuring the statement of financial position to present non-financial assets before liabilities.<br>• Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities).<br>• A new provision whereby an entity can use an amended budget in certain circumstances.<br>– Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position. |

# Appendices

# Appendix 1: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our Audit Quality Resources page for more information including access to our audit quality report, *Audit quality: Our hands-on process*.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
- Technical department and specialist resources provide real-time support to audit teams in the field.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

We do not offer services that would impair our independence.


All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

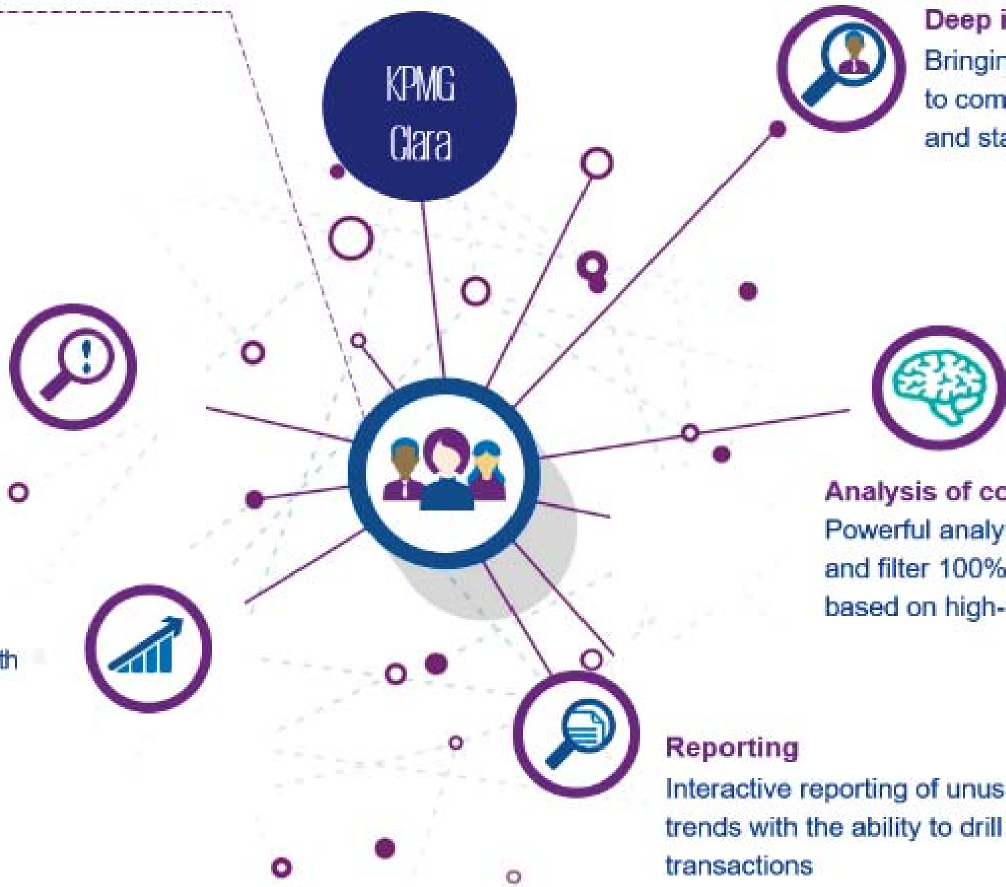
- Assignment based on skills and experience;
- Rotation of partners;
- Performance evaluation;
- Development and training; and Appropriate supervision and coaching.

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

# Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.




**Collaboration in the audit**
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

**Issue identification**
Continuous updates on audit progress, risks and findings before issues become events

**Data-driven risk assessment**
Automated identification of transactions with unexpected or unusual account combinations — helping focus on higher risk transactions and outliers

**Deep industry insights**
Bringing intelligence and clarity to complex issues, regulations and standards

**Analysis of complete populations**
Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

**Reporting**
Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

# Appendix 3: Lean in Audit™

## An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide a more focused, high quality audit that also identifies actionable quality and productivity improvement opportunities.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

## How it works

Lean in Audit employs three key Lean techniques:

### 1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

### 2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end to end transparency and understanding of process and control quality and effectiveness.

### 3. Insight reporting

Quick and pragmatic insight report including your team's immediate quick win actions and prioritized opportunities to realize benefit.

# Appendix 4: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

## Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter provided to management.

## Audit planning report

As attached.

## Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, a copy of the representation letter will be provided to the Mayor and Council.

## Audit findings report

At the completion of our audit, we will provide a report to the Mayor and Council.

## Independence

At the completion of our audit, we will confirm our independence to the Mayor and Council.

FIN - 45



KPMG

City of Richmond

# Report to Committee

| | | | |
|---|---|---|---|
| **To:** | Finance Committee | **Date:** | February 6, 2019 |
| **From:** | Jerry Chong<br>Director, Finance | **File:** | 03-0900-01/2019-Vol 01 |
| **Re:** | **2018 Investment Report** | | |

## Staff Recommendation

That the staff report titled "2018 Investment Report" dated February 6, 2019 from the Director, Finance be received for information.

Jerry Chong, CPA, CA
Director, Finance
(604-276-4064)

| REPORT CONCURRENCE | |
|---|---|
| CONCURRENCE OF GENERAL MANAGER | |
| REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE | INITIALS: CJ |
| APPROVED BY CAO | |



6089751

**Staff Report**

## Origin

This report provides an overview of the City's cash and investment position for fiscal year 2018.

## Analysis

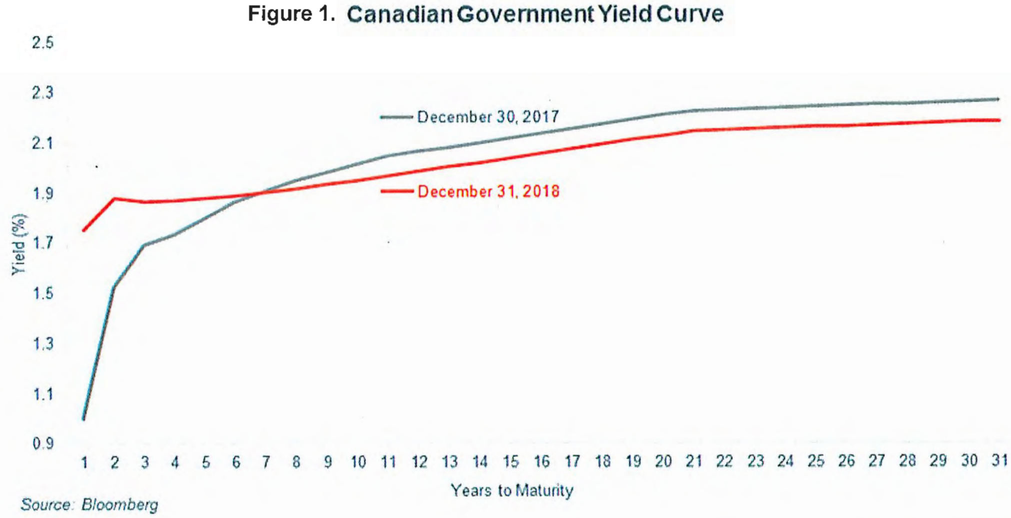
<u>Overview of Cash and Investment Position</u>

The City's Cash and Investment balance was approximately $1.12 billion as at December 31, 2018. The balance is made up of $121.0 million in cash and cash equivalents (deposits with terms 90 days or less) and $994.8 million in investments.

*Cash and Cash Equivalents*

The cash and cash equivalents balance of $121.0 million represents the City's short-term working capital that is required to meet ongoing operating expenditure obligations. As shown in Figure 1 below by the red line, the Canada yield curve remains relatively flat which results in little difference between short-term and long-term yields. Therefore staff have strategically placed operational funds in short-term products in order to optimize the overall yield and liquidity in an increasing interest rate environment.

**Figure 1.** Canadian Government Yield Curve

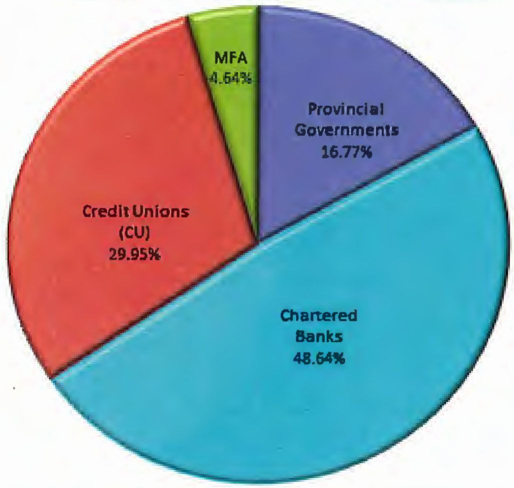



*Investments*

As at December 31, 2018, the City held a diversified investment portfolio of $994.8 million that complied with both Section 183 of the *Community Charter* and the City's Investment Policy 3703. The investment balance is comprised of amounts from funded but incomplete capital projects (30%), deposits and deferred revenues (15%), development cost charges (15%) and other uncommitted reserve and provision funds (40%) that will be expended in future years.

Figure 2 shows the breakdown of the City's investment by issuer type as of December 31, 2018.

**Figure 2. Investment Holdings as of December 31, 2018 (by Issuer Type)**




| Investment Limits (Policy 3703): | | | |
|---|---|---|---|
| MFA | 20% max | Provincial Government | 50% max |
| Credit Unions | 30% max | Chartered Banks | 50% max |

See Attachment 1 for a more detailed breakdown of the City's investment holdings.

## 2018 Investment Performance

The City's investment balance is comprised of a short-term portfolio and a bond portfolio. The weighted average investment yield of the City's total cash and investment portfolio was 2.38% in 2018 (2017: 2.00%) which generated approximately $24 million in investment income in 2018 (2017: $20 million).

At the end of fiscal year 2018, the City's investments were yielding approximately 2.75% as compared to the yield of 2.00% at the end of fiscal year 2017. The increase in yield of 0.75% is consistent with the Bank of Canada's interest rate increases that took place during 2018. The City's short-term investment strategy continues to play a key role in enhancing the overall yield of the City's investment portfolio. As the City's short- to mid-term investments matured throughout the year, the City was able to reposition its portfolio and realize the higher yields by reinvesting its funds at the higher prevailing market rates.

Based on comparison tables below, the City's overall investment performance for 2018 surpassed its benchmarks.

Table 1 below summarizes the yields of the City's yields in comparison with benchmarks:

| Investment Category | City of Richmond's 2018 Average Yield | MFA's 2018 Average Yield | FTSE Canada 2018 Benchmarks |
|---|---|---|---|
| Short-Term Portfolio | 2.49% | 2.12% | 1.82% |
| Bond Portfolio | 2.27% | 2.22% | 2.02% |
| Average Term | 2.26 years | 2.80 years | 2.94 years |

Table 1: Comparison of performance with benchmarks

Table 2 below provides an overview of the movements of the relevant Canada benchmark yields for fiscal year 2018:

| Benchmark | 12/31/2017 | 3/31/2018 | 6/30/2018 | 9/30/2018 | 12/31/2018 |
|---|---|---|---|---|---|
| 3 month Canada T-Bills | 1.05% | 1.09% | 1.25% | 1.51% | 1.67% |
| 2 Year Canada Bonds | 1.66% | 1.80% | 1.77% | 2.19% | 1.91% |
| 5 Year Canada Bonds | 1.82% | 2.00% | 1.93% | 2.32% | 1.93% |
| 10 Year Canada Bonds | 1.98% | 2.11% | 2.06% | 2.42% | 1.98% |

Table 2: Movement of 2018 Government of Canada short-term and long-term benchmark yields. (Source: Bank of Canada)

## Year 2018 in Review

The Canadian economy as a whole grew in line with economists' and the Bank of Canada's expectations. The effects of higher interest rates on consumption and housing as well as global trade policy developments were the main highlights in 2018.

The Bank of Canada raised overnight interest rate 3 times in 2018. Key monetary interest rate went from 1.00% in the beginning of the year to 1.75% at the end of the year.

Business investments and overall investor confidence fell due to the heightened trade uncertainty in the first few quarters in 2018. The conclusion of the tentative USMCA (US-Mexico-Canada) trade agreement in early October 2018 provided relief to the trade uncertainty facing Canadian businesses and will be an important ingredient in strengthening overall business confidence in the Canadian markets.

As the trade conflict between the United States and China continues, the impact is weighing on global growth and commodity prices. The persistence of the oil price shock, the evolution of business investment, and the Bank's assessment of the economy's capacity will factor importantly into the Bank of Canada's decisions about the future stance of monetary policy.

## Outlook for 2019

With ongoing economic weakness alongside with rising global uncertainty, many of the same 2018 concerns will remain in play in 2019. The global trade conflict will continue to create volatility in the global economy. In Canada, provinces like Alberta and Saskatchewan will face some significant headwinds due to the oil price shock and the reduction in energy sector investments. Despite concerns over increase in household credit, regional housing markets appeared to be stabilizing following the significant slowdown in recent quarters. The Bank of Canada will continue to monitor closely the impact on both builders and buyers of tighter mortgage rules, regional housing policy changes and the impact of higher interest rates on the economy's capacity.

Weighing all of these developments, the outlook for future rate hikes from the Bank of Canada will be influenced by events outside of the country's borders. With the U.S. Federal Reserve recently changing to a more cautious tone regarding future interest rate increases (or even possible interest rate cut) due to the slowdown in momentum of the economic expansion, there is less rationale for the Bank of Canada to tighten its monetary policy in the short-run. The projection is that no further interest rate changes will take place until around mid-2019 after

Recent Updates to the Banking Sector

Effective November 1, 2018, Coast Capital Savings has been given approval by the Ministry of Finance to become a federal credit union. As a federal credit union, Coast Capital Federal Credit Union is regulated by the Office of the Superintendent of Financial Institutions (OSFI), which is the same agency that oversees Canada's major banks and financial institutions.

Deposits with Coast Capital Federal Credit Union are insured up to $100,000 through the Canada Deposit Insurance Corporation (CDIC) instead of the previous unlimited deposit insurance under the BC's Credit Union Deposit Insurance Corporation (CUDIC).

As part of the transition to federal continuation, the CDIC will provide unlimited insurance for all pre-existing term deposits at Coast Capital (i.e. deposits made with Coast Capital on or prior to October 31, 2018 until the deposit matures). Any new deposits made on or after November 1, 2018 are covered separately under CDIC's standard $100,000 deposit insurance.

The City held approximately $87.5 million in term deposits with Coast Capital as of December 31, 2018, all of which were purchased before October 31, 2018 and have been grandfathered under the CDIC unlimited insurance protection. As the deposits at Coast Capital all carry the same level of protection as deposits held under B.C. Credit Unions, these balances at Coast Capital will still continue to be classified as B.C. Credit Union deposits under the City's Investment Policy 3703 until they mature in 2019.

The City's Investment Policy (3703) currently does not have provision for investments in federal credit union issuers. Therefore, staff has prepared a separate Report to Council titled "Investment Policy 3703 Amendment" dated February 6, 2019 to propose an amendment to the City's existing Investment Policy (3703) to include this new category of issuer.

## Financial Impact

None.

## Conclusion

The City's investment activities for 2018 have been conducted in accordance with the City's Investment Policy and the Community Charter. Staff will continue to administer the investment portfolio in a prudent manner to ensure that the City's investment objectives will continue to be met.

Venus Ngan, CPA, CA
Manager, Treasury and Financial Services
(604-276-4217)

Att. 1: Investment Portfolio Holdings as of December 31, 2018

City of Richmond
Investment Portfolio Holdings as of December 31, 2018

| Issuer | Term | Investment Book Value (in thousands) | % of Total Portfolio | Policy Limit |
|---|---|---|---|---|
| Alberta | 2019-2022 | $ 68,355 | 6.87% | 25% |
| British Columbia | 2019 | 65,042 | 6.54% | 25% |
| Quebec | 2022-2023 | 22,184 | 2.23% | 10% |
| Ontario | 2024 | 11,199 | 1.13% | 20% |
| | Total Provincials | $ 166,780 | 16.77% | 50% |
| Bank of Nova Scotia | 2019-2022 | $ 142,871 | 14.36% | 15% |
| TD Bank | 2019-2023 | 116,772 | 11.74% | 15% |
| Royal Bank | 2019-2023 | 69,821 | 7.02% | 15% |
| National Bank of Canada | 2019-2021 | 43,505 | 4.37% | 10% |
| HSBC Bank of Canada | 2021-2023 | 32,173 | 3.23% | 5% |
| Bank of Montreal | 2022-2025 | 29,948 | 3.01% | 15% |
| CIBC | 2019-2022 | 24,832 | 2.50% | 15% |
| Canadian Western Bank | 2019 | 24,000 | 2.41% | 3% |
| | Total Banks | $ 483,922 | 48.64% | 50% |
| Coast Capital Savings | 2019 | $ 87,520 | 8.80% | 10% |
| Vancity | 2019 | 77,204 | 7.76% | 10% |
| Gulf and Fraser | 2019 | 49,568 | 4.98% | 5% |
| Blue Shore Financial | 2019 | 47,819 | 4.81% | 5% |
| Westminster Savings | 2019 | 35,823 | 3.60% | 5% |
| | Total Credit Unions | $ 297,934 | 29.95% | 30% |
| | MFA Pooled Investment Fund | $ 46,150 | 4.64% | 20% |
| **Total Investment Portfolio Balance** | | **$ 994,786** | **100%** | |

City of Richmond

# Report to Committee

| | | | |
|---|---|---|---|
| **To:** | Finance Committee | **Date:** | February 6, 2019 |
| **From:** | Jerry Chong<br>Director, Finance | **File:** | 03-0900-01/2019-Vol 01 |
| **Re:** | **Investment Policy 3703 Amendment** | | |

## Staff Recommendation

That Council Policy 3703 (Investment Policy) be amended as proposed in the staff report titled "Investment Policy 3703 Amendment" dated February 6, 2019 from the Director, Finance.

Jerry Chong, CPA, CA
Director, Finance
(604-276-4064)

| REPORT CONCURRENCE | |
|---|---|
| CONCURRENCE OF GENERAL MANAGER | |
| REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE | INITIALS: CJ |
| APPROVED BY CAO | |



6006535

## Staff Report

### Origin

Investment Policy 3703 ("Investment Policy") was last amended and approved by Council on November 12, 2013. The Investment Policy is reviewed on a periodic basis and is updated as necessary to reflect material changes in the market or the investment industry. Due to recent changes in the banking and financial industry, staff are proposing that the City's Investment Policy be amended to reflect the changes, alongside with making a few other minor housekeeping changes to the existing Investment Policy.

### Findings of Fact

In 2012, the Government of Canada put in place a framework that allowed provincial credit unions to apply to become federal credit unions. Coast Capital Savings Federal Credit Union (formerly known as Coast Capital Savings Credit Union) made its application to become a federal credit union in 2016 and obtained final approval to become the first federal credit union in B.C. effective November 1, 2018. As a federal credit union, Coast Capital will now be regulated by the Office of the Superintendent of Financial Institutions (OSFI), which is the same federal agency that governs and regulates Canada's major chartered banks and financial institutions.

Impact to the City as a result of Coast Capital's federal continuation

All pre-existing deposits made with Coast Capital prior to November 1, 2018 are grandfathered whereby the Canada Deposit Insurance Corporation (CDIC) will provide to members of Coast Capital Savings the same unlimited insurance coverage provided by the Credit Union Deposit Insurance Corporation of British Columbia (CUDIC). All existing deposits held by the City at Coast Capital (current balance at approximately $87.5 million) were made prior to November 1, 2018, thus the unlimited insurance coverage is still available until they mature.

New deposits made on or after November 1, 2018 are covered separately under CDIC's standard deposit insurance of up to $100,000 per financial institution per eligible insured category, in case of an unlikely failure of its member institution. The City does not have any deposits at Coast Capital that were made after November 1, 2018.

As the City's Investment Policy (3703) currently does not have provision for investments in federal credit union issuers, staff is proposing that the City's Investment Policy be amended to reflect the addition of a new financial institution category (i.e. federal credit union), alongside with making a few other minor housekeeping changes to the existing Investment Policy.

## Analysis

Permitted Investments

All investments held by the City must fall into one of the permitted investments categories under Section 183 of the *Community Charter*:

a) securities of the Municipal Finance Authority;
b) pooled investment funds under section 16 of the Municipal Finance Authority Act;
c) securities of Canada or of a province;
d) securities guaranteed for principal and interest by Canada or by a province;
e) securities of a municipality, regional district or greater board;
f) investments guaranteed by a chartered bank;
g) deposits in a savings institution, or non-equity or membership shares of a credit union;
h) other investments specifically authorized under this or another Act.

Coast Capital Federal Credit Union continues to fall within section 183(g) of the *Community Charter.*

Investment Objectives

The City follows four fundamental objectives as outlined in the City's Investment Policy in managing its investment activities, which include:

- Adherence to statutory requirements;
- Safety of Capital;
- Liquidity of Investments; and
- Earning reasonable return on investments.

Coast Capital Federal Credit Union is regulated by OSFI, which is an independent agency of the Government of Canada reporting to the Minister of Finance. The same standards are used by OSFI in regulating Federal Credit Unions and all Canadian Banks. With Coast Capital's requirement to operate under the more stringent OSFI regulations and capital requirements, the City can still meet its investment objectives after Coast Capital's conversion from a B.C. credit union to a federal credit union.

## Proposed Amendments to Investment Policy 3703

Proposed Amendment: Addition of Federal Credit Union Issuer Type and Limits

Currently, Section 8 of the City's Investment Policy specifies permission for credit union investments only in B.C. credit unions. In order to allow added flexibility and increased diversification of municipal investment funds, staff is proposing that a new asset class called "Federal Credit Unions" be added to section 8 of the Investment Policy.

The table below summarizes the proposed section 8 of the Investment Policy pertaining to permitted investments at credit unions:

| Asset Class | Asset Category | Current Investment Policy | Proposed Change |
|---|---|---|---|
| B.C. Credit Unions | B.C. credit unions with total assets more than $10 billion | The greater of:<br>(i) 10% of total portfolio balance per credit union, or<br>(ii) $75 million per credit union | No change. |
| | B.C. credit unions with total assets between $500 million and $10 billion | The greater of:<br>(i) 10% of total portfolio balance per credit union, or<br>(ii) $50 million per credit union | No change. |
| Federal Credit Unions | Federal credit unions with:<br>• Long-term DBRS credit rating under A (low); and<br>• Short-term DBRS credit rating higher than R-1 (low) | N/A | The greater of:<br>(i) 5% of total portfolio balance per credit union, or<br>(ii) $50 million per credit union<br>(With terms not exceeding 1-year) |
| | Federal credit unions with:<br>• Long-term DBRS credit rating under A (low); and<br>• Short-term DBRS credit rating R-1 (low) | N/A | The greater of:<br>(i) 3% of total portfolio balance per credit union, or<br>(ii) $30 million per credit union<br>(With terms not exceeding 1-year) |
| | Federal credit unions with:<br>• Long-term DBRS credit rating A (low) or higher; and<br>• Short-term DBRS credit rating R-1 (low) or higher | N/A | Follow the equivalent per issuer limits under the Chartered Bank section based on its long-term and short-term DBRS credit rating. |
| | Total Credit Union Limit | Maximum 30% of Total | Maximum 30% of Total |

*DBRS is a global credit rating agency that provides independent credit ratings for financial institutions and corporate entities. DBRS is one of the major credit rating agencies that provides forward-looking opinions about credit risks that reflect the creditworthiness of an entity.

The Provincial legislature passed amendments to the *Financial Institutions Act* in 2008 to provide unlimited deposit insurance protection (regulated by the Financial Institutions Commissions and administered by CUDIC) on all deposits of B.C. credit unions in the unlikely event of a credit union failure. Despite the availability of the full guarantee, the City will continue to take into consideration the financial health and credit risks of each credit union that the City invests in. To remain diversified, the Investment Policy imposes the same maximum allowable limit in credit unions (B.C. and federal credit unions combined) of not more than 30% of the City's total investment portfolio balance.

The proposed policy limits will ensure that the City's investment portfolio will remain risk-diversified in securing safe and liquid investment products while allowing the City in realizing the more attractive deposit rates offered by the credit unions.

The proposed policy amendment will have the following impact to the City's investments at Coast Capital:

- Under the proposed limit, Coast Capital Federal Credit Union that has a current long-term DBRS credit rating of BBB (high) and short-term DBRS credit rating of R-1 (low) will continue to qualify as permitted investments under the proposed Investment Policy.
- Due to its credit ratings, the proposed investment limit at Coast Capital will be capped at $30 million (or 3% of portfolio, whatever is greater) for deposit terms of less than 1 year.
- The proposed limits set out under the federal credit union asset class are consistent with the limits for chartered banks with the equivalent short-term DBRS ratings.
- Coast Capital's current BBB (high) long-term rating is defined by DBRS as "adequate credit quality" where the capacity for the payment of financial obligations is considered acceptable. With this, no deposits greater than 1-year will be permitted to be placed at Coast Capital Federal Credit Union until its long-term credit rating meets the Investment Policy's DBRS long-term credit rating A (low) requirement.

Proposed Amendment: Other Minor Housekeeping Changes

A few minor housekeeping changes are proposed to update some wordings and enhance the overall clarity of the Investment Policy, as summarized below:

| Section | Proposed Change(s) | Reasons for Change |
|---|---|---|
| Permitted Investment Table in Section 8 | That the "Federal Issuers – Federal & Federally Guaranteed" Asset Class be reworded to "Securities issued or backed by the Government of Canada". | The rewording of the asset class helps ensure that the wordings in the Policy are consistent with those contained in Section 183 of the *Community Charter*. |
| Permitted Investment Table in Section 8 | That the specific mention of the current DBRS short term / long term ratings for federal issuers be removed (i.e. delete reference to "R-1 (high) / AAA" from the table and replace with "No minimum requirement"). | The removal of the specific ratings can prevent future administrative revision of the Investment Policy in the event of future changes in Government of Canada's DBRS credit ratings. |
| Diversification in Section 9 | That all references to the various "DEX" indices be reworded to "FTSE Canada" to reflect the rebranding of the benchmark indices.<br><br>That a reference be made in this section to ensure that from time-to-time as the name of the benchmark indices change due to rebranding purposes, that the current prevailing indices should be used for benchmark purposes. | DEX bond indexes have been rebranded to "FTSE Canada". The transition to the new index names commenced in mid-2018 and will be completed by April 2019.<br><br>The indices' methodology remains the same. |

A copy of the black-lined version of the amended Investment Policy 3703 that include all the proposed changes has been attached in Attachment 1 of this report.

### Financial Impact

None.

### Conclusion

The updated Investment Policy changes will allow the City to continue to effectively manage its municipal investment funds while complying with all statutory requirements and meeting the City's investment objectives.

Venus Ngan, CPA, CA
Manager, Treasury and Financial Services
(604-276-4217)

Att. 1: Black-lined Version of Investment Policy 3703 Amendment

City of Richmond

**Policy Manual**

| Page 1 of 7 | **Investment** | **Policy 3703** |
|---|---|---|
| | Adopted by Council: June 25, 2007<br>Amended by Council: June 8, 2009, November 12, 2013 | |

**POLICY 3703:**

It is Council policy that:

## 1. POLICY

The purpose of this policy is to ensure that the City's practices and procedures in the investment of public funds are in compliance with statutory requirements of the *Community Charter*, while ensuring safety of capital, maintaining appropriate liquidity in meeting anticipated cash flow demands, and attaining a reasonable rate of return after taking into account the investment constraints and liquidity requirements.

## 2. OBJECTIVES

Conservative management philosophy is followed in investment activities of all public funds held by the municipality. Four fundamental objectives, in priority order, are as follows:

(i) Adherence to Statutory Requirements

Authority for investment guidelines of municipal funds is provided in section 183 of the *Community Charter.*

(ii) Safety of Capital

Investment activities will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Preservation of capital will be accomplished through:

- Diversification, as outlined in section 9, and
- Risk control, whereby portfolio components are limited to conservative types of investments as defined in section 8.

(iii) Liquidity of Investment

The investment portfolio will be administered to ensure adequate cash flow is available to meet all reasonably anticipated operating and capital requirements.

(iv) Return on Investment

The investment portfolio will be designed with the objective of maximizing the rate of return through budgetary and economic cycles, taking into account the investment constraints and liquidity requirements. The Financial Officer will take into account these constraints and objectives in the selection of investments to be included in the City's portfolio. The portfolio will be structured to attain optimum performance results as directed by the Policy, and to create maximum value to the City, net of any costs incurred in the investment process.

## 3. PRUDENCE

Investments will be made with judgement and care, under circumstances then prevailing, by persons of prudence, discretion and intelligence exercised in the management of other people's affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. Where external managers are engaged to perform trading activity, the external managers will be required to exercise the degree of care, diligence, and skill which a prudent investment counsel would exercise in similar circumstances. The Financial Officer acting in accordance with this policy and exercising due diligence will be relieved of personal responsibility for an individual security's credit risk or market price changes.

## 4. AUTHORIZATION

Authority to manage the City's investment program is derived from section 149 of the *Community Charter*, as follows:

"Financial Officer

One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions:

a) receiving all money paid to the municipality;
b) ensuring the keeping of all funds and securities of the municipality;
c) investing municipal funds, until required, in authorized investments;
d) expending municipal money in the manner authorized by the council;
e) ensuring that accurate records and full accounts of the financial affairs of the municipality are prepared, maintained and kept safe;
f) exercising control and supervision over all other financial affairs of the municipality."

The Financial Officer is the portfolio administrator and has the ultimate responsibility for the prudent investment of the portfolio. The Financial Officer may retain a professional investment manager(s) ("Investment Manager(s)") to provide investment advice and carry out the instructions of the Financial Officer.
The Financial Officer will:

- administer the Policy;
- review the Policy annually, which will include a reassessment of the fund's objectives, the benchmark portfolio and the impact of any changes in liquidity requirements if necessary;
- select the Investment Manager(s) and City's custodial bank;
- regularly review the quantitative and qualitative performance of the Investment Manager(s) including an evaluation of the rates of return, an analysis of the areas where the Investment Manager(s) added or reduced value, and a review of the Investment Manager(s) in the context of the criteria for their selection;

- be responsible for regularly monitoring the asset mix of the portfolio and taking the action necessary, to correct any breaches of applicable legislation or the permitted asset mix ranges set out in this Policy;
- provide information on significant cash flow changes to the Investment Manager(s);
- be responsible for the oversight of any professional Investment Manager(s).
- have the authority to appoint and terminate the Investment Manager(s).

The Investment Manager(s) will:

- provide the Financial Officer with monthly reports of actual portfolio holdings, detailing each class of assets and how they conform to policy maximums as defined in section 8 and 9;
- present to the Financial Officer a quarterly review of investment performance, including an explanation of any shortfalls of their investment results compared to the investment objectives;
- provide estimates of future returns on investments and review proposed investment strategies that may be used to meet the objectives;
- attend a meeting with the Financial Officer at least once each year to review the results they have achieved;
- inform the Financial Officer promptly of any element of the Policy that could prevent attainment of the Plan's objectives;
- give prompt notice to the City's custodial bank of all purchases and sales of securities;
- report all investment transactions quarterly to the Financial Officer;
- provide the Financial Officer with a quarterly certificate of compliance with the Policy for the quarter just ended.

## 5. ETHICS AND CONFLICT OF INTEREST

The Investment Manager(s), Financial Officer and any individuals involved in the investment process will refrain from personal business activity that could conflict with the proper execution of the investment program or impair ability to make unbiased investment decisions. Parties will disclose any material personal financial interest in investments involved or in financial institutions that conduct business with the City. Any deviation is to be reported to the City Solicitor immediately.

## 6. IMPLEMENTATION

An active or passive investment style may be adopted, depending on suitability of each in meeting the City's investment objectives.

## 7. AUTHORIZED INVESTMENT DEALERS AND INSTITUTIONS

The Investment Manager(s) will be registered with a regulated securities commission. They will be responsible for maintaining a list of approved financial institutions and brokers/dealers authorized to provide investment services. An annual review of this list will be completed by the Investment Manager(s), whereupon, the recommendations for any additions and deletions will be discussed and approved by the Financial Officer.

## 8. PERMITTED INVESTMENTS

Under the *Community Charter* Section 183, a municipality may invest money that is not immediately required in one or more of the following:

a) securities of the Municipal Finance Authority;
b) pooled investment funds under section 16 of the Municipal Finance Authority Act;
c) securities of Canada or of a province;
d) securities guaranteed for principal and interest by Canada or by a province;
e) securities of a municipality, regional district or greater board;
f) investments guaranteed by a chartered bank;
g) deposits in a savings institution, or non-equity or membership shares of a credit union;
h) other investments specifically authorized under this or another Act.

The following table sets out the City's permitted investments, minimum credit rating requirements and their limits:

| **Asset Class** | **Dominion Bond rating services limited (DBRS)**[1] ***Short Term / Long Term Rating*** | **Limits per issuer (as a % of total portfolio)** |
|---|---|---|
| **Federal Issuers** | | |
| ~~Federal & Federally guaranteed~~ Securities issued or backed by the Government of Canada | ~~R-1 (high) / AAA~~ No minimum requirement | No limit |
| | **PROVINCIAL ISSUERS** | |
| All Provinces | R-1 (high) / AAA, AA (high), AA | 25% per province |
| All Provinces | R-1 (middle) / AA (low) | 20% per province |
| All Provinces | R-1 (middle) / A (high) | 10% per province |
| All Provinces | R-1 (low) / A, A (low) | 5% per province |
| ***TOTAL PROVINCES*** | | Maximum 50% |
| **Chartered Banks** | | |
| Schedule I, II & III banks | R-1 (high) /AAA, AA | 15 % per bank |
| Schedule I, II & III banks | R-1 (middle) /AA, AA (low) | 10 % per bank |
| Schedule I, II & III banks | R-1 (middle) / A (high) | 5 % per bank |
| Schedule I, II & III banks | R-1 (low) / A (low) | 3 % per bank |
| **TOTAL CHARTERED BANKS** | | Maximum 50% |

| | |
|---|---|
| **B.C. credit unions** | |
| Credit unions with total assets[2] more than $10 billion | The greater of:<br>(i) 10% of total portfolio balance per credit union, or<br>(ii) $75 million per credit union |
| Credit unions with total assets[2] between $500 million and $10 billion | The greater of:<br>(i) 5% of total portfolio balance per credit union, or<br>(ii) $50 million per credit union |
| **Federal credit unions**<br>**Deposit term cannot exceed 1 year if long-term DBRS credit rating of A (low) is not attained[3]** | |
| Federal credit unions with:<br>• Long-term DBRS credit rating under A (low); and<br>• Short-term DBRS credit rating higher than R-1 (low) | The greater of:<br>(i) 5% of total portfolio balance per credit union, or<br>(ii) $50 million per credit union |
| Federal credit unions with:<br>• Long-term DBRS credit rating under A (low); and<br>• Short-term DBRS credit rating R-1 (low) | The greater of:<br>(i) 3% of total portfolio balance per credit union, or<br>(ii) $30 million per credit union |
| **TOTAL ~~B.C.~~ CREDIT UNIONS** | Maximum 30% |
| **Pooled Investments** | |
| Pooled funds | Maximum 20% |
| **Other Securities** | |
| Municipality, Regional District or Greater Board | Maximum 10% |

[1] If DBRS credit rating is not available, the City can use an equivalent credit rating provided by an approved credit rating organization such as Standard & Poor's Corporation (S&P) and Moody's Investors Services Inc. (Moody's)

[2] Based on latest audited financial statements

[3] Federal credit union that has long-term DBRS credit rating A (low) or higher will follow the equivalent per issuer limits under the Chartered Bank section for its long-term and short-term investments, where the total investments in all credit unions cannot exceed a combined total of 30% of the City's investment portfolio.

## 9. DIVERSIFICATION

The City recognizes that prudence in investment selection is essential to minimize interest rate and credit risk.

- Interest Rate Risk – At each interim and annual reporting periods, the Investment Manager(s) will monitor the performance of the cash and bond components of the portfolio against the selected benchmarks. The Investment Manager(s) will also assess the duration of the bond components of the portfolio to ensure they fall within a year and a half of the duration of the benchmark against which bond performance is measured. The 91-Day T-Bill Index will be the basis for benchmarking the cash component of the portfolio. For the bond components of the portfolio, the indices within the ~~DEX Universe~~ FTSE Canada Bond Index, or its equivalent prevailing index as amended from time-to time by the provider of the benchmarks, will be selected as the benchmarks. Selection of the appropriate benchmark for each bond component will be based on the index with the duration closest to the duration of the bond component being evaluated. The following indices fall within the ~~DEX~~ FTSE Canada Universe Bond Index:

~~DEX~~ FTSE Canada Universe All Government Index
~~DEX~~ FTSE Canada Short Term All Government Index
~~DEX~~ FTSE Canada Mid Term All Government Index
~~DEX~~ FTSE Canada Short/Mid All Government Index
~~DEX~~ FTSE Canada Long Term All Government Index

- Credit Risk – The Investment Manager(s) will minimize credit risk by investing in conservative types of instruments. A minimum of 90% of the portfolio's market value is required to carry a DBRS credit rating of A (high) or higher or the equivalent R1-middle or higher.

Diversification will be achieved through:

- Setting limits on the amount of investments with a specific maturity, from a specific issuer or a specific sector;
- Investing the targeted amount of assets in liquid investments to ensure funds are readily available; and
- Selecting assets with varying maturity terms.

In addition, the Investment Manager(s) will engage in the rebalancing of the portfolio to adhere to parameters as defined in this policy or any addendums agreed upon by the Financial Officer and the Investment Manager(s).

## 10. COMPETITIVE BIDS

The Financial Officer or Investment Manager(s) will solicit competitive verbal quotations for the purchase and sale of securities when it is prudent to do so. This policy recognizes that, from time to time, offerings of value may require immediate action. Under such circumstances competitive bids may not be sought provided that value can be substantiated by market data.

## 11. SAFEKEEPING AND CUSTODY

All transactions will be executed by the delivery-versus-payment basis to ensure securities are deposited in an eligible financial institution with the release of funds. Settlement will take place at the main branch of the City's custodial bank in any Canadian city. Securities will be held by the City's custodial bank or alternatively, will be registered with the Central Depository for Securities (CDS).

- **Authorization:** The custodial bank will not accept delivery or payment without prior authorization and instructions for the City.
- **Evidence:** All transactions traded in-house will be evidenced by a contract advice from the investment dealer, as well as a settlement advice from the custodial bank.
- **Registration:** All securities that are in registerable form will be registered in the name of the City of Richmond.
- **Repurchase Agreements:** In addition to all the terms and conditions above, the City's custodial bank will be responsible for ensuring that the repurchase agreement for overnight transactions has been duly executed.

## 12. INTERNAL CONTROLS

External audits will be performed annually, including an assessment of investment effectiveness and risk management.

## 13. PERFORMANCE STANDARDS

The investment portfolio will be designed to obtain an above market benchmark, taking into account the City's investment risk constraints, cash flow requirements, and active management strategy. This policy recognizes that the reliability of performance evaluation (i.e. comparison to benchmarks) increases with the duration of the measurement period.

## 14. REPORTING

The Financial Officer will prepare an investment report on a quarterly basis to Council. The report will provide a summary of the securities held at the end of the reporting period including issuer diversification and market values.

The Investment Manager(s) will conduct at each quarter end a review of the portfolio, including strategy employed, duration, liquidity, and a forecast of upcoming market conditions.

## 15. ADOPTION AND REVIEW

The policy will be reviewed annually by the Financial Officer, and any suggested modifications will be presented to Council for adoption.

# City of Richmond

# Report to Committee

| | | | |
|---|---|---|---|
| **To:** | Finance Committee | **Date:** | February 11, 2019 |
| **From:** | Jerry Chong<br>Director, Finance | **File:** | 03-0900-01/2019-Vol 01 |
| **Re:** | **Credit Card Payment Service Fee Bylaw No.9536 Amendment Bylaw No.9963** | | |

## Staff Recommendation

1. That the staff report titled "Credit Card Payment Service Fee Bylaw No. 9536 Amendment Bylaw No. 9963" dated February 11, 2019 from the Director, Finance, be endorsed;

2. That Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 9963 be introduced and given first, second and third readings.

Jerry Chong, CPA, CA
Director, Finance
(604-276-4064)

| REPORT CONCURRENCE | | | |
|---|---|---|---|
| **ROUTED TO:** | **CONCURRENCE** | **CONCURRENCE OF GENERAL MANAGER** | |
| Law | ☑ | | |
| **REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE** | **INITIALS:** CJ | **APPROVED BY CAO** | |



6022858

## Staff Report

### Origin

Council adopted the Credit Card Payment Service Fee Bylaw No.9536 in August 2016 whereby a service charge of 1.75% is being assessed when a credit card is used to pay for property taxes and utility payments online. The objective of the credit card acceptance program is to enhance customer service by offering taxpayers a convenient option in paying their tax and utility payments without additional cost impact to the City.

Online credit card property taxes and utility payments went up by approximately 35% from $5.2 million in 2017 to almost $7.0 million in 2018. The increased volume provides a positive indicator that this user-pay model is gradually gaining acceptance by the public.

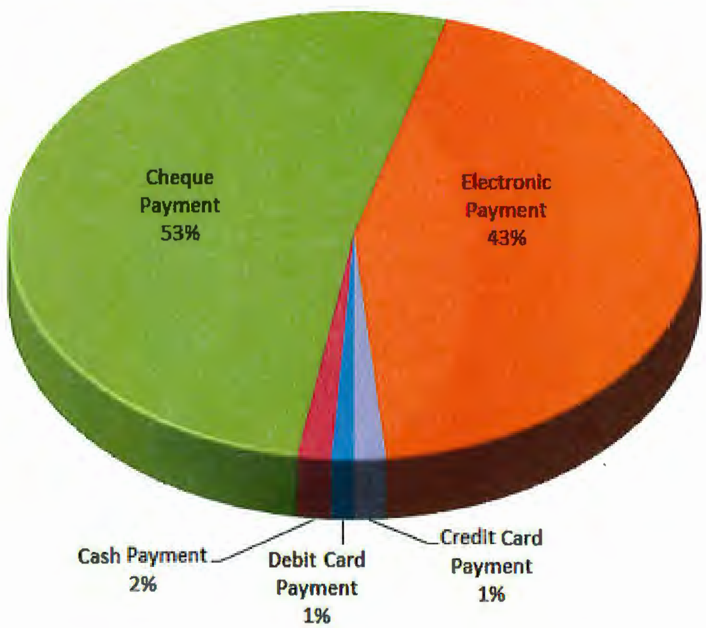
The City currently does not accept credit card payments in-person. As a result of the success of the online user-pay credit card acceptance model, staff is recommending that the user-pay model be expanded to allow credit cards to be accepted in-person (with a service fee) at City Hall for payments of a broader range of municipal fees and services.

### Analysis

Collection by Payment Type

During 2018, the City collected and processed approximately $695 million in payments (data excludes recreational services). As shown in the chart below, 53% of the payments are accepted by cheque, 43% are paid by electronic payments (such as electronic bill payments, direct deposit payments, wire payments etc.), 2% are paid by cash, with the remaining 2% of the payments paid by debit cards or credit cards.

**Breakdown of 2018 Collection by Payment Method**



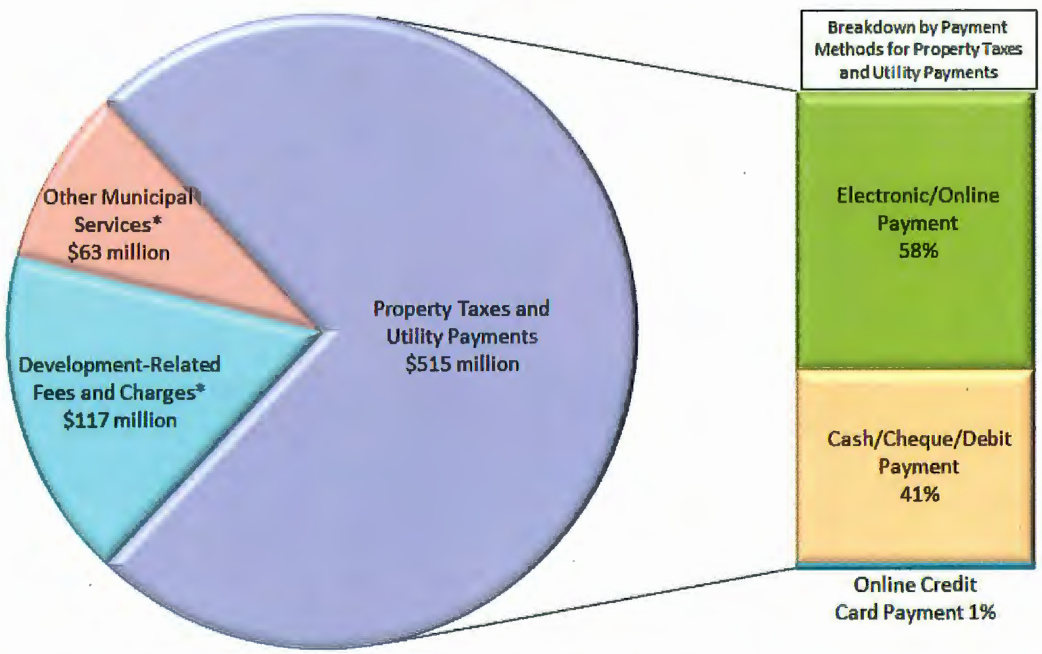
2018 Collection by Type

The City's total 2018 collection of $695 million is made up of 3 main sources:

1. $515 million in property taxes, payment in lieu of taxes (PILT) and utility payments.
2. $117 million in development-related fees and charges such as development cost charges, permit fees, development-related fees and contributions, security deposits etc.
3. $63 million in other municipal fees and charges such as invoice payments, fines, license payments, and other miscellaneous municipal payments.

The graph below depicts a high level breakdown of the City's 2018 collection by type and payment method:

**City's 2018 Collection by Type and Payment Method**




* Primary payment methods for these services are cash, cheque and debit cards.

Of the City's total $515 million collection in property taxes, PILT and utility payments, 58% was received via electronic methods, 41% was paid by cheques, cash and debit cards (majority was by cheque), and 1% was paid through online credit card payments.

The remaining collection of $180 million represents non-property tax and non-utility related financial deposits where the primary payment methods of these municipal services and fees have historically been only by cash, cheques and debit card payments.

## Benefit of Credit Card Acceptance

Based on the above statistics where over 50% of City's collections are currently paid by cash and cheques, staff believe that there is great opportunity for the City to expand the available payment options in order to realize the extra benefits associated with electronic, online and credit card payment methods, which include:

- Improve overall customer experience of quicker and more efficient services;
- Improve cash flow due to quicker electronic settlement of funds;
- Time savings resulting from reduced cash counting and processing time;
- Immediate authentication and authorization of fund availability;
- Eliminate possibility of accepting non-sufficient fund cheques or counterfeit bills;
- Reduce risk of theft or loss associated with cash handling; and
- Improve customer satisfaction by giving a choice to the customers to make their payments by credit cards that will allow them to earn credit rewards and to take advantage of extended payment due date.

Electronic payments (including online banking, electronic fund transfers, pre-authorized debit, as well as credit card payments) are widely accepted by consumers and businesses as convenient and secured ways in conducting business.

## Cost of Credit Card Acceptance

Traditionally, municipal governments are reluctant to accept credit cards as a payment method because of the high transaction costs associated with accepting credit cards. The costs (known as merchant fees) to process credit card transactions could range anywhere from 1.5% to 3.0% depending on the types of credit cards used by the customers.

Credit card companies are aware that the high transaction costs are deterring non-profit entities from accepting credit cards, therefore they have introduced more flexible rules in allowing certain types of permitted merchants (including non-profits like governments, universities and charities etc.) in imposing service fees on eligible credit card transactions. The City was the leader in taking the opportunity to enable a credit card service fee bylaw and was the first municipality in B.C. in creating its own online payment platform in accepting credit cards online for tax and utility payments (with a service fee) since September 2016.

In 2018, the City accepted approximately $7 million in online credit card property taxes and utility payments, with a full recovery of the associated merchant fees that totaled over $115,000. In the absence of a service fee recovery tool, any such costs associated with credit card acceptance would be borne by all taxpayers whether or not they used credit cards in making their municipal payments. Under the existing user-pay model, the City was able to fully recover from the users all the merchant fees incurred with the collection of the 1.75% credit card service fees as prescribed under the Credit Card Payment Service Fee Bylaw No.9536.

Expansion of in-person credit card acceptance with a service fee

Consistent with the City's core value of continuous improvement and customer service excellence, staff are proposing that an additional in-person credit card payment option (with a service fee) be added. This will make the City of Richmond a leader in providing our customers with the additional option to pay with their credit cards for a full scale of municipal services.

Based on the City's credit card merchant fee rates, it is proposed that the Credit Card Payment Service Fee Bylaw No.9536 be amended to enable the City in assessing and charging a non-refundable service fee of 1.75% for in-person credit card transactions.

The Bylaw includes a schedule of items that are specifically excluded from the credit card service fee bylaw. The exclusion includes fees for recreational programs and library services, bylaw violation fines, pay parking, certain types of license payments, and miscellaneous offsite revenues. Due to the nature of these fees and charges, the City has historically been accepting credit cards without any service fees in order to promote usage, increase collection rates and improve overall process efficiencies. Staff believe that it still remains advantageous to accept credit card payments for these fees and charges without the extra service fee in order to continue to promote their usage and enhance collection rates.

Under the proposed expanded credit card service fee acceptance model, the City will be able to accept credit cards payments for a broader range of municipal services without any tax impact. Customers that choose to use credit cards to pay for property taxes, utility bills, development-related fees and charges or any other municipal fees will bear all transaction costs associated with their purchases. Staff will monitor and review the credit card service fee rate on a regular basis and will amend the credit card service fee bylaw as required to ensure that the City will continue to operate the credit card acceptance program on a cost-neutral basis.

The City's cashier system will be subject to being configured by the software provider in order to enable the in-person credit card acceptance function. The configuration is required in order to ensure that the City will continue to meet the credit card companies' requirements for accepting credit cards with a service fee. The City is required to disclose the fee clearly to the cardholder as a service fee and to provide the ability for the cardholder to cancel the transaction without any penalties before the transaction is completed. Additional staff training will also be involved to ensure compliance with credit card security standards. It is anticipated the City would be able to begin accepting credit card at City Hall under the proposed model when the functionality becomes available by May 2019.

The in-person credit card payments (with a service fee) option is anticipated to be made available for the Q1-2019 quarterly utility bill due date in May 2019 and the option will continue to be available for the upcoming 2019 property tax due date in July 2019.

## Financial Impact

None.

### Conclusion

Staff recommend that the Credit Card Payment Service Fee Bylaw No.9536 be amended to enable the City to assess and charge a non-refundable service fee of 1.75% for both online and in-person credit card transactions. Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 9963 is attached for Council's consideration.

Venus Ngan, CPA, CA
Manager, Treasury and Financial Services
(604-276-4217)

Att. 1: Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 9963

City of Richmond

# Bylaw 9963

## Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 9963

The Council of the City of Richmond enacts as follows:

1. Credit Card Payment Service Fee Bylaw No. 9536 is amended by deleting Section 1 and replacing it with the following:

   "1. Except as set out in section 2, when a credit card or a mobile device is used to pay for fees and charges payable to the City of Richmond in both card-present and card-not-present environments, a service charge of 1.75% of the final transaction amount, net of all discounts and rebates, shall be assessed and charged to the payor in addition to the final transaction amount.

   2. The service charge imposed under section 1 does not apply to the following exempt fees or charges:

      a) Recreation program registrations and services processed via the City's parks and recreation system
      b) Library services
      c) Business licence applications and renewals
      d) Dog licence applications and renewals
      e) Bylaw violation tickets and fines
      f) Pay parking
      g) Criminal record check services at RCMP detachment
      h) Garbage tags and garbage disposal vouchers
      i) Miscellaneous items sold at the Richmond Recycling Depot

   3. The service charges assessed and charged under this Bylaw are non-refundable."

2. This Bylaw is cited as **"Credit Card Payment Service Fee Bylaw No. 9536, Amendment Bylaw No. 9963"**.

| | |
|---|---|
| FIRST READING | _______________ |
| SECOND READING | _______________ |
| THIRD READING | _______________ |
| ADOPTED | _______________ |

| CITY OF RICHMOND |
|---|
| APPROVED for content by originating Division<br>VW |
| APPROVED for legality by Solicitor<br>JH |

_______________ MAYOR

_______________ CORPORATE OFFICER

6119619

City of
Richmond

# Report to Committee

| | | | |
|---|---|---|---|
| **To:** | Finance Committee | **Date:** | February 1, 2019 |
| **From:** | Jerry Chong<br>Director, Finance | **File:** | 03-0900-01/2019-Vol 01 |
| **Re:** | **Revenue Anticipation Borrowing (2019) Bylaw No. 9997** | | |

## Staff Recommendation

That the Revenue Anticipation Borrowing (2019) Bylaw No. 9997 be introduced and given first, second and third readings.

Jerry Chong, CPA, CA
Director, Finance
(604-276-4064)

| REPORT CONCURRENCE | | |
|---|---|---|
| **ROUTED TO:**<br>Law | **CONCURRENCE**<br>☑ | **CONCURRENCE OF GENERAL MANAGER** |
| **REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE** | **INITIALS:**<br>CJ | **APPROVED BY CAO** |



6095250

## Staff Report

### Origin

The City has an existing credit facility agreement with its bank and is seeking Council's annual authorization through adoption of Revenue Anticipation Borrowing (2019) Bylaw No. 9997 (Attachment 1). The total amount of the credit facility is $9,500,000, which is comprised of $3,000,000 in standby letter of credit, demand promissory notes or bank overdraft, $4,500,000 in leasing lines of credit and $2,000,000 in commercial card credit facility.

### Analysis

Section 177 of the *Community Charter*

Pursuant to Section 177 of the *Community Charter*:

- Council may, by bylaw, provide the authority to borrow money that may be necessary to meet current lawful expenditures and to pay amounts required to meet the City's taxing obligations in relation to other local governments or public bodies.
- If money is borrowed pursuant to a revenue anticipation borrowing bylaw, any money to be collected from property taxes must be used to repay the money borrowed.
- The maximum amount of borrowing allowed for revenue anticipation borrowing is the sum of the unpaid taxes for the current year and the money remaining due from other governments (e.g. payment in lieu of taxes and grants).

The bylaw amount of $9,500,000 satisfies all the conditions set out in Section 177 of the *Community Charter*.

Purpose of the City's Credit Facilities

The purpose of obtaining the $3,000,000 operating line of credit is to ensure that the City has a secondary source of credit in place to protect its bank accounts from the unlikely event of going into an overdraft position. Staff regularly monitors the City's cashflow position to prevent the possibility of having to draw down on the credit facility. If the operating line of credit remains unused, it will be free of charge for the City to maintain.

The purpose of obtaining the $4,500,000 leasing lines of credit is to ensure that a leasing facility is available in the event it is required. If the leasing line of credit remains unused, it will be free of charge for the City to maintain.

The purpose of obtaining $2,000,000 limit in commercial credit card facility is to provide a convenient and cost-effective method of procuring and paying for low value goods and services. The commercial credit card facility is free of charge if payment is received within three days after the statement date.

Costs of the City's Credit Facilities

The credit facilities are free of charge to the City to maintain unless they are being drawn upon. The following table summarizes the interest rates associated with the usage of these credit facilities:

| | Operating Lines of Credit | Leasing Lines of Credit | Commercial Credit Card |
|---|---|---|---|
| Interest Rate | Bank's prime lending rate minus 0.50% | Bank's prime lending rate or leasing base rate plus 0.60% | Bank's prime lending rate plus 1.00% |
| Grace Period | None | None | 3 days after statement date |

The current bank's prime lending rate at the time of this report is 3.95%

With the City's solid financial position, the City has never activated these credit facilities. The purpose of maintaining these credit facilities is to ensure that they will be available in the unlikely event that funds are required to meet short-term operational cash flow needs. Should any of these credit facilities be utilized resulting in the City incurring interest charges for a consecutive period of more than two weeks, staff will prepare a report to inform Council of such financial activity.

## Financial Impact

None.

## Conclusion

Staff recommend that the Revenue Anticipation Borrowing (2019) Bylaw No. 9997 be approved in order for funds to be made available to the City in the event that the City is required to draw upon the City's credit facilities arrangement with its bank.

Venus Ngan, CPA, CA
Manager, Treasury and Financial Services
(604-276-4217)

Att. 1: Revenue Anticipation Borrowing (2019) Bylaw No. 9997

City of Richmond

**Bylaw 9997**

# REVENUE ANTICIPATION BORROWING (2019) BYLAW NO. 9997

The Council of the City of Richmond enacts as follows:

1. Council shall be and is hereby empowered and authorized to borrow upon the credit of the City, from a financial institution, a sum not exceeding $9,500,000 at such times as may be required.

2. The form of obligation to be given as acknowledgement of the liability shall be $3,000,000 in the form of standby letters of credit, demand promissory notes or bank overdraft, $4,500,000 in the form of leasing lines of credit, and $2,000,000 in the form of commercial credit card facility.

3. All unpaid taxes and the taxes of the current year (2019) when levied or so much thereof as may be necessary shall, when collected, be used to repay the money so borrowed.

4. Revenue Anticipation Borrowing (2018) Bylaw No. 9831 is hereby repealed.

5. This Bylaw is cited as **"Revenue Anticipation Borrowing (2019) Bylaw No. 9997"**.

FIRST READING ______________________

SECOND READING ______________________

THIRD READING ______________________

ADOPTED ______________________

| CITY OF RICHMOND |
|---|
| APPROVED for content by originating dept. VN |
| APPROVED for legality by Solicitor BRB |

______________________ MAYOR

______________________ CORPORATE OFFICER