Item	02
Manager's Report No.	11
Council Meeting	02/04/15

TO: CITY MANAGER

FROM: DIRECTOR FINANCE

SUBJECT: CITY INVESTMENTS - 2001 UPDATE

PURPOSE: To update Council on the City's current investment program.

2002 April 09

File: I56-1-2

RECOMMENDATION:

1. THAT this report be received for information purposes.

REPORT

BACKGROUND

Periodically, the Director Finance makes a stewardship report to Council regarding the City's investment portfolio. The report highlights any significant events that have occurred in the investment program, lists the institutions the City invests with, and states the investment limits that have been placed on those institutions.

The Local Government Act states that Council has the authority to invest the City's reserve (capital) funds and that the Municipal Treasurer has the authority to invest the revenue (operating) funds. Due to the volume of transactions involved in the placement of investments, Council has assigned the responsibility for the management of the investment portfolio to the Director Finance.

Attached is an updated schedule summarizing the institutions and limits currently in place for the combined capital and operating investment portfolios (Schedule A). While maintaining dollar limits for each investment issuer, the desired overall investment portfolio contains a preferred mix by category of security.

Schedule A references a number of terms with which the reader may not be familiar. A brief definition of the terms follows:

Dominion Bond Rating Service (DBRS) is the leading Canadian institutional credit rating agency, the authority on the fiscal strength of financial and governmental bodies.

Term	Meaning
Schedule I Bank	Canadian-owned Bank
Schedule II Bank	Foreign-owned Bank
BDN	Bank Deposit Note (issued by all major banks)

DBRS investment quality categories for short-term securities:

R-1	High (investment grade) credit quality
R-2	Medium (average grade) credit quality
R-3	Low (speculative) credit quality
High Middle Low	The relative standing within each rating classification, e.g. R-1 High is, by definition the highest credit quality available.

DBRS investment quality categories for bonds and long-term debt are:

AAA	Highest quality credit
AA	Superior credit
A	Upper mid grade credit

Credit Unions of British Columbia

The Credit Unions of British Columbia are not currently rated by any of the Canadian institutional credit rating agencies. Credit Unions are regulated by the British Columbia Ministry of Finance and are under the Superintendent of Financial Institutions. The Superintendent monitors performance monthly and examines each credit union annually.

Credit Unions are required to meet regulatory, statutory capital and liquidity requirements, under the Financial Institutions Act of British Columbia and the Credit Union Incorporation Act of British Columbia.

The Province maintains, under the Credit Union Incorporation Act and in addition to the regulatory system, two credit union deposit insurance funds, of approximately $101 million and $97 million respectively, that are structured to support the liquidity of British Columbia credit unions. This infrastructure exists at the Provincial level to avoid concerns over default by individual credit unions in British Columbia.

Prior to placing any funds on deposit with a B. C. credit union the City obtains, from the Financial Institutions Commission, a certified copy of the business authorization and compliance record signed by the Superintendent of Financial Institutions Commission. A review and analysis of the audited financial statements of the credit union then determines the level of investment. The maximum term of an investment with any B. C. credit union does not exceed 367 days. The maximum amount of the portfolio invested with B. C. credit unions at any one time does not exceed 30% of the total investment portfolio.

SIGNIFICANT EVENTS DURING 2001

During 2001, short-term interest rates decreased substantially as the bank rate, which governs the level of short-term rates, moved from its January high of 6.00% to a low of 2.50% in December. The bank rate is administered by the Bank of Canada through monetary policy to promote economic and financial well-being in Canada. Market conditions leading into 2001 and throughout the year dictated sharp cuts in the bank rate. The average yield for 90 day Bankers Acceptance's was 4.03%.

Ten (10) year and long-term (30 year) bond rates were very volatile, reaching highs of 5.96% for the ten (10) year bond and 6.03% for the long-term (30 year) bond in May 2001. In October 2001, both yields hit their 2001 lows at 4.86% and 5.31% respectively. The ten (10) year bond average for was 5.47% and the long-term (30 year) bond was 5.76%.

The General Revenue Fund is directly impacted by any movement in short-term interest rates during the year, particularly from July onward when the investment fund reaches a high of over $300 million upon receipt of tax revenue and then decreases to approximately $65 million at year end.

To help offset the impact of declining short-term interest rates on investment income in 1999, the City invested a portion of both General Revenue and Capital Fund surpluses in long-term, higher yield government bonds. These bonds continued to temper effects of significant rate declines. In 2001, the General Revenue Fund generated $5.1 million (5.61%) in investment income (2000 - $5.2 million, 6.04%) and the Capital Fund generated $10.5 million (5.95%) in investment income (2000 - $10.8 million, 6.16%).

The City's investment banking relationships remained consistent with 2000. RBC Dominion Securities (the Royal Bank), HSBC Bank Canada and the Toronto-Dominion Bank Treasury Group remained the City's lead investment bankers. The City continued its business relationships with B.C. credit unions placing short-term investments with Vancouver City Savings Credit Union, Surrey Metro Savings Credit Union and Gulf & Fraser Credit Union.

The City continued its ability to access and research financial markets, communicate with investment bankers and obtain competitive information on-line through the use of Bloomberg, creating an environment of real-time information.

In 2001, changes to Federal Bank Regulations had a tremendous impact on how financial institutions register themselves as entity's in Canada. Some Schedule II Banks in Canada are removing themselves from the Schedule II status in favour of Schedule III Status. This move will provide greater business flexibility and more favourable capital requirements as a foreign bank. Not all the foreign banks that operate in Canada are making this move as their level of economic entrenchment is much greater. Schedule III (Foreign Bank Branches) are not registered 'chartered' banks in Canada as required by Section 336 of the Local Government Act 'Investment of Municipal Funds'. The City ceased dealing with the following institutions as they transferred their assets to Schedule III status: ABN Bank Amro Canada, UBS Bank (Canada), Bank of America (Canada), Chase Manhattan Bank of Canada, Credit Suisse First Boston Canada, and J.P. Morgan Bank Canada. The new Investment Limits for 2002 do not include these financial institutions and no additional financial institutions are being added for 2002, however, investment limits have been adjusted to ensure adequate flexibility.

OUTLOOK FOR 2002

Current economic forecasts for interest rates are at best uncertain. The events that have transpired in North America and the world in 2001 had a tremendous impact on economic growth for both Canada and the United States. The Bank of Canada lowered the bank rate 3.50% (350 basis points) during 2001 in an attempt to stimulate the economy.

Despite economic dependency on the United States, Canada has done well in many sectors. The Canadian unemployment rate has not increased with the same magnitude as the United States, and inflation remains within the Bank of Canada's target range of 1% - 3%. In comparison, the Federal Reserve reduced the Fed rate in the USA by 4.75% (475 basis points) in 2001 to keep the US economy out of recession. The US economy is showing some signs of strengthening and leading economic indicators point to a 2002 year-end-turn-around.

The effect of cumulative interest rate reductions in 2001 will have a greater impact on the General Revenue Fund where money market instruments are invested for short periods of time prior to expenditure needs.

	March 2002	March 2001
30 day Bankers Acceptance	2.08%	5.21%
60 day Bankers Acceptance	2.12%	5.12%
90 day Bankers Acceptance	2.17%	5.03%
180 day Bankers Acceptance	2.31%	4.91%
One year Bankers Acceptance	2.72%	4.86%

The City will continue to invest in both the money and bond markets for both the Capital and General Revenue Funds taking positions along the yield curve that will generate the highest yields, while maintaining liquidity and safety. When an investment is placed or an investment strategy is entered into it must satisfy the criteria that it can be held until maturity. If an investment is in a capital gain position it may be sold prior to maturity.

Generally the portions of the Capital and General Revenue Funds that are not scheduled to be drawn on in the near future are invested in longer term investments with higher yields. In the Capital Fund approximately $100 million is invested in long-term investments (five years and longer); the balance in shorter term investments that mature within five years. Within the General Revenue Fund approximately $41 million is invested in long-term higher yield investments (five years and longer). The balance of the General Revenue Fund investments have maturities of less than one year.

The current budgeted forecasts for year 2002 investment incomes are $10.0 million for the Capital Fund and $4.92 million for the General Revenue Fund.

Staff will continue to research and develop investment strategies that allow the City to increase its investment income, while maintaining strict controls and guidelines outlined under the Local Government Act to safeguard the City's capital and ensure liquidity of the portfolio.

Rick Earle
DIRECTOR FINANCE

DGS:
Attach.

CITY OF BURNABY
INVESTMENT LIMITS FOR 2002

SCHEDULE A

SECURITIES CATEGORY	*Short-term Investments* DBRS Ratings	*Long-term Investments* DBRS Ratings	Investment Limits	Portfolio % Mix
Federal & Federal Guaranteed	R1 - High	AAA	No Limit	
Total Federal & Federal Guaranteed			**No Limit**	**No Limit**
British Columbia	R1 - Middle	AA Low	$60,000,000	
Total Province of B.C.			**$60,000,000**	**30% Max.**
Alberta	R1 - High	AAA	$50,000,000	
Saskatchewan	R1 - Low	A	$40,000,000	
Manitoba	R1 - Low	A	$40,000,000	
Ontario	R1 - Middle	AA	$50,000,000	
Quebec	R1 - Low	A	$45,000,000	
TOTAL PROVINCES OTHER (Excluding B.C.)			**$225,000,000**	**50% Max.**
Bank of Montreal	R1 - Middle	AA Low	$50,000,000	
CIBC	R1 - Middle	AA Low	$50,000,000	
Royal Bank	R1 - Middle	AA Low	$50,000,000	
ScotiaBank	R1 - Middle	AA Low	$50,000,000	
Toronto Dominion Bank	R1 - Middle	AA Low	$50,000,000	
National Bank of Canada	R1 - Low	A	$20,000,000	
TOTAL SCHED. 'I' BANKS			**$270,000,000**	**50% Max.**
HSBC Bank Canada	R1 - Middle		$40,000,000	
BNP Paribas (Canada)	R1 - Middle		$15,000,000	
Citibank Canada	R1 - Middle		$15,000,000	
TOTAL SCHED. 'II' BANKS			**$70,000,000**	**30% Max.**
VanCity Savings Credit Union	Not Rated	Not Rated	$50,000,000	
Surrey Metro Savings Credit Union	Not Rated	Not Rated	$5,000,000	
Gulf & Fraser Credit Union	Not Rated	Not Rated	$5,000,000	
TOTAL BC CREDIT UNIONS / NON RATED INVESTMENTS			**$60,000,000**	**30% Max.**