

**TO:** CITY MANAGER **2003 March 19**  
**FROM:** DIRECTOR FINANCE **File: I56-1-2**  
**SUBJECT:** CITY INVESTMENTS - 2002 UPDATE

**PURPOSE:** To recommend approval of a bylaw to formalize the City's investment responsibilities and duties; and to update Council on the City's current investment program.

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RECOMMENDATIONS:

1. THAT a bylaw be brought down to formalize the authority delegated by Council to the Director Finance for the task and duties of investing the City's funds.

REPORT

The Local Government Act, Section 336, states that Council has the authority to invest and reinvest City funds that are not immediately required for expenditures. 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.

To update documentation of the City's investment practices, it is recommended that the responsibility for the management of the investment portfolio by the Director Finance be formalized by Council through the adoption of an Investment Authorization bylaw.

The balance of this report highlights significant events that have occurred in the investment program during 2002 and the forecast for 2003. Attachment 1 lists the institutions the City invests with and the investment limits that have been placed on those institutions.

## SIGNIFICANT EVENTS DURING 2002

### Investment Funds:

The City's 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. The City's Capital Fund is also impacted by these short term rates as a portion of the portfolio's investments are held in money market instruments until longer term investments can be made or cash is required for expenditures. Short term investment yields in Canada represented 40 year lows in 2002.

The bank rate, which governs the level of short-term rates, moved from a January low of 2.25% to a high of 3.00% in July where it remained for the balance of the year. The average yield for 90 day Bankers Acceptance's was 2.66%. In 2002, the General Revenue Fund generated \$5.19 million (5.58%) in investment income (2001 - \$5.1 million, 5.61%) and the Capital Fund generated \$10.3 million (5.25%) in investment income (2001 - \$10.5 million, 5.95%).

To help offset the impact of declining short-term interest rates on investment income, the City holds a portion of both General Revenue and Capital Fund surpluses in long-term, higher yield government bonds. These bonds helped to temper effects of significant rate declines. Ten (10) year and long-term (30 year) bond rates were very volatile, reaching highs of 5.79% for the ten (10) year bond and 5.98% for the long-term (30 year) bond in March 2002. In December 2002, both yields hit their 2002 lows at 4.88% and 5.42% respectively. The ten (10) year bond average was 5.29% and the long-term (30 year) bond was 5.68%.

Generally the portion 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 \$114 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 \$47 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.

### Banking Relationships:

The City's investment banking relationships remained consistent with 2001. 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.

In May 2002, Coast Capital Savings Credit Union and Surrey Metro Savings Credit Union merged, creating the second largest credit union in Canada with assets just over \$6.1 billion. Vancouver City Savings Credit Union remains the largest credit union in Canada with assets over \$8 billion. The new Investment Limits for 2003, Schedule A, reflects these changes with a limit increase to Coast Capital Savings Credit Union to \$30 million. However, the maximum credit union deposits were not changed and does not exceed \$60 million or 30% of the total investment portfolio. No additional financial institutions were added for 2003.

### OUTLOOK FOR 2003

Current economic forecasts for interest rates are at best uncertain. The events in North America and the world since 2001 have had a tremendous impact on economic growth in Canada and the United States. Consumers in North America continue to account for new growth through spending. However, the consumer induced stimulation for the economy is slowing and corporate spending has not picked up the slack. The 2002 year end Bank of Canada rate of 3.00% was only 50 basis points higher than the 2.50% rate in January 2002. Thus, the cumulative effect has been a 3.00% (300 basis points) decrease in short term rates since the beginning of 2001.

While the level of economic activity in Canada remains near full production capacity according to the Bank of Canada, there is a concern that the economy could begin to slow. The 12 month Consumer Price Index, calculated at 4.5% at the end of January (3.3% for core inflation - CPI excluding the eight most volatile components - fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products), has exceeded the top end of the Bank of Canada's target range of 1% - 3%. Continued rate increases would reduce some economic stimulus in the Canadian economy. However, geopolitical risks throughout the world makes monetary decision making more difficult for the central bank and creates greater uncertainties.

As well, an expected 2002 year-end-turn-around for the US economy has not materialized. The US government deficit has grown substantially from tax cuts and defense spending. The economy continues to shed jobs and post moderate growth and there is a real concern of deflation in the United States. Should deflation take hold in the United States, this would have a large impact on the Canadian manufacturing sector and exports as goods shipped to the United States would demand cheaper prices.

The effect of a low interest rate environment will help to ensure economic growth. However, the net effect will be a continued impact on income and yield for both the General Revenue Fund and the Capital Fund. Both funds utilize money market instruments for short periods of time prior to expenditure needs.

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

The current budgeted forecasts for year 2003 investment incomes are \$10.0 million for the Capital Fund and \$5.12 million for the General Revenue Fund.

Summary:

Solid diversification and investment strategy development has allowed the City to increase its investment income, while maintaining strict controls and guidelines outlined under the Local Government Act. With an annual yield of 5.58% in the General Revenue Fund and 5.25% in the Capital Fund, the contribution to income for 2002 was in excess of \$15 million.

It is recommended that Council adopt an Investment Authorization bylaw to formalize the investment management duties and responsibilities of the Director Finance.



Rick Earle  
DIRECTOR FINANCE

DGS:

Attach.

Attachment 1

The following 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.

| <u>Term</u>  | <u>Meaning</u>   |
|--|--|
| 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   | The relative standing within each rating classification, e.g. R-1 High is, by definition the highest credit quality available. |
| Middle   |  |
| Low  |  |
| 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 \$104 million and \$103 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.

# CITY OF BURNABY

## INVESTMENT LIMITS FOR 2003

### SCHEDULE A

| <u>SECURITIES CATEGORY</u>                            | <i>Short-term<br/>Investments</i><br><u>DBRS Ratings</u> | <i>Long-term<br/>Investments</i><br><u>DBRS Ratings</u> | <u>Investment Limits</u> | <u>Portfolio % Mix</u> |
|---|--|---|--------------------------|------------------------|
| Federal & Federal Guaranteed                          | R1 - High  | AAA   | No Limit                 |                        |
| <b>Total Federal &amp; Federal Guaranteed</b>         |  |   | <b>No Limit</b>          | <b>No Limit</b>        |
| British Columbia                                      | R1 - Middle  | AA Low  | \$60,000,000             |                        |
| <b>Total Province of B.C.</b>                         |  |   | <b>\$60,000,000</b>      | <b>30% Max.</b>        |
| 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             |                        |
| <b>TOTAL PROVINCES OTHER (Excluding B.C.)</b>         |  |   | <b>\$225,000,000</b>     | <b>50% Max.</b>        |
| 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             |                        |
| <b>TOTAL SCHED. 'I' BANKS</b>                         |  |   | <b>\$270,000,000</b>     | <b>50% Max.</b>        |
| HSBC Bank Canada                                      | R1 - Middle  |   | \$40,000,000             |                        |
| BNP Paribas (Canada)                                  | R1 - Middle  |   | \$15,000,000             |                        |
| Citibank Canada                                       | R1 - Middle  |   | \$15,000,000             |                        |
| <b>TOTAL SCHED. 'II' BANKS</b>                        |  |   | <b>\$70,000,000</b>      | <b>30% Max.</b>        |
| VanCity Savings Credit Union                          | Not Rated  | Not Rated   | \$50,000,000             |                        |
| Surrey Metro Savings Credit Union <sup>1</sup>        | Not Rated  | Not Rated   | \$30,000,000             |                        |
| Gulf & Fraser Credit Union                            | Not Rated  | Not Rated   | \$5,000,000              |                        |
| <b>TOTAL BC CREDIT UNIONS / NON RATED INVESTMENTS</b> |  |   | <b>\$60,000,000</b>      | <b>30% Max.</b>        |

<sup>1</sup> Surrey Metro Savings Credit Union is a division of Coast Capital Savings Credit Union

