

TO: CITY MANAGER 2004 March 10
FROM: DIRECTOR FINANCE File: I56-1-2
SUBJECT: CITY INVESTMENTS - 2003 UPDATE
PURPOSE: To update Council on the City's current investment program.

RECOMMENDATION:

1. THAT this report be received for information purposes.

REPORT

Periodically, the Director Finance makes a stewardship report to Council regarding the City's investment portfolio.

The Community Charter which became effective on 2004 January 01 states that the City may invest or reinvest money that is not immediately required. Council has assigned the responsibility for the management of the investment portfolio to the Director Finance (Bylaw No. 11553). The City's available cash and investments on hand at 2003 December 31 total \$337,506,966. By portfolio this represents \$252,649,355 Capital Funds (2002-\$195,786,693) which includes restricted funds such as Development Cost Charges and \$84,857,611 General Revenue Funds (2002-\$75,455,723.)

This report highlights significant events that have occurred in the investment program during 2003 and the forecast for 2004. Attachment 1 lists the institutions the City invests with and the investment limits that have been placed on those institutions.

SIGNIFICANT EVENTS DURING 2003

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 portfolios 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 remained near 40 year lows in 2003.

The bank rate, which governs the level of short-term interest rates, moved from a January low of 3.00% to a high of 3.50% in April, only to return to 3.00% in September for the remainder of the year. The average yield for 90 day Bankers Acceptance's was 2.98%. In 2003, the General Revenue Fund generated \$5.80 million (5.81%) return on investment (2002 - \$5.19 million, 5.58%) and the Capital Fund generated \$12.64 million (5.26%) return on investment (2002 - \$10.3 million, 5.25%).

To help offset the impact of low 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 and a sustained low yield environment. Ten (10) year and long-term (30) year bond rates were very volatile, reaching highs of 5.22% for the ten (10) year bond and 5.66% for the long-term (30) year bond in March 2003. In June 2003, both yields hit their lows at 4.03% and 4.74% respectively. The ten (10) year bond average was 4.81% and the long-term (30 year) bond was 5.35%.

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 \$122 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 \$45 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 2002. 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, and Surrey Metro Savings Credit Union, a division of Coast Capital Savings.

In April 2003, City staff began investigating the possibility of diversifying credit union deposits geographically in Canada. Through analysis and research, it was determined that Alberta Credit Unions, though paying lower rates of interest than BC Credit Unions, provided other distinct advantages. In particular, the Alberta Government mandates that the Credit Union Deposit Guarantee Corporation (CUDGC) through the Alberta Credit Union Act, guarantee 100% all deposits held at any Alberta Credit Union. In addition, the Credit Union Act provides that the Government of Alberta will ensure that the CUDGC obligation to depositors is carried out.

Community Savings Credit Union is the second largest credit union in Alberta, and the fifth largest in Canada with July 2003 assets of over \$1.45 billion. Updated Investment Limits provide for the addition of Community Savings Credit Union. The Province of Alberta direct counterparty limits were adjusted to reflect this addition. For 2004, Gulf and Fraser Credit Union has been removed from the counterparty limits due to lack of activity.

In addition, the City will be adding the Schedule I counterparty, Manulife Bank of Canada to the investment limits in 2004. A federally chartered bank in Canada, Manulife Bank operations are small relative to the entire group (RBC, CIBC, etc.) but they offer a slight premium on short term investments, a higher credit rating on deposit notes, and a 100% parent guarantee from Manufactures Life Insurance Company whose assets exceed \$144 billion. The new Investment Limits for 2004, Schedule A, reflects these changes.

OUTLOOK FOR 2004

Current economic forecasts for interest rates are at best uncertain. Many singular events have continued to hamper economic growth in North America. Canada in particular is feeling the effects of a weakening US dollar to the Canadian dollar. Projected 2004 growth has been restated downward by the Bank of Canada and is currently forecast at 2.75%. To offset the ill effects on exports, the Bank of Canada has reversed interest rate tightening and therefore ended the year where it began, with a 3.00% bank rate. Thus the cumulative effect has been a 3.00% (300 basis points) decrease in short term rates since the beginning of 2001.

The effect of a low interest rate environment will help to ensure future 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.

The current budgeted forecasts for year 2004 investment incomes are \$11.0 million for the Capital Fund and \$5.62 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 in 2003. (Community Charter beginning 2004 January 01). With an annual yield of 5.81% in the General Revenue Fund and 5.25% in the Capital Fund, the return on investment for 2003 was in excess of \$18.4 million.



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

CITY OF BURNABY

INVESTMENT LIMITS FOR 2004

SCHEDULE A

<u>SECURITIES CATEGORY</u>	<i>Short-term Investments</i> <u>DBRS Ratings</u>	<i>Long-term Investments</i> <u>DBRS Ratings</u>	<u>Investment Limits</u>	<u>Portfolio % Mix</u>
Federal & Federal Guaranteed	R1 - High	AAA	No Limit	
Total Federal & Federal Guaranteed		No Limit	No Limit	No Limit
British Columbia	R1 - Middle	AA Low	\$60,000,000	
Total Province of British Columbia			\$60,000,000	30% Max.
Alberta	R1 - High	AAA	\$30,000,000	
Saskatchewan	R1 - Low	A	\$40,000,000	
Manitoba	R1 - Low	A High	\$40,000,000	
Ontario	R1 - Middle	AA	\$50,000,000	
Quebec	R1 - Low	A	\$45,000,000	
Total Provinces Other (Excluding B.C.)			\$205,000,000	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	
Manulife Bank of Canada	R1 - Middle	AA	\$20,000,000	
National Bank of Canada	R1 - Low	A	\$20,000,000	
Total Schedule 'I' Banks			\$290,000,000	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 Schedule 'II' Banks			\$70,000,000	30% Max.
Surrey Metro Savings Credit Union ¹	Not Rated	Not Rated	\$30,000,000	
VanCity Savings Credit Union	Not Rated	Not Rated	\$50,000,000	
Total B.C. Credit Unions			\$60,000,000	30% Max.
Community Savings Credit Union	Not Rated	Not Rated	\$30,000,000	
Total Alberta Credit Unions ²			\$30,000,000	15% Max.
TOTAL CREDIT UNIONS			\$90,000,000	30% Max.

¹ Surrey Metro Savings Credit Union is a division of Coast Capital Savings Credit Union

² Alberta Credit Unions are CUDGC guaranteed and ensured by the Province of Alberta

