

TO: CITY MANAGER **2005 March 14**
FROM: DIRECTOR FINANCE **File: 7500 01**
SUBJECT: CITY INVESTMENTS - 2004 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 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 cash and investments on hand at 2004 December 31 totaled \$386,836,915. By portfolio this represents \$290,299,933 Capital Funds (2003-\$252,649,355) which includes restricted funds such as Development Cost Charges and \$96,536,982 General Revenue Funds (2003-\$84,857,611.)

This report highlights significant events that have occurred in the investment program during 2004 and the forecast for 2005. Attachment 1 lists the institutions the City invests with and the investment limits that have been placed on those institutions.

SIGNIFICANT EVENTS DURING 2004

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 \$80 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 decreased further in 2004 marking new lows in interest rates.

The bank rate, which governs the level of short-term interest rates, began the year at 2.75%, hit its low point between April and September at a rate of 2.00% and closed the year at 2.50%. The average yield for 90 day Bankers Acceptance's was 2.32%, significantly below 2003's average of 2.98%. In 2004, the General Revenue Fund generated \$5.69 million (5.13%) return on investment (2003 - \$5.80 million, 5.81%) and the Capital Fund generated \$14.03 million (4.92%) return on investment (2003 - \$12.64 million, 5.26%).

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 remained consistently low, reaching highs of 4.70% for the ten (10) year bond and 5.15% for the long-term (30) year bond in 2004 October. In 2004 February, both yields hit their lows at 4.12% and 4.58% respectively. The ten (10) year bond average was 4.39% and the long-term (30 year) bond was 4.89%.

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 \$195 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 \$54 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 during 2004. TD Securities (the Toronto-Dominion Bank), HSBC Bank Canada and Vancouver City Savings Credit Union were 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 Coast Capital Savings.

In addition, the City has maintained investments with Community Savings Credit Union, an Alberta based credit union that is ultimately guaranteed by the Government of Alberta. The 2005 investment limits for Community Savings Credit Union and the Province of Alberta have not been changed and are consistent with 2004 limits.

No additional banking relationships were established during 2004. The Investment Limits for 2005, Schedule A, is attached for review.

OUTLOOK FOR 2005

The market has begun the year with continuing low short term interest rates and a noticeable drop in longer term interest rates. Shorter term interest rates are important to the City of Burnaby with respect to the management of day-to-day bank balances while longer term interest rates are relevant where there is an opportunity to invest for the future.

The key economic risks are decreasing exports and increasing imports due to weakness in the U.S. dollar, and lacklustre productivity growth. Tempering these risks are the record high employment of Canadians of working age which have contributed to strong domestic demand, an accommodative monetary environment, and a mildly stimulative federal budget. Nevertheless, the Bank of Canada has projected economic growth to be below 3%.

With these factors in place, the interest rates available to the City of Burnaby with respect to its short term deposits are likely to remain at historic lows throughout the year ending 31 December 2005. Though the market does expect some rate increases during the second half of the year, the timing and magnitude of any increases are uncertain. The City will continue to invest at the best available rates while maintaining a core focus on liquidity and safety.

The current budgeted forecasts for year 2005 investment incomes are \$12.0 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 Community Charter. With an annual yield of 5.13% in the General Revenue Fund and 4.92% in the Capital Fund, the return on investment for 2004 was in excess of \$19.7 million.



Rick Earle
DIRECTOR FINANCE

Attach.

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 2005

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	\$60,000,000	
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	AA Low	\$40,000,000	
BNP Paribas (Canada)	R1 - Middle	AA	\$15,000,000	
Citibank Canada	R1 - High	AA High	\$15,000,000	
Total Schedule 'II' Banks			\$70,000,000	30% Max.
Coast Capital Savings Credit Union	Not Rated	Not Rated	\$30,000,000	
VanCity Savings Credit Union	R1 - Low	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 ¹			\$30,000,000	15% Max.
TOTAL CREDIT UNIONS			\$90,000,000	30% Max.

¹ Alberta Credit Unions are CUDGC guaranteed and ensured by the Province of Alberta

