City of Burnaby

Item	05
Meeting	2006 Mar 20

COUNCIL REPORT

TO: CITY MANAGER **DATE:** 2006 March 07

FROM: DIRECTOR FINANCE File: 7500 01

SUBJECT: **CITY INVESTMENTS - 2005 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 2005 December 31 totaled $424,468,842. By portfolio this represents $319,154,162 Capital Funds (2004-$289,090,434) which includes restricted funds such as Development Cost Charges, and $105,314,680 General Revenue Funds (2004-$95,326,485.)

This report highlights significant events that have occurred in the investment program during 2005 and the forecast for 2006. Attachment 1 lists the institutions the City invests with and the investment limits that have been placed on those institutions.

SIGNIFICANT EVENTS DURING 2005

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 $90 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 is held in money market instruments until cash is required for expenditures.

The bank rate, which governs the level of short-term interest rates, opened the year at 2.50% and remained at that rate until the beginning of September. At that time, the Bank of Canada raised the rate, the first of three 0.25% increases in the year. The rate closed at 3.25%. The average yield for 90 day Bankers Acceptance's was 2.83%, somewhat above 2004's average of 2.32%. In 2005, the General Revenue Fund generated $5.92 million (4.80%) return on investment and the Capital Fund generated $15.88 million (4.88%) return on investment.

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, investment grade bonds. The majority of these longer term investments were purchased in years when market yields were materially higher than current market yields. As the City's policy is to hold its investments to maturity, the yield to maturity of these investments will deliver higher returns than comparable investments currently available in the market.

Market yields on longer term bonds continued to decline in 2005, consistent with the trend noted in previous years. Term spread, or the difference between short and long term yields, continued to shrink, with the year end difference between three month money market and 10 year government bonds being 0.42%. The difference at the beginning of the year was 1.75%.

Ten (10) year and long-term (30) year bond rates remained consistently low, reaching highs of 4.50% for the ten (10) year bond and 4.89% for the long-term (30) year bond in the first quarter of 2005. Both yields hit their lows at 3.73% and 4.05%, respectively, in the second half of the year. The ten (10) year bond average was 4.10% and the long-term (30 year) bond was 4.45%.

Generally the portion of the Capital and General Revenue Funds that are not expected 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 (one year and longer); the balance in shorter term investments that mature within one year. Within the General Revenue Fund approximately $54 million is invested in long-term higher yield investments (one year 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 2005. HSBC Bank Canada, RBC Capital Markets, and National Bank Financial 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 2006 investment limits for Community Savings Credit Union and the Province of Alberta have not been changed and are consistent with 2005 limits.

No additional banking relationships were established during 2005. The Investment Limits for 2006, Schedule A, is <u>attached</u> for review.

OUTLOOK FOR 2006

Since the beginning of the year, the Bank of Canada has raised its benchmark rate by a further 0.25%. The Bank forecasted further "modest" increases in its rate in the year.

Yields have also increased by a similar margin at the longer end of the yield curve, though rates remain low by historical standards. The economy remains broadly healthy, though some sectors, principally manufacturing, are less robust. Nevertheless, the Bank's latest forecast is for 3.1% growth in GDP.

The key near-term risks to the economy are the weakness of the U.S. dollar, making Canadian exports relatively more expensive. There are also concerns about the strength of U.S. demand given the overall indebtedness of the U.S. consumer. Increases in U.S. interest rates together with regulatory changes intended to reduce price exuberance in the residential property market point to some tempering of U.S. consumer demand.

Longer term risks to the economy include a sudden adjustment to the U.S. "twin deficits", a decrease in the global, especially Asian, appetite for U.S. debt, and reduced demand for Canadian commodities.

For the City of Burnaby, these economic factors suggest that both absolute return and investment yield should edge up from 2005 levels.

The current budgeted forecasts for 2006 investment income are $13.5 million and $6.1 million for the Capital and General Revenue Funds, respectively.

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 4.80% in the General Revenue Fund and 4.88% in the Capital Fund, the return on investment for 2005 was in excess of $21.8 million.

PP Rick Earle
DIRECTOR FINANCE

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.

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

CITY OF BURNABY
INVESTMENT LIMITS FOR 2006

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**	**No Limit**
British Columbia	R1 - Middle	AA	$60,000,000	
Total Province of British Columbia			**$60,000,000**	**30% Max.**
Alberta	R1 - High	AAA	$30,000,000	
Saskatchewan	R1 - Low	A High	$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	A High	$40,000,000	
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	$25,000,000	
National Bank of Canada	R1 - Low	A High	$20,000,000	
Total Schedule 'I' Banks			**$285,000,000**	**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	$20,000,000	
Total Schedule 'II' Banks			**$75,000,000**	**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