City of Burnaby

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| Item | 01 |
| Meeting | 2009 Feb. 02 |

COUNCIL REPORT

**TO:** CITY MANAGER **DATE:** 2009 January 23

**FROM:** DIRECTOR FINANCE File: 7500 01

**SUBJECT:** **CITY INVESTMENTS – 2008 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 2008 December 31 totalled $526,548,442 (2007 - $491,620,864). This is represented by a single investment portfolio – City of Burnaby General Investment Fund - and includes restricted funds such as Development Cost Charges and all reserve funds.

This report highlights significant events that have occurred in the investment program during 2008 and the forecast for 2009. Attachment 1 lists the institutions the City invests with and the investment limits that have been placed on those institutions.

SIGNIFICANT EVENTS DURING 2008

Investment Funds:

The City's General Investment 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 $700 million upon receipt of tax revenue and then decreases to approximately $480 million in May. A portion of the portfolio's investments is held in money market instruments until cash is required for expenditures.

The Bank of Canada bank rate, which governs the level of short-term interest rates, opened the year at 4.50% but was reduced six times during the year, closing at 1.75% on 2008 December 31. The average yield for 90 day Bankers Acceptance's was 3.08%, significantly lower than 2007's average of 4.75%. In 2008, the General Investment Fund generated $31.9 million (5.24%) return on investment. (2007 - $28.5 million at 5.21%).

To help offset the impact of low short-term interest rates on investment income, the City holds a portion of 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. Holdings range from annual yields of 5.50% - 7.35%. For 2008 ten (10) year and long-term (30) year bond rates remained consistently low, starting the year at 3.88% and 4.19% respectively in January. The lows were reached in December at 2.69% for the ten (10) year bond and 3.45% for the long-term (30) year bond. The ten (10) year bond average for 2008 was 3.58% and the long-term (30) year bond average was 4.05%.

Generally the portion of the General Investment Fund that is not expected to be drawn on in the near future is invested in longer term investments with higher yields. Approximately $432 million is invested in long-term investments (one year and longer); the balance in shorter term investments that mature within one year.

Banking Relationships:

The City's investment banking relationships remained consistent during 2008. HSBC Bank Canada, RBC Capital Markets, and the Canadian Imperial Bank of Commerce 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, Coast Capital Savings and Gulf & Fraser Credit Union. In 2008, the British Columbia Provincial Government passed legislation which provides a guarantee for all deposits and investments with B. C. Credit Unions. Provincial guarantees for Credit Unions have been in place for many years in other provinces.

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 2009 investment limits for the Province of Alberta have been increased to $100 million to reflect the superior rating and fiscal responsibility of the Province.

The Investment Limits for 2009, Schedule A, is attached for review.

**Outlook for 2009**

Through 2008, central banks have worked in unison to limit the depth and breadth of a global recession. What began in August 2007 with the subprime debt market, has quickly morphed into a greater panic requiring more than simply central bank growth management tools. The familiar standby central bank involvement through interest rate measures has become insufficient to deal with the multitude of economic ailments. Other alternatives such as government loan guarantees and managed mergers, tax stimulus, share purchasing, term loan facilities, etc...are being added to the list of actions being deployed by governments globally. All these methods are an attempt to lessen the depth of recession and to add liquidity to the credit markets.

In 2008 alone, the Bank of Canada reduced the bank rate by 275 basis points to 1.75%. Not being sufficient to get the credit markets operational again, the Bank decreased the bank rate by an additional 50 basis points on 2009 Jan 20. The rate is now set at 1.25%. Thus, making today's rates the lowest setting by the Bank of Canada since the institution was founded in 1934. Markets are anticipating an additional 50 basis point cut at the next central bank meeting in March 2009. The Bank of Canada has communicated that more cuts may be required to stimulate the economy out of recession – the country's first since 1992. Consequently, the Canadian Bank Prime Rate is now 3.00%.

Canada has mimicked the moves by other central banks in an attempt to revive the credit markets which globally have tallied about $1 trillion in write-offs and losses. Canada's economy is suffering from significant reduction in exports for items such as lumber and cars. In addition, the economy is feeling the pinch due to low prices for commodities such as oil and metals. All of these items having the net effect of 105,000 job losses in November and December 2008 and a decrease in domestic demand for goods.

Tax cuts for the middle class and other stimulus by the Federal Government will be deployed to mitigate recession and economic crisis. In early 2008, the Bank of Canada projected a 2009 GDP expansion of 2.8 percent. In October 2008 the prediction by the central bank was lowered to 0.6 percent. Given current conditions, the economy will certainly fall short of these early expectations. The Bank of Canada now believes the Canadian economy will shrink in 2009 for an annual decline of 1.2 percent.

Market imbalances have continued to unfold throughout 2008. While Canada has seen a slow and methodical approach to monetary activity, the US and other global economies have not. The rapid and disorderly changes to these imbalances were apparent in 2008. Canada has not escaped the market downturn - a magnitude that is not yet clear.

For the City of Burnaby, these economic factors suggest that for most of 2009, both absolute return and investment yield will be lower or flat to where they are today. While investment income earned on short term holdings will be affected by these extremely low interest rates, the City was able to reposition some holdings into higher yielding bank products with eight to ten years to maturity. The current forecast for 2009 investment income is $31 million. Of this amount, $6.7 million is the current operating budget forecast (2008 – $6.7 million) with the remainder of funds distributed to Reserve Funds.

**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 5.24% in the General Investment Fund, the return on investment in 2008 was in excess of $31.9 million.

FOR

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<br>Middle<br>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 |

106

# CITY OF BURNABY

## INVESTMENT LIMITS FOR 2009

| | DBRS Ratings | | | Limits | | Portfolio Mix |
|---|---|---|---|---|---|---|
| | Short-term | Long-term Debt | | Per | | |
| SECURITIES CATEGORY | Investments | Senior | Subordinated | Counterparty | Per Category | Total |
| Federal & Federal Guaranteed | R1 - High | AAA | N/A | No Limit | | |
| **TOTAL FEDERAL & FEDERAL GUARANTEED** | | | | | **No Limit** | **No Limit** |
| British Columbia | R1 - High | AA High | N/A | 80,000,000 | | |
| **TOTAL PROVINCE OF BRITISH COLUMBIA** | | | | | **80,000,000** | **30% Max.** |
| Alberta | R1 - High | AAA | N/A | 100,000,000 | | |
| Alberta Capital Finance Authority * | | | | | | |
| Servus Credit Union ** | Not Rated | Not Rated | Not Rated | | | |
| **TOTAL PROVINCE OF ALBERTA** | | | | | **100,000,000** | **30% Max.** |
| Saskatchewan | R1 - Middle | AA Low | N/A | 50,000,000 | | |
| Manitoba | R1 - Middle | A High | N/A | 60,000,000 | | |
| Ontario | R1 - High | AA | N/A | 80,000,000 | | |
| Quebec | R1 - Middle | A High | N/A | 60,000,000 | | |
| **TOTAL PROVINCES OTHER (Excluding B.C. and Alberta)** | | | | | **250,000,000** | **60% Max.** |
| Bank of Montreal | R1 – High | AA | AA Low | 70,000,000 | | |
| CIBC | R1 – High | AA | AA Low | 40,000,000 | | |
| Royal Bank | R1 – High | AA | AA Low | 70,000,000 | | |
| ScotiaBank | R1 – High | AA | AA Low | 70,000,000 | | |
| Toronto Dominion Bank (aka TD-Canada Trust) | R1 – High | AA | AA Low | 70,000,000 | | |
| Manulife Bank of Canada | R1 - Middle | AA Low | Not Rated | 30,000,000 | | |
| National Bank of Canada | R1 - Middle | AA Low | A High | 30,000,000 | | |
| **TOTAL SCHEDULE 'I' BANKS** | | | | | **380,000,000** | **60% Max.** |
| HSBC Bank Canada | R1 - High | AA | AA Low | 60,000,000 | | |
| BNP Paribas (Canada) | R1 - High | AA High | Not Rated | 60,000,000 | | |
| Citibank Canada | R1 - High | AA | Not Rated | 0 | | |
| **TOTAL SCHEDULE 'II' BANKS** | | | | | **120,000,000** | **30% Max.** |
| Coast Capital Savings Credit Union | Not Rated | Not Rated | Not Rated | 25,000,000 | | |
| Gulf & Fraser Credit Union (dba G&F Financial) | Not Rated | Not Rated | Not Rated | 5,000,000 | | |
| VanCity Savings Credit Union | R1 - Low | Not Rated | Not Rated | 35,000,000 | | |
| **TOTAL CREDIT UNIONS** | | | | | **60,000,000** | **30% Max.** |

* *Province of Alberta authority, agent of the Alberta crown.*

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