
TO: CITY MANAGER **DATE:** 2010 January 26

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

SUBJECT: CITY INVESTMENTS – 2009 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 2009 December 31 totalled \$516,180,764 (2008 - \$526,548,442). This is represented by a single investment portfolio – City of Burnaby 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 2009 and the forecast for 2010. Attachment 1 lists the institutions the City invests with and the investment limits that have been placed on those institutions.

SIGNIFICANT EVENTS DURING 2009**Investment Funds:**

The City's 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 \$730 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.

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The Bank of Canada bank rate, which governs the level of short-term interest rates, opened the year at 1.75% but was reduced three times during the year, closing at .50% on 2009 December 31. The average yield for 90 day Bankers Acceptance's was .45%, significantly lower than 2008's average of 3.08%. In 2009, through diverse investment selection and capital gains on a long term bank bond, the Investment Fund generated \$37.4 million (5.99%) return on investment. (2008 - \$31.9 million at 5.24%).

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 5.00% - 7.35%. For 2009 ten (10) year and long-term (30) year bond rates remained consistently low, starting the year at 2.97% and 3.72% respectively in January. Both slowly moved higher reaching 3.60% for the ten (10) year bond and 4.07% for the long-term (30) year bond. On 2009 December 31, the ten (10) year bond average for 2009 was 3.29% and the long-term (30) year bond average was 3.90%.

Generally the portion of the Investment Fund that is not expected to be drawn on in the near future is invested in longer term investments with higher yields. Approximately \$428 million is invested in long-term investments (one year and longer); the balance in shorter term investments that mature within one year.

Banking Relationships and Counterparties:

The City's investment banking relationships remained consistent during 2009 for longer term fixed income products. RBC Capital Markets, TD Securities and the Canadian Imperial Bank of Commerce were the City's lead investment bankers. For short term money market investments however, the City mainly invested with B.C. and Alberta Credit Unions who consistently provided a premium over bank BA's and continue to receive investment guarantees by the respective provincial governments.

In British Columbia the City invested with Vancouver City Savings Credit Union, Coast Capital Savings and Gulf & Fraser Credit Union. In addition, the City has maintained investments with Community Savings Credit Union, an Alberta based credit union. The 2010 investment limits for the Province of British Columbia and the Province of Alberta has been increased to \$120 million to reflect the superior ratings and fiscal responsibility of these provinces.

All counterparties are continuously monitored to protect and safeguard the City's investment assets. As a fallout from the economic downturn, Citibank Canada was placed on watch and its limits reduced to zero in 2008, and for 2010 has been removed as an acceptable investment counterparty. The City has added the Province of New Brunswick as an investable counterparty. With a long term debt rating of A (high) and a short term rating of R-1 (middle), the Province of New Brunswick maintains the same ratings as Manitoba and Quebec. With

sound financial management and a growing economy that continues to diversify, the Province of New Brunswick offers the City additional counterparty investment opportunities in the provincial market. The 2010 counterparty limit for the Province of New Brunswick has been set at \$50 million.

Outlook for 2010

In 2009, central banks around the globe maintained a low interest rate environment and other economic stimulus measures in an attempt to avert a deepening global recession. While market news continued to be mixed through the last quarter of 2009, the central bank management tools and policies implemented appear to be turning conditions more positive.

Canada, while the last of the G7 nations to come out of recession in Q3 2009, was the last to enter in Q4 2008. After three back-to-back quarters of negative growth, the Canadian economy joined the other G7 nations - except for the United Kingdom - to move past recession and into the realm of economic recovery with a slight 0.4% q/q annualized GDP in Q3 2009. While Canada's job numbers were weaker than expected in December coming in at a loss of 2,600 according to Statistics Canada, the nations unemployment rate remained at 8.5 percent.

The United States has endured a deeper and longer downturn than Canada. In December 2009, the unemployment rate in the U.S. was 10.0 percent with 15.3 million unemployed. At the start of the U.S. recession in December 2007, the unemployment rate was 5.0 percent with 7.7 million unemployed. The U.S. has lost 7.6 million jobs over the last two years. Canada has fared much better through this downturn.

For the City of Burnaby, the multitude of economic factors suggests that for 2010, both absolute return and investment yield will be flat and lower respectively when compared to 2009. While short term investments will continue to be affected by these extremely low interest rates, the City was able to reposition some holdings into longer term higher yielding Provincial products with investments into Bonds and STRIP Coupons. The current forecast for 2010 investment income is \$31.5 million. Of this amount, \$6.7 million is the current operating budget forecast (2009 - \$6.3 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 5.99% in the Investment Fund, the return on investment in 2009 was in excess of \$37.4 million.


Rick Earle
DIRECTOR FINANCE

Attach. (2)

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)
STRIP	Separate Trading of Registered Interest and Principal Securities - A bond purchased at a discount which matures at face value (par) on the maturity date. There are no periodic interest payments. Interest earned is compounded over the term of the bond.

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 2010

SECURITIES CATEGORY Federal & Federal Guaranteed	DBRS Ratings		Limits		Portfolio Mix			
	Short-term Investments	Long-term Debt Senior Subordinated	Per Counterparty	Per Category				
TOTAL FEDERAL & FEDERAL GUARANTEED	R1 - High	AAA N/A	No Limit	No Limit	No Limit			
British Columbia	R1 - High	AA High	}	}				
Coast Capital Savings Credit Union ***	Not Rated	N/A						
Gulf & Fraser Credit Union (dba G&F Financial) **	Not Rated	Not Rated						
VanCity Savings Credit Union ***	Not Rated	Not Rated						
TOTAL PROVINCE OF BRITISH COLUMBIA			120,000,000	120,000,000	30% Max.			
Alberta	R1 - High	AAA	}	}				
Alberta Capital Finance Authority *	Not Rated	N/A						
Servus Credit Union **	Not Rated	Not Rated	120,000,000	120,000,000	30% Max.			
TOTAL PROVINCE OF ALBERTA				120,000,000	30% Max.			
Saskatchewan	R1 - Middle	AA Low	}	}				
Manitoba	R1 - Middle	A High						
New Brunswick	R1 - Middle	A High						
Ontario	R1 - High	AA						
Quebec	R1 - Middle	A High						
TOTAL PROVINCES OTHER (Excluding B.C. and Alberta)				300,000,000	60% Max.			
Bank of Montreal	R1 - High	AA	}	}				
CIBC	R1 - High	AA						
Royal Bank	R1 - High	AA						
Scotia Bank	R1 - High	AA						
Toronto Dominion Bank (aka TD-Canada Trust)	R1 - High	AA						
Manulife Bank of Canada	R1 - Middle	AA Low						
National Bank of Canada	R1 - Middle	AA Low						
TOTAL SCHEDULE 'I' BANKS							380,000,000	60% Max.
HSBC Bank Canada	R1 - High	AA				}	}	
BNP Paribas (Canada)	R1 - High	AA High						
TOTAL SCHEDULE 'II' BANKS				120,000,000	30% Max.			

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

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

*** British Columbia Credit Unions are CUDIC guaranteed and ensured by the Province of British Columbia