City of Burnaby

Meeting 2015 February 02

COUNCIL REPORT

FINANCIAL MANAGEMENT COMMITTEE

HIS WORSHIP, THE MAYOR
AND COUNCILLORS

SUBJECT: CITY INVESTMENTS - 2014 YEAR END REPORT

RECOMMENDATION:

1. THAT this report be received for information purposes.

REPORT

The Financial Management Committee, at its meeting held on 2015 January 29, received and adopted the *attached* report providing a 2014 Investment Program update and presenting the 2015 Investment Program forecast.

Respectfully submitted,

Councillor D. Johnston
Chair

Councillor C. Jordan
Vice Chair

Councillor P. McDonell
Member

Copied to:	City Manager Director Finance

City of Burnaby

Meeting 2015 Jan 22

COMMITTEE REPORT

TO:	CHAIR AND MEMBERS FINANCE AND CIVIC DEVELOPMENT COMMITTEE	**DATE:**	2015 January 15
FROM:	DIRECTOR FINANCE	**FILE:**	7500-01

SUBJECT: **CITY INVESTMENTS – 2014 YEAR END REPORT**

PURPOSE: To provide a 2014 Investment Program update and to present the 2015 Investment Program forecast.

RECOMMENDATION:

1. **THAT** this report be received for information purposes.

REPORT

Part 6, Division 3, Section 183 of the Community Charter states that the City may invest or reinvest money that is not immediately required for expenditures. Council has assigned the responsibility for the management of the investment portfolio to the Director Finance (Bylaw No. 11553). This report highlights significant events that have occurred in the investment program during 2014 and the forecast for 2015.

The City's cash and investments on 2014 December 31 totaled $827,411,505 (2013 – $679,538,076). This is represented by a single investment portfolio – City of Burnaby Investment Fund – and includes restricted funds such as Development Cost Charges and all other reserve funds. Schedule B lists the institutions the City invests in and the investment limits that have been placed on these institutions.

1.0 2014 SIGNIFICANT EVENTS

1.1 Investment Funds

A portion of the portfolio's investments is held in money market instruments until cash is required for expenditures. 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 $1 billion upon receipt of tax revenue and then decreases to approximately $700 million in May.

The Bank of Canada bank rate, which governs the level of short-term interest rates opened the year at 1.25% and closed on 2014 December 31 at the same rate. The average yield for 90 day Bankers Acceptance's was 1.21%, one basis point higher than the average for 2013.

Despite the continuation of low annual yields throughout 2014 the City's investment strategy generated $42.6 million (4.49%) return on investments (2013 - $38.3 million at 4.64%). The impact of fluctuations in short-term interest rates on investment income are offset by a portion of fund surplus in long-term investment grade bonds with annual yields of 3.00% - 7.35%. These longer term investments have continued to provide income and yield stabilization for the portfolio year-over-year despite historical lows in money market and bond market yields.

In 2014, Canadian ten-year and thirty-year bond rates were volatile, beginning the year at a high of 2.75% and 3.22% respectively on January 3rd, and posting lows of 1.74% and 2.29% on December 16th respectively. The ten-year bond average for 2014 was 2.23% (2013 – 2.25%) and the thirty-year bond average was 2.77% (2013 – 2.82%).

An alternative investment option for British Columbia municipalities is to place funds with the Municipal Finance Authority of British Columbia (MFA-BC). The City's investments performed well in 2014 when broken down by term as a means of comparison to the Municipal Finance Authority (MFA) Pooled funds and noted indices benchmark returns. The MFA-BC offers three investment fund alternatives and reports the returns annually, with the most recent information provided below for the period ending 2014 December 31, along with a corresponding yield for a comparable benchmark indices. All three funds offered by the MFA-BC include corporate debt. The Community Charter restricts the City from investing in corporate debt unless we invest directly into the MFA-BC's funds. Broken down into comparable fund types based on maturity date ranges, the City can offer a closer comparison to the MFA-BC and indices in Table 1.

Table 1 – Breakdown of Yield Comparisons

Fund Type	Fund/Benchmark	1 year return	City of Burnaby
Money Market	MFA Money Market Fund (for investments less than 1 year)	1.09%	1.79%
	MFA Custom Benchmark-FTSE TMX Canada 30-day T-Bill Index	0.74%	
Intermediate	MFA Intermediate Fund (for investments from 1 – 3 years)	1.28%	2.21%
	FTSE TMX Canada 365- Day Treasury Bill Index	0.79%	
Bond Fund	MFA Bond Fund (for investments of more than 3 years)	3.15%	5.09%
	FTSE TMX Canada Short Term Overall Bond Index	2.86%	

Generally the portion of the Investment Fund that is not expected to be needed in the near future is invested in longer term investments with higher yields. Approximately $521 million is invested in long-term investments (one year and longer); the balance in shorter term investments that mature within one year.

Table 2 - Breakdown for Portfolio Maturities by Term at 2014 December 31

City of Burnaby Investment Fund	Face Value - $	%	Cost Amount - $	%
Maturities in 2015	297,859,947.94	24.72%	299,050,181.14	36.49%
Maturities 2016 to 2020	477,873,039.00	39.66%	321,233,200.26	39.19%
Maturities 2021 to 2025	277,973,655.00	23.07%	115,696,869.04	14.12%
Maturities 2026 +	151,214,506.00	12.55%	83,663,743.16	10.21%
Total	**1,204,921,147.94**		**819,643,993.60**	

1.2 Banking Relationships and Counterparties

The City of Burnaby's investment portfolio consists of debt issued by Canadian banks as identified in both Schedule A and Schedule B. Securities issued by the banks do not have an investment guarantee from the Canadian Federal Government. Retail depositors receive deposit insurance from the Canadian Deposit Insurance Corporation (CDIC) in the amount of $100,000 for investments with a term to maturity less than five years. The City of Burnaby is not considered a retail depositor and therefore, CDIC coverage does not apply.

Treasury Operations monitors the counterparties that we invest as part of our ongoing risk mitigation strategy and investment procedures. This also ensures adequate counterparty limits for the growing portfolio. In 2014 the City added Canadian Western Bank, the Province of Nova Scotia and the Province of Prince Edward Island as approved counterparties.

The City's investment banking relationships remained consistent during 2014 for long-term fixed income products. RBC Capital Markets, TD Securities and CIBC-Wood Gundy were the City's lead investment bankers. For short-term money market investments, the City invested with B.C. and Alberta Credit Unions who provided a premium over bank BA's and continue to receive investment guarantees by their respective insurance funds; the Credit Union Deposit Insurance Corporation in BC and the Credit Union Deposit Guarantee Corporation in Alberta. While both are legislated provincial government insurance corporations funded by the credit unions, in Alberta the Credit Union Act provides for the provincial guarantee of all Credit Union Deposit Guarantee Corporations obligations. In BC this extended protection is implied but not obligatory.

In 2014 the City invested with Vancouver City Savings Credit Union, Coast Capital Savings, Gulf & Fraser Credit Union , North Shore Credit Union and Westminster Savings Credit Union in British Columbia. In addition, the City maintained investments with Servus Credit Union and First Calgary Financial, both Alberta based Credit Unions.

The economic conditions and credit limitations have put a strain on debt issuance. With high global demand for Canadian investment products, inventory has been reduced making availability a challenge. The City's portfolio growth over the last decade to our highest historical balance means increased investment limits are required. The City has made counterparty changes to provide product and investment diversification and to ensure our continued ability to deploy funds as needed with the flexibility that a large portfolio requires.

Changes to counterparty limits are conducted as a means of ensuring the City is able to manage the investment portfolio through diversification and risk management. Maintaining counterparty limits that allow for diversification based on provincial government, banking and credit union operations and prudent policies are essential for managing investment risk and return. It is in this area that changes have been made related to counterparty limits, as identified in Schedule B.

Given the strength of major Canadian banks and the diversification of products offered, their limits have been increased from $100 million to $120 million each. National Bank of Canada, Manulife Bank and Canadian Western Bank have been increased to $60 million. While HSBC Bank Canada has made strides in 2014 to regain market confidence with a continued trend rating of "stable", the City discontinued counterparty transactions and has no holdings with the bank. HSBC has been removed from the 2015 limits and will remain off the approved list for the foreseeable future.

For 2015, limits are unchanged for each individual credit union in BC, however the maximum limit for the BC credit union total has been increased to $140 million. Alberta's credit union limit has also been increased to $140 million, with each individual credit union having a maximum limit of $70 million.

2.0 OUTLOOK FOR 2015

In 2014 central banks maintained a low interest rate environment and other economic stimulus measures to encourage continued economic growth. While there are many positive signs in the global market, even after seven years of challenging growth, indicators continue to provide a mixed picture heading into 2015. Globally growth is positive but has been consistently weaker than forecast as economies are struggling with job market stability and balanced budgets.

Recent Bank of Canada estimates show the Canadian economy grew by only 2.20% in 2014. Softer than expected U.S. growth is keeping the Canadian economic growth forecast for 2015 at 2.50% and lower at 2.00% for 2016.

Core inflation remained moderately low through 2014, reflecting somewhat softer prices across a broad range of goods and services and heightened competition in the retail sector. Weighing these considerations, the Bank of Canada has maintained the target for the overnight rate at 1%.

For the City of Burnaby, economic factors suggest that 2015 investments will continue to be affected by the low interest rate environment. As longer term investments mature, reinvestment of large principle amounts at lower interest rates will result in lower annual portfolio yields and lower income. The City is projecting an annual yield of 4.20% for 2015 and $39.1 million in investment income. Of this investment income amount, $7.1 million is the current 2015 operating budget (2014 - $7.0 million) with the remainder of funds distributed to reserve funds.

3.0 CONCLUSION

Diversification and a conservative investment strategy have provided the City with a 2014 return of $42.6 million at an annual yield of 4.49% on the City's Investment Fund. For 2015, Treasury Operations will continue to monitor money and fixed income markets for investment opportunities to provide liquidity, capital preservation and yield management.

Denise Jorgenson
DIRECTOR FINANCE

DJ:ds/ab

Attachments: Schedule A – 2015 City of Burnaby Investments Update
Schedule B – 2015 City of Burnaby Investment Limits

Copied to: City Manager

SCHEDULE A

2015 City of Burnaby Investments Update

Schedule B provides an updated listing of each institution and the limits currently in place for the combined capital and operating investment portfolios. The investment portfolio contains a preferred mix by category of security and maintains a dollar limit for each investment issuer.

Dominion Bond Rating Service (DBRS) is the leading Canadian institutional credit rating agency, the authority on the fiscal strength of financial and governmental bodies.

Table 1 provides a breakdown of the ratings used in Schedule B:

Table 1 - DBRS Ratings

Term	Meaning
Schedule I Bank	Canadian-owned Bank
Schedule II Bank	Foreign-owned Bank
Senior Debt	A bond or other form of debt that takes priority over other debt securities sold by the issuer.
Subordinated Debt	A bond or other form of debt that ranks below senior debt but higher than other debt securities sold by the issuer.
Not Rated	Financial Institutions who do not require a rating agencies review of their financial position. This decision is typically associated with the type of debt the institution issues.
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

SCHEDULE B

INVESTMENT LIMITS FOR 2015

SECURITIES CATEGORY (sorted alphabetically)	*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
Coast Capital Savings CU ($60M max)	Not Rated	Not Rated	$ 140,000,000	
Gulf & Fraser Credit Union ($30M max) (dba G&F Financial)	Not Rated	Not Rated		
North Shore Credit Union ($30M max) (dba BlueShore Financial)	Not Rated	Not Rated		
VanCity Savings CU ($60M max)	R1 – Low	Not Rated		
Westminster Savings CU ($30M max)	Not Rated	Not Rated		
TOTAL BRITISH COLUMBIA CREDIT UNIONS *			$ 140,000,000	25% Max.
First Calgary Financial ($70M max)	Not Rated	Not Rated	$ 140,000,000	
Servus Credit Union ($70M max)	Not Rated	Not Rated		
TOTAL ALBERTA CREDIT UNIONS **			$ 140,000,000	25% Max.
Alberta	R1 – High	AAA	$ 140,000,000	
British Columbia	R1 - High	AA High	$ 140,000,000	
Manitoba	R1 - Middle	A High	$ 70,000,000	
New Brunswick	R1 – Middle	A High	$ 70,000,000	
Nova Scotia	R1 – Middle	A High	$ 70,000,000	
Ontario	R1 – Middle	AA Low	$ 100,000,000	
Prince Edward Island	R1 – Low	A Low	$ 60,000,000	
Quebec	R1 - Middle	A High	$ 90,000,000	
Saskatchewan	R1 - High	AA	$ 100,000,000	
TOTAL PROVINCES			$ 660,000,000	60% Max.
Bank of Montreal	R1 - High	AA	$ 120,000,000	
Canadian Western Bank	R1 - Low	A Low	$ 60,000,000	
CIBC	R1 - High	AA	$ 120,000,000	
Manulife Bank of Canada	R1 - Middle	A High	$ 60,000,000	
National Bank of Canada	R1 - Middle	AA Low	$ 60,000,000	
Royal Bank	R1 - High	AA	$ 120,000,000	
Scotiabank	R1 - High	AA	$ 120,000,000	
Toronto Dominion Bank (aka TD-Canada Trust)	R1 - High	AA	$ 120,000,000	
TOTAL SCHEDULE 'I' BANKS			$ 580,000,000	60% Max.
TOTAL SCHEDULE 'II' BANKS			$ 0	10% Max.

** British Columbia Credit Unions are CUDIC guaranteed*

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