Meeting 2016 February 15

COUNCIL REPORT

FINANCIAL MANAGEMENT COMMITTEE

HIS WORSHIP, THE MAYOR
AND COUNCILLORS

SUBJECT: CITY INVESTMENTS – 2015 YEAR END REPORT

RECOMMENDATION:

1. THAT this report be received for information purposes.

REPORT

The Financial Management Committee, at its meeting held on 2016 January 28, received and adopted the *attached* report providing a 2015 Investment Program update and presenting the 2016 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 2016 Jan 28

COMMITTEE REPORT

TO:	CHAIR AND MEMBERS FINANCIAL MANAGEMENT COMMITTEE	**DATE:**	2016 January 21
FROM:	DIRECTOR FINANCE	**FILE:**	7500-01

SUBJECT: **CITY INVESTMENTS – 2015 YEAR END REPORT**

PURPOSE: To provide a 2015 Investment Program update and to present the 2016 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 2015 and the forecast for 2016.

The City's cash and investments on 2015 December 31 totaled $923,955,890 (2014 – $827,411,505). 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 2015 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 $800 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 2015 December 31 at 0.75% after two unexpected rate cuts. The average yield for 90 day Bankers Acceptance's was 0.84%, thirty seven basis points lower than the average for 2014.

Despite the continuation of low annual yields throughout 2015 the City's investment strategy generated $41.5 million (3.91%) return on investments (2014 – $42.6 million at 4.49%). The impact of fluctuations in short-term interest rates on investment income is offset by a portion of fund surplus in longer 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. However, the percentage of the portfolio in these longer term investments has decreased as maturities have occurred.

In 2015, Canadian ten-year and thirty-year bond rates were volatile with yearly highs of 1.90% and 2.48% respectively and lows of 1.28% and 1.87% respectively. Both bonds saw lower average rates in 2015 with the ten-year bond average 1.52% (2014 – 2.23%) and the thirty-year bond average 2.19% (2014 – 2.77%).

An alternative investment option for British Columbia municipalities is to place funds with the Municipal Finance Authority of British Columbia (MFA-BC). The MFA-BC offers three investment fund alternatives and reports the returns annually, with the most recent information provided below for the period ending 2015 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. The City's investments performed well in 2015 when broken down by term as a means of comparison to the Municipal Finance Authority (MFA) Pooled funds and noted indices benchmark returns as shown 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)	0.85%	1.53%
	MFA Custom Benchmark-FTSE TMX Canada 30-day T-Bill Index	0.41%	
Intermediate	MFA Intermediate Fund (for investments from 1 – 3 years)	1.45%	2.04%
	FTSE TMX Canada 365- Day Treasury Bill Index	0.84%	
Bond Fund	MFA Bond Fund* (for investments of more than 3 years)	2.47%	5.09%
	FTSE TMX Canada Short Term Overall Bond Index	2.41%	

* The MFA Bond Fund maximum term to maturity is seven years, the City of Burnaby's comparable includes all remaining portfolio investments with a term greater than three years.

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 $565 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 2015 December 31

City of Burnaby Investment Fund	Face Value ($)	%	Cost Amount ($)	%
Maturities in 2016	358,725,849.32	27.65%	358,257,407.52	38.77%
Maturities 2017 to 2021	490,410,351.00	37.80%	344,414,125.83	37.28%
Maturities 2022 to 2026	289,478,343.00	22.31%	120,051,033.89	12.99%
Maturities 2027 +	158,814,506.00	12.24%	101,233,323.16	10.96%
Total	**1,297,429,049.32**		**923,955,890.40**	

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 2015 the City did not add any new counterparties.

The City's investment banking relationships remained consistent during 2015 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 BC 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. The Province of BC does not guarantee the liabilities of the Corporation.

In 2015 the City invested with Vancouver City Savings Credit Union, Coast Capital Savings, Gulf & Fraser Credit Union, BlueShore 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 City's portfolio growth over the last decade means increased investment limits are required. The City has made counterparty changes (identified in Schedule B) to provide increased product and investment diversification and to ensure the City's continued ability to deploy funds into the market with the flexibility that a large portfolio requires. Diversification is essential for managing investment risk and return.

Given the strength of major Canadian banks and the diversification of products offered, their limits have been increased from $120 million to $150 million each. The Province of British Columbia portfolio limit has been increased from $140 million to $150 million. Limits are unchanged for each individual credit union in BC; however the maximum limit for the BC credit union total has been increased by $10 million to $150 million. Alberta's credit union limits have not changed and remain at $140 million for 2016.

For diversification and counterparty limit availability, two Saskatchewan credit unions have been added for 2016. Conexus Credit Union is the largest in the Province of Saskatchewan and sixth largest in Canada. Conexus operates 45 branches with over 119,000 members and total funds under administration of $5.2 billion. Conexus services include transactional banking, insurance and wealth management. Affinity Credit Union is the second largest credit union in Saskatchewan and has been serving members for over 80 years. Affinity has 118,000 members and administers over $4.6 billion in funds.

All deposits in Saskatchewan credit unions are guaranteed by the Saskatchewan Credit Union Deposit Guarantee Corporation. The Corporation is mandated by provincial legislation – The Credit Union Act, 1998 – as an oversight role for Saskatchewan credit unions. The Province of Saskatchewan does not guarantee the liabilities of the Corporation. The counterparty limit for each credit union has been set at $25 million with a total Saskatchewan credit union limit of $50 million for 2016.

2.0 OUTLOOK FOR 2016

In 2015 central banks maintained accommodative interest rate policies in an attempt to sustain positive economic growth. While the United States is leading the way, with growth having picked up in the latter half of the year, Canada's output and economic conditions have been slow to recover with the global impact on commodities affecting national output across industries.

For the City of Burnaby, economic factors suggest that 2016 investments will continue to be affected by the extreme 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 3.35% for 2016 and $39.6 million in investment income. Of this investment income amount, $6.5 million is the current 2016 operating budget contribution (2015 – $7.1 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 2015 return of $41.5 million at an annual yield of 3.91% on the City's Investment Fund. For 2016, Treasury Operations will continue to monitor money and fixed income markets for investment opportunities to provide liquidity, capital preservation and yield management.

D Jorgenson

Denise Jorgenson
DIRECTOR FINANCE

DJ:ds/ml

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

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

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 limits for each investment issuer.

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

Tab1e 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 2016

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
Coast Capital Savings CU ($60M max)	Not Rated	Not Rated	$ 150,000,000	
Gulf & Fraser Credit Union ($30M max) (dba G&F Financial)	Not Rated	Not Rated		
North Shore Credit Union ($30M max) (aka 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 *			$ 150,000,000	25% Max.
Servus Credit Union ($70M max)	Not Rated	Not Rated	$ 140,000,000	
First Calgary Financial ($70M max)	Not Rated	Not Rated		
TOTAL ALBERTA CREDIT UNIONS **			$ 140,000,000	25% Max.
Conexus Credit Union ($25M max)	Not Rated	Not Rated	$ 50,000,000	
Affinity Credit Union ($25M max)	Not Rated	Not Rated		
TOTAL SASKATCHEWAN CREDIT UNIONS ***			$ 50,000,000	10% Max.
Alberta	R1 – High	AAA	$ 140,000,000	
British Columbia	R1 – High	AA High	$ 150,000,000	
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	
Saskatchewan	R1 – High	AA	$ 100,000,000	
Quebec	R1 – Middle	A High	$ 90,000,000	
TOTAL PROVINCES			$ 850,000,000	60% Max.
Bank of Montreal	R1 – High	AA	$ 150,000,000	
CIBC	R1 – High	AA	$ 150,000,000	
Royal Bank	R1 – High	AA	$ 150,000,000	
ScotiaBank	R1 – High	AA	$ 150,000,000	
Toronto Dominion Bank (aka TD-Canada Trust)	R1 – High	AA	$ 150,000,000	
Canadian Western Bank	R1 – Low	A Low	$ 60,000,000	
Manulife Bank of Canada	R1 – Middle	A High	$ 60,000,000	
National Bank of Canada	R1 – Middle	AA Low	$ 60,000,000	
TOTAL SCHEDULE 'I' BANKS			$ 930,000,000	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*

**** Saskatchewan Credit Unions are CUDGC guaranteed*