City of Burnaby

**Meeting March 11, 2025**

COMMITTEE COVER REPORT

# FINANCIAL MANAGEMENT COMMITTEE

***TO:*** *MAYOR AND COUNCILLORS*

**SUBJECT: CITY INVESTMENTS – 2024 YEAR END REPORT**

## RECOMMENDATION:

**THAT** the report titled "City Investments – 2024 Year End Report", dated March 4, 2025, of the Financial Management Committee meeting, be received for information.

## REPORT

The Financial Management Committee, at its meeting held on March 4, 2025, received and adopted the *attached* report providing an update on the 2024 Investment Program and presenting a forecast for 2025.

On behalf of the Financial Management Committee,

Councillor S. Dhaliwal
Chair

Councillor A. Gu
Vice Chair

City of Burnaby

**Meeting March 4, 2025**
File: 7500-01
COMMITTEE REPORT

**TO:** FINANCIAL MANAGEMENT COMMITTEE (FMC)

**FROM:** DEPUTY CHIEF ADMINISTRATIVE OFFICER AND CHIEF FINANCIAL OFFICER

**SUBJECT:** **CITY INVESTMENTS – 2024 YEAR END REPORT**

**PURPOSE:** To provide an update on the 2024 Investment Program and present a forecast for 2025.

## RECOMMENDATION

**THAT** the report titled “City Investments – 2024 Year End Report”, dated March 4, 2025 be received for information.

## 1.0 POLICY SECTION

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 Chief Financial Officer (Amendment Bylaw No. 14408).

## 2.0 BACKGROUND

This report highlights events that have occurred in the investment program during 2024 and the forecast for 2025. The City of Burnaby’s Investment Portfolio on December 31, 2024 totaled $2.21 billion (2023 – $2.23 billion).

Diversification and a prescribed investment strategy have provided the City with a 2024 return of $107.91 million at an annual yield of 4.36% (2023 – $97.65 million at 4.04%). The income and yield earned in 2024 was slightly higher than original projections as interest rate cuts by the Bank of Canada were delayed until mid-year and funds marked for civic projects/capital spend were reinvested for longer terms than expected. A portion of these earnings - $10.81 million - offset operating costs in 2024. For 2025, Treasury Services will continue to monitor markets for investment opportunities in the money market, fixed income securities and MFA pooled funds to provide liquidity, capital preservation, yield management and long-term growth for the City.

## 3.0 GENERAL INFORMATION

The City’s Investment Policy ensures the legislative requirements of the *Community Charter* are adhered to for the prescribed asset classes in which the City invests. Annual review of the City’s policy provides assurances that the City is abiding by a professional set of standards for the management of public funds and confirmation that the City is maintaining a policy framework that includes prudence, diversification, strong internal controls, delegation of authority, and reporting transparency.

The City invests in both short and long-term investment products to ensure adequate cash flow liquidity and as much as possible, long-term sustainable growth. The City of Burnaby Investment Portfolio is therefore directly impacted by changes in both short and long-term interest rates. To counteract these yield and diversification limitations, the City has maintained longer term holdings into select Municipal Finance Authority of British Columbia (MFA) pooled funds.

The City of Burnaby's investment portfolio may consist of debt issued by the Federal Government of Canada, approved Provinces of Canada, Canadian Banks and Credit Unions across Canada as identified in Attachment 1. The *Community Charter* also allows the City to invest in any of the pooled investment funds and High Interest Savings Accounts offered by the MFA. Pooled funds offered by the MFA can include corporate debt, which typically provides for increased yields. The *Community Charter* restricts the City from investing in corporate debt and other security types unless we invest directly into the MFA's funds.

The Bank of Canada conducts monetary policy through adjustments to the Target for the Overnight Rate, which affects deposit, loan, and other interest rates. The current Bank Prime Rate on December 31, 2024, was 5.45%, which is 175 basis points lower than the high of 7.20% in June 2024. With a weakened and struggling Canadian economy the central bank has moved to a more stimulative control policy. Longer term investments have continued to provide income and yield stabilization for the portfolio year-over-year, and we have adjusted the portfolio as constructively as possible within the confines of known capital expenditures over the next several years. The Canadian government bond yield curve has finally shifted to a positive sloped curve after two years of inversion. The curve inversion has been detrimental to financial institution net income margins and for investors seeking appropriate risk adjusted returns further out the curve. Table 1 provides 2024 average interest rates and comparable returns.

**Table 1: Market Interest Rates - 2024**

| Benchmark/Portfolio | 2024 Low % | 2024 High % | 2024 Average % |
|---|---|---|---|
| 3 Month Treasury bill | 3.12 | 5.04 | 4.38 |
| 2 Year Government of Canada Bonds | 2.88 | 4.35 | 3.68 |
| 10 Year Government of Canada Bonds | 2.86 | 3.85 | 3.35 |
| 30 Year Government of Canada Bonds | 3.06 | 3.73 | 3.33 |
| MFA-BC Money Market Fund (term under 1 year)+ | | | 4.83 |
| MFA-BC Gov't Short Bond Fund (term 1–3 years)+ | | | 5.33 |
| MFA-BC Bond Fund (term greater than 3 years)+ | | | 5.53 |
| MFA Fossil Fuel Free Short-term Bond Fund (2+ years)+^ | | | 5.39 |
| MFA Mortgage Fund (terms 3 + years)+^ | | | 6.13 |
| MFA Diversified Multi-Asset Class Fund (10 + years)+^ | | | 17.48 |
| **City of Burnaby 2024 Return** | | | **4.36** |

Source:+ MFA 2024 annualized returns as at December 31, 2024. All MFA values based on mark to market

^ MFA Funds with the City is currently invested

In 2024, the City maintained our initial $10 million investment in the MFA Fossil Fuel Free Short-term Bond Fund, $75 million in the MFA Mortgage Fund and $400 million in the MFA Diversified Multi-Asset Class Fund (DMAC). These funds had varied performance in 2024 with the DMAC Fund leading the way with an annualized return of 17.48% based on a mark to market measurement (2023 - 8.49%). The Mortgage Fund had an annual yield of 6.13% (2023 - 6.97%) and the Fossil Fuel Free Short-term Bond Fund yielded 5.39% (2023 - 5.05%). With returns in these funds being negative in 2022, holding the investment positions based on the funds targeted timeframe is key to protect from short-term market volatility and extreme interest rate changes.

### 3.1 Investment Limits and Banking Relationships

Treasury Services monitors the financial institutions we invest in as part of our ongoing risk mitigation strategy and investment procedures. The City's investment banking relationships remained consistent during 2024. For short-term money market investments, the City of Burnaby invested with British Columbia, Alberta, Saskatchewan, Manitoba and Federal Credit Unions, as well as High Interest Saving accounts at the Bank of Montreal, Canadian Imperial Bank Canada, Bank of Nova Scotia, National Bank of Canada and Royal Bank of Canada.

During the year, as tax revenues are received, the Chief Financial Officer may approve adjustments to the limits or the addition of new guarantors to meet portfolio needs. Mid-year adjustments are reflected in the 2025 limits. These are identified in Attachment 1 and include corresponding Dominion Bond ratings where applicable.

### 3.2 Socially Responsible Investing

The City's Investment Portfolio and Policy direction will continue to gradually implement strategies that support the City of Burnaby's Corporate Strategic Plan, Environmental Sustainability Strategy and Community Energy and Emissions Plan. The City's recognition of SRI and ESG strategies will continue to evolve as Canadian and global standards evolve, while simultaneously investing prudently to ensure long-term financial sustainability. The continued challenge is the disparity and lack of standardization within the industry and loosely based interpretations. Governance and a strong audit structure globally will be required to advance further in this area.

### 3.3 Outlook for 2025

In 2024, the Bank of Canada can proudly declare victory for taming inflation with the expectation being that Canadian households and markets will start to see the benefits in 2025. However, there are many existing variables and events on the horizon that can quickly throw a wrench into the best laid out plans for growth in Canada.

While the Bank of Canada only began easing the overnight rate in June 2024 to provide stimulus and support for a slowing and underperforming Canadian economy, the pace was rather quick moving the central bank overnight rate from 7.20% to 5.45% over the course of only five central bank meetings. The path forward is very unclear as the Canadian economy has diverged significantly from that of the United States which is affecting foreign exchange and the cost of imported goods.

Market projections for 2025 are atypical and uncertain due to many geopolitical and challenging headwinds. Canada has an impending federal election, a federal, provincial, and personal debt financing concern that already has and will continue to affect interest rates, much lower immigration targets, lower productivity growth continues, expanded unaffordability across the nation, and a new U.S. administration that is tariff minded which may trigger extreme global imbalances. The ballooning and out of control debt of the Canadian governments and of households (mortgage and credit card) require additional mention as the practical use and measured utilization of debt has become skewed. Specifically of concern is the use of federal and provincial long-term borrowing to cover current year operating expenses and not solely infrastructure. As a relatively smaller global economy, Canada can easily be shunned by global investors who have purchased this debt, thus future refinancing can become problematic. All these risks can develop into significantly different economic outcomes for 2025.

For the City of Burnaby in 2025, we will maintain our buy and hold strategy with the MFA Pooled Funds, which will provide interest income, dividends and capital gains through important market diversification. The City took advantage of higher rates along the yield curve in early 2024 and entering into 2025 but is now restricted from these opportunities going forward due to the need for increased liquidity to support operations and capital program costs. As maturities occur within the portfolio and are reinvested, the City will be shorting our term duration and will be subject to the lower rates as seen by the already implemented cuts by the Bank of Canada.

The City is projecting an annual yield of 3.80% for 2025, translating to $80 million in investment interest income which represents a significant decrease from the 2024 returns. The portion from investment earnings to be contributed to operating costs for 2025 is $8.3 million (2024 - $10.8 million). This projection will also be affected by the returns generated by the MFA pooled funds and any fluctuation in the portfolio balance due to operating and capital expenditures and deposits - the timing of which is fluid.

## 4.0 COMMUNICATION AND COMMUNITY ENGAGEMENT

Not applicable.

## 5.0 FINANCIAL CONSIDERATIONS

Investment results can vary from the projected figures based on the City's capital budget activities and revenues. Projections are based on expected budget spend on civic projects and affect the ability to improve earnings and liquidity as projects and activity timelines are modified and costs are adjusted for inflationary and other impacts.

Respectfully submitted,

Noreen Kassam, Deputy Chief Administrative Officer and Chief Financial Officer

**ATTACHMENTS**
Attachment 1 – City of Burnaby Investment Limits for 2025

**REPORT CONTRIBUTORS**
This report was prepared by Doug Spindler, Director of Treasury Services.