



REPORT TO COUNCIL

To: **Mayor and Councillors**

Subject: Expanding Investment Opportunities

File #: 1610.00

Doc #: 166129

From: Darrin Leite, CPA, CA
Director of Corporate Services

Date: June 19, 2019

RECOMMENDATION:

THAT Council send a letter of support to the City of Burnaby for Burnaby's UBCM resolution to request the Ministry of Finance to amend the *Community Charter* to provide municipalities with the ability to obtain improved returns through asset class diversification, which in return can reduce tax implications and funding costs associated with capital funding, while also reducing investment risk.

PURPOSE:

The purpose of the report is to seek Council endorsement of the City of Burnaby's request to expand the types of investments municipalities can purchase to improve yields and through diversification, reduce the investment risk.

POLICY:

Investment Policy FN-13

COMMENTS/ANALYSIS:

Section 183 of the Community Charter restricts the types of investments municipalities can hold. The City of Burnaby has \$1.7 billion dollars in investments and they are seeking a means to expand investment choices to include long term equities and real estate holdings. Burnaby believes this will lead to higher rates of return and reduce the risk of holding all their investments in chartered banks or credit union term deposits for example.

The City of Langley's investment policy has three prioritized objectives which include:

1. **Safety / Preservation of Capital** – minimize the potential for loss of the investment principal by considering the credit risk of the issuer of the investment and diversifying the investment portfolio.
2. **Liquidity** – Ensuring that the maturity dates of the investments match the operating cash requirements so that investments do not have to be sold prior to maturity which will minimize the risk of capital loss. Liquidity is enhanced by holding a portion of the portfolio in cash and readily marketable short term investments.
3. **Maximization of Returns** – A significant amount of revenue is generated through investment earnings. The investment portfolio is designed with the objective of maximizing return subject to the criteria of preservation of capital and liquidity.

The City of Langley currently has \$38 million in investments which comply with the *Community Charter* restrictions. The investments held are for shorter terms, typically for one year, primarily in credit union banker's acceptances and term deposits. Each year in the annual financial statements, the City reports on the interest rates earned which ranged from 1.8% to 3.2% in 2018. The funds held in the City's bank account are currently earning 2.3% interest. A schedule of the current investment position is attached to this report.

The City of Langley has limited opportunity for longer term investments because due to the liquidity needs, the funds are earmarked for capital projects identified in the Capital Improvement Plan. There will be times when we accumulate funds for a few years to eventually pay for a larger project like we did when the Timm Community Centre was built. So even if the City of Burnaby request is granted by the Provincial government, the City of Langley would not be in a position to tie up large portions of our investment pool in long term equity or real estate holdings. The City needs more readily accessible investments.

Additionally, while we have held banker acceptances in the 3 to 5 year range in the past, the current interest rate environment doesn't provide much additional interest rate return for investments in this range, so the focus for the last number of years has been shorter 1 year terms in anticipation of the prime interest rate rising in the future.

Staff are supporting Burnaby's resolution as we recognize that while it will currently have limited impact on the City of Langley, it will be helpful in Burnaby's situation. The other municipalities will learn from Burnaby's experience as they attempt to diversify their portfolio.

BUDGET IMPLICATIONS:

None.

ALTERNATIVES:

City Council could choose to not support the City of Burnaby's request.

Respectfully Submitted,



Darrin Leite, CPA, CA
Derector of Corporate Services

Attachments:

1. City of Burnaby – Expanding Investment Opportunities report
2. FN-13 Investment Policy (City of Langley)
3. Investment Position (City of Langley)

CHIEF ADMINISTRATIVE OFFICER'S COMMENTS:

I support the recommendation.



Francis Cheung, P. Eng.
Chief Administrative Officer