

# Report to Council



**Date:** March 19, 2018  
**File:** 0255-01  
**To:** City Manager  
**From:** James Sexton, Financial Analyst  
**Subject:** Investment of City of Kelowna Funds for 2017

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## **Recommendation:**

THAT Council receives, for information, the Investment of City of Kelowna Funds for 2017 Report from the Financial Analyst as presented on March 19, 2018 in alignment with Council's strong financial management priority.

## **Purpose:**

To provide Council with information summarizing the City of Kelowna's 2017 investment portfolio and an overview of the performance of the portfolio as a whole.

## **Background:**

### Economic Review

2017 saw a strengthening in our national economy, which was echoed with the Bank of Canada increasing the overnight interest rate in September to 1% in a continued attempt to balance inflation to the Bank of Canada's 2% target rate. The current economic outlook has been strong and the economy is operating close to capacity. However, uncertainty about the future of NAFTA is weighing increasingly on our economic outlook and the Bank of Canada has projected a negative impact on business investment and trade.

The Consumer Price Index (CPI) inflation rate for Canada increased from 1.4% in 2016 to 1.9% in 2017. The inflation rate is predicted to fluctuate in the coming months due to uncertainty, but is expected to remain close to the Bank of Canada's 2% target rate.

The economic outlook is expected to warrant higher interest rates over time. The interest rates will fluctuate as needed to keep the economy operating close to potential and the inflation rate on target. The Bank of Canada overnight interest rate saw a second increase in January 2018 to 1.25%.

## Investment of Surplus Funds

The Investment Policy aligns with current best practices and ensures the continued commitment to provide an optimal blend of investment return and security. The City of Kelowna has a fund value of \$388.8 million as of Dec. 31, 2017. The funds are used toward the City's operating and capital programs and help offset taxation impact to residents. The portfolio is diversified into: 53% (\$206.4 million) long term investments, 46% (\$177.5 million) short term investments and 1% (\$4.8 million) internally financed projects.

Last year we saw the Investment portfolio grow slightly overweight in its corporate holdings. The corporate bank debt offerings continue to provide the highest fixed income returns and are considered a strong financial investment. The portfolio constraints are in line with best practices and industry standards.

The City of Kelowna continues to utilize a laddered 10-year strategy and balanced approach for investment holdings and duration. The laddered strategy ensures that the bonds mature at a smooth and predictable rate, that yields are maximized and that investment income and maturing investments provide ongoing liquidity. This balanced approach results in the City having sufficient levels of income and funding available to meet the municipality's annual requirements.

## Portfolio Performance

As at Dec. 31, 2017 the City of Kelowna Investment Portfolio had a weighted average term to maturity of 4.3 years and an average investment quality rating of AAA. This represents the highest credit worthiness of corporate and government bonds.

The City has selected five market indicators as benchmarks to determine the investment portfolio's performance. The benchmarks are compared to the City's average rate of return earned on the entire investment portfolio. These benchmarks are the CPI Index Average, the FTSE TMX Canada 91-Day T-Bill, the median money market return, and the MFA Money Market and Intermediate Funds. In 2017, the City of Kelowna's 2.08% average rate of return was greater than performance indicators in each of these benchmarks.

## Fortis Shares

In 2013 the City of Kelowna purchased Fortis Inc. shares in the amount of \$55.0 million from the sale of the City's Electric Utility. To date, the city has used this investment to support capital projects such as the City's Dark Fibre Optic Network. In 2017, the City reinvested dividends in the amount of \$3.0 million and sold shares in the amount of \$1.6 million to support City operations. As of Dec. 31, 2017, the Fortis investment has a book value of \$60.7 million and a current market value of \$85.1 million.

## The Year Ahead

2018 investment objectives include continued monitoring of the U.S. dollar and Canadian economic climate in order to safeguard and accurately position financial assets, and seeking investment opportunities that can increase the City's investment revenues while remaining within Council's investment policy.

**Internal Circulation:**

Controller  
Financial Planning Manager  
Communications Consultant

**Legal/Statutory Procedural Requirements:**

The Financial Officer will provide Council with an annual report on the performance of the Investment of City of Kelowna Funds portfolio in the first quarter of the following year.

**Existing Policy:**

Council Policy Number 316

**Considerations not applicable to this report:**

**Legal/Statutory Authority:**

**Financial/Budgetary Considerations:**

**Personnel Implications:**

**External Agency/Public Comments:**

**Communications Comments:**

**Alternate Recommendation:**

Submitted by:

J. Sexton, Financial Analyst

Approved for inclusion:



Genelle Davidson CPA CMA, Divisional Director Financial Services

**Attachments:**

Appendix A. Presentation to Council