

# Report to Council



**Date:** February 3, 2020  
**To:** Council  
**From:** City Manager  
**Subject:** Investment of Kelowna Funds for 2019  
**Department:** Financial Services

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## **Recommendation:**

THAT Council receives, for information, the Investment of Kelowna Funds for 2019 Report from Financial Services as presented on February 3, 2020 in alignment with Council's strong financial management priority.

## **Purpose:**

To provide Council with information summarizing the City of Kelowna's 2019 investment portfolio and an overview of the performance.

## **Background:**

### Economic Review

2019 saw a strengthening in our national economy, which was echoed with the Bank of Canada maintaining the overnight interest rate at 1.75% since October 2018 in a continued attempt to balance inflation to the Bank of Canada's 2% target rate. The current economic outlook for 2020 continues to moderate with uncertainty about the ratification of Canada-United States-Mexico Agreement, lower oil prices, and weaker spending in both housing and consumer being the main factors.

The Consumer Price Index (CPI) inflation rate for Canada increased from 2.0% in 2018 to 2.2% in 2019. 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 maintain 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.

### Investment of Kelowna 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 \$510.1 million as of Dec. 31, 2019. The funds are used toward the City's operating and capital programs and help offset taxation impact to residents. The portfolio is diversified into 42% (\$214.0 million) long term investments, 57% (\$293.3 million) short term investments and 1% (\$2.8 million) internally financed projects.

The portfolio continues to be slightly overweight in its corporate holdings as 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, 2019 the City of Kelowna Investment Portfolio had a weighted average term to maturity of 4.7 years and an average investment quality rating of AA. 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 2019, the City of Kelowna's 2.51% average rate of return was greater than performance indicators in each of these benchmarks.

### Legacy Fund

The Legacy Fund consists of City owned Fortis Inc. corporate shares purchased with the proceeds of the sale of the City's electrical utility, along with the proceeds received from the termination of the City's natural gas lease-in lease-out agreement with FortisBC Energy Inc. in 2018. 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 2019, the City reinvested dividends in the amount of \$3.5 million and sold shares in the amount of \$1.6 million to support City operations. As of Dec. 31, 2019, the Fortis investment has a book value of \$65.2 million and a current market value of \$103.9 million. The invested proceeds from the 2018 termination of the City's natural gas lease-in lease-out agreement with FortisBC Energy Inc. are \$27.7 million with earned interest in the amount of \$0.8 in 2019. The Legacy Fund is to be an investment fund that benefits the citizens of Kelowna in perpetuity.

## The Year Ahead

2020 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:**

Communications Consultant

### **Considerations applicable to this report:**

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

### **Alternate Recommendation:**

**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:**



G. King CPA CMA, Financial Planning Manager

cc: G. Davidson CPA CMA, Divisional Director Financial Services

### **Attachments:**

Appendix A. Presentation to Council