

Report to Council



Date: March 15, 2021
To: Council
From: City Manager
Subject: Investment of Kelowna Funds for 2020
Department: Financial Planning

Recommendation:

THAT Council receives, for information, the Investment of Kelowna Funds for 2020 Report from the Corporate Financial Planning Manager as presented on March 15, 2021 in alignment with Council's strong financial management priority.

Purpose:

To provide Council with information summarizing the City of Kelowna's 2020 investment portfolio and an overview of the performance of the portfolio as a whole.

Background:

Economic Review

COVID-19 created many challenges for the economy in 2020. In response to these challenges the Bank of Canada decreased the overnight interest rate from 1.75% pre pandemic to 0.25% post pandemic. The overnight interest rate is expected to remain at 0.25% until 2023.

The Consumer Price Index (CPI) for Canada decreased from 1.9% in 2019 to 0.7% in 2020. The CPI is expected to fluctuate in the coming months due to economic uncertainty but is expected to remain close to an increase of 1.6% for 2021 and won't get back to the Bank of Canada's target of 2% until 2023.

Discussion:

Investment of Kelowna Funds

The Investment Policy ensures the continued commitment to provide a blend of investment return and security. The City of Kelowna has a fund value of \$566.9 million as of Dec. 31, 2020. The funds are used toward the City's operating and capital programs and help offset taxation impact to residents. The portfolio is diversified into: 41% (\$234.3 million) long term investments, 58% (\$333.1 million) short term investments and 1% (\$1.5 million) internally financed projects.

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, 2020 the City of Kelowna Investment Portfolio had a weighted average term to maturity of 3.4 years and an average investment quality rating of AA.

The City of Kelowna Investment Policy includes 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 2020, the City of Kelowna's 1.89% average rate of return was greater than performance indicators in each of these benchmarks.

In 2020 the Municipal Finance Authority of British Columbia (MFABC) discontinued their Intermediate Pooled Investment Fund. In 2021 we will update our Investment Policy to include a new benchmark in its place.

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.

In 2020, the City reinvested dividends in the amount of \$3.8 million. As of Dec. 31, 2020, the Fortis investment had a book value of \$69 million and a market value of \$103.9 million. The proceeds from the 2018 termination of the City's natural gas lease-in lease-out agreement with FortisBC Energy Inc. were invested with \$0.6 million in interest earned in 2020 and total invested funds of \$28.2 million.

The Legacy Fund is to be an investment fund that benefits the citizens of Kelowna in perpetuity. There is a project team working on a proposed strategy for these Legacy Funds, with plans to seek Council endorsement by June of this year.

The Year Ahead

Investment objectives for 2021 include continued monitoring of the U.S. dollar and Canadian economic climate in order to safeguard and accurately position financial assets, along with continuing to diversify the assets to maintain the security of funds.

Internal Circulation:

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.

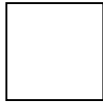
Existing Policy:

Council Policy Number 316

Submitted by:

Kevin Hughes CA, CPA, Corporate Financial Planning Manager

Approved for inclusion:



KH

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

Attachments:

Appendix A. Presentation to Council