

Report to Council



Date: March 3, 2025
To: Council
From: City Manager
Subject: City of Kelowna Tariff Response Update
Department: Corporate Services

Recommendation:

THAT Council receives for information the City of Kelowna Tariff Response Update report.

Purpose:

The purpose of this report is to provide information to Council on the City of Kelowna's organizational response to recent tariff threats from the United States.

Background:

Recent developments in trade relations between Canada and the United States have raised concerns about potential tariffs on exported Canadian goods. Indications are that if the tariffs are placed on Canadian goods that Canada would retaliate, risking further economic and trade challenges to our highly integrated economies.

Currently, tariff application has been extended to at least March 2, 2025, however City staff continue to contingency plan in the event these policies are ultimately applied.

Discussion:

Staff have assessed key critical areas of the organization that may have material exposure to commerce with the United States. To date, the key risks requiring mitigation relate to:

- Infrastructure related contracts at YLW, totaling approximately \$3 million USD.
- Commodity items relating to infrastructure projects. Estimated exposure would be approximately \$20 million USD in anticipated spend for 2025.
- Access to key commodities given "buy Canadian" public expectations in the event tariffs are applied.
- General economic outlook for Kelowna and Canada (interest rate exposure, investment returns, currency volatility etc.).

Mitigating steps taken to date include:

- Assembling the Critical Incident Response Team to ensure a coordinated approach to assessing and mitigating risks.
- Dollar-cost-averaging the acquisition of USD to mitigate currency fluctuations.
- Exploring with MFA opportunities for derivative (forward) contracts to mitigate against adverse movements in the exchange rate.
- Developing sensitivity-based investment options considering the impact on tariffs on different investment strategies.

Planned mitigation plans include:

- Procurement contingency planning and alternative sourcing approaches focusing on Canadian suppliers to strengthen supply chains and reduce dependence on tariffed goods.
- Interim capital plan update to ascertain escalation and propose any necessary amendments to Council to ensure appropriate contingencies are held to address tariff related impacts.
- Review opportunities for strategic debt recognizing potential declining interest rates.
- Monitor economic relief grant opportunities.
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Procurement considerations:

- Trade agreements and regulations limit our ability to declare Canadian-only procurement but allow it under certain criteria and dollar thresholds.
- When permitted by regulation a Canadian-only approach could consider:
 - Identifying Canadian supplier options to strengthen interprovincial supply chains,
 - Alternative sourcing approaches to mitigate dependence on tariffed goods,
 - Limiting tendering to Canadian goods, services, or suppliers, and
 - Preferring selections that include greater Canadian value-add content.
- These strategies must have a reasonable prospect of achieving best value outcomes and can be limited by cost and availability.
- Time, complexity and costs implications would be likely.
- Procurement strategies always enable the selection of value-based performance criteria that prioritize local and Canadian suppliers, such as knowledge of geographic or regulatory requirements. These criteria are often inherent in our selection process, resulting in 99% of our suppliers being Canadian entities.
- Therefore, we recommend **not** implementing a restrictive Canadian-only policy but focusing on local value-based performance criteria. This approach allows for the greatest flexibility, is already successful, and provides the greatest value to our citizens.

Staff commit to providing regular updates as necessary as the uncertain environment continues to unfold.

Considerations not applicable to this report:

Internal Circulation

Legal/Statutory Authority

Legal/Statutory Procedural Requirements

Existing Policy

Personnel Implications
External Agency/Public Comments
Communications Comments
Alternate Recommendation

Submitted by: Joe Sass, General Manager Corporate Services

Approved for inclusion: Doug Gilchrist, City Manager