

### Investment Income Reserve

#### ISSUE

The City of Saskatoon's (City's) investment income can fluctuate from year-to-year. With the planned transition to a more diversified portfolio including equities and alternative investments, a new Investment Income Reserve is recommended as an improved way to manage these fluctuations and limit the impact on the City's operating budget.

#### RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council that:

1. The Interest Stabilization Reserve be abolished;
2. That that Investment Income Reserve be established as outlined in Appendix 1;
3. That the existing balance within the Interest Stabilization Reserve be transferred to the Investment Income Reserve; and
4. That the City Clerk's office be requested to amend City Council Policy No. C03-003, Reserve for Future Expenditures accordingly.

#### BACKGROUND

At the [November 22, 2023](#) regular meeting of City Council, when considering the "Asset Allocation Study", City Council resolved:

"That Administration proceed with Option 2 – Proceed with option B20 supplied by Eckler Ltd."

The option approved by City Council provided direction to the Administration to proceed with updates to the City's Corporate Investment Policy to allow for introduction of diversified investment tools of up to 20% of investment holdings for each of equities and alternative investments.

As outlined by Eckler Ltd.'s report at the time, while introduction of these asset classes is expected to increase the City's investment earnings over the long-term there may be fluctuations in earnings from year-to-year. The report outlined a plan to introduce an "Investment Income Reserve" to help manage these fluctuations in the operating budget while providing a source of discretionary funding for capital or other needs through the expected increased investment returns. This report provides recommendations to introduce this reserve.

At the [August 28, 2024](#) regular meeting of City Council, when considering the "Proposed Amendments to the Corporate Investment Policy", City Council resolved:

"That the City Clerk's Office be requested to amend City Council Policy No. C12-002, Investment Committee; City Council Policy No. C12-003,

Securities Handling; and City Council Policy No. C12-009, Portfolio Management, in accordance with Appendices 1, 2 and 3, respectively.”

## **DISCUSSION/ANALYSIS**

Currently the City’s investment income is budgeted and accounted for directly within the City’s operating budget. While there have been some fluctuations in the past from year-to-year and between budgets and actuals, these have been relatively minor as the City’s investments were limited to fixed income under the previous policy.

For fluctuations that did occur, the City currently has an “Interest Stabilization Reserve” as outlined in [Reserve for Future Expenditures Council Policy C03-003](#) which was intended to provide funding for when investment income did not reach the budgeted amount. This reserve has a current balance of \$165,500.

With the upcoming transition to additional asset classes such as equities and alternative investments within the City’s new investment policy, Administration is recommending abolishing the current “Interest Stabilization Reserve” and creating an “Investment Income Reserve”. The rationale for this new reserve is that although the new investment strategy is expected to generate approximately \$70 million in additional investment income over a 10-year period compared to our previous investment policy, there will be year-to-year fluctuations that require new mechanisms be put in place to limit the impact on the operating budget and property tax when these are experienced.

The recommended reserve and approach will accomplish this through the following:

- All annual investment income will be placed into this reserve;
- The reserve will provide an annual allocation equivalent to the amount required in the approved operating budget. The operating budget amount will be established as part of the annual budget process on a relatively conservative basis;
  - This reserve is recommended to be allowed to enter a deficit position. This will ensure in years of lower-than-expected investment income that an allocation to the operating budget can still be made, with the expectation that this deficit balanced will be recovered through future investment earnings.
- Over time it is expected that the reserve will grow beyond the annual operating budget requirement. At that point, and as recommended by the Chief Financial Officer and approved by City Council, declarations of investment income can be made to priority projects, allocations to other reserves or directly to operating budget programs.

Through this mechanism, the City will be able to actively manage the City’s investment earnings while not subjecting the operating budget and property tax requirement to unforeseen fluctuations. The full details of the proposed Investment Income Reserve are outlined in Appendix 1.

## **FINANCIAL IMPLICATIONS**

There are no financial implications to this approval. The management of the proposed investment income reserve process is outlined in the report.

## **APPENDICES**

1. Proposed Investment Income Reserve

## **REPORT APPROVAL**

Written by: Clae Hack, Chief Financial Officer  
Reviewed by: Spencer Janzen, Investment Manager  
Jeremy Meinema, Senior Financial Business Partner  
Kari Smith, Director of Finance  
Approved by: Clae Hack, Chief Financial Officer

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