



## City of Hamilton

# AUDIT, FINANCE AND ADMINISTRATION COMMITTEE REVISED

**Meeting #:** 19-001  
**Date:** January 17, 2019  
**Time:** 9:30 a.m.  
**Location:** Council Chambers, Hamilton City Hall  
71 Main Street West

Angela McRae, Legislative Coordinator (905) 546-2424 ext. 5987

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<b>2. APPROVAL OF AGENDA</b>	
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<b>12.</b>	<b>NOTICES OF MOTION</b>	
<b>13.</b>	<b>GENERAL INFORMATION / OTHER BUSINESS</b>	
<b>14.</b>	<b>PRIVATE AND CONFIDENTIAL</b>	
14.1	December 17, 2018 - Closed Minutes	
	Pursuant to Section 8.1, Sub-section (f) of the City's Procedural By-law 18-270, and Section 239(2), Sub-section (f) of the <i>Ontario Municipal Act</i> , 2001, as amended, as the subject matter pertains to advice that is subject to solicitor/client privileges, including communications necessary for that purpose.	

- 14.2 Commercial Relationship Between the City of Hamilton and Century Group Inc. (FCS18100 / LS18060) (City Wide) (Deferred at December 19, 2018 Council)

Pursuant to Section 8.1, Sub-section (f) of the City's Procedural By-law 18-270, and Section 239(2), Sub-section (f) of the *Ontario Municipal Act*, 2001, as amended, as the subject matter pertains to advice that is subject to solicitor/client privileges, including communications necessary for that purpose.

- 14.3 Impact of Bill 148 on Service Contracts (LS18009(c) / FCS18001(c)) (City Wide)

Pursuant to Section 8.1, Sub-sections (e), (f), (i) and (k) of the City's Procedural By-law 18-270, and Section 239(2), Sub-sections (e), (f), (i) and (k) of the *Ontario Municipal Act*, 2001, as amended, as the subject matter pertains to litigation or potential litigation, including matters before administrative tribunals, affecting the municipality or local board; advice that is subject to solicitor/client privileges, including communications necessary for that purpose; a trade secret or scientific, technical, commercial, financial or labour relations information, supplied in confidence to the municipality or local board, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization; and a position, plan, procedure, criteria or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the municipality or local board.

## 15. ADJOURNMENT





## **AUDIT, FINANCE AND ADMINISTRATION COMMITTEE MINUTES 18-014**

**9:30 a.m.  
December 17, 2018  
Council Chambers  
Hamilton City Hall**

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**Present:** Councillors C. Collins (Chair), M. Wilson (Vice-Chair), A. VanderBeek, B. Johnson, M. Pearson, L. Ferguson, J. Partridge, and B. Clark

**Also Present:** Councillor T. Whitehead

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### **THE FOLLOWING ITEMS WERE REFERRED TO COUNCIL FOR CONSIDERATION:**

**1. Appointment of Committee Chair and Vice-Chair (Item 1.1)**

**(Ferguson/Pearson)**

- (a) That Councillor C. Collins be appointed as Chair of the Audit, Finance & Administration Committee for 2019.
- (b) That Councillor M. Wilson be appointed as Vice-Chair of the Audit, Finance & Administration Committee for 2019.

**CARRIED**

**2. 2018 Third Quarter Request for Tenders and Proposals Report (FCS18037(b)) (City Wide) (Item 7.2)**

**(VanderBeek/Clark)**

That Report FCS18037(b), respecting the 2018 Third Quarter Request for Tenders and Proposals Report, be received.

**CARRIED**

**3. 2018 Third Quarter Emergency and Non-competitive Procurements Report (FCS18038(b)) (City Wide) (Item 7.3)**

**(Ferguson/Partridge)**

That Report FCS18038(b), respecting the 2018 Third Quarter Emergency and Non-competitive Procurements Report, be received.

**CARRIED**

**4. Third Quarter Non-compliance with the Procurement Policy Report (FCS18039(b)) (City Wide) (Item 7.4)**

**(Pearson/Ferguson)**

That Report FCS18039(b), respecting the Third Quarter Non-compliance with the Procurement Policy Report, be received.

**CARRIED**

**5. Freedom of Information Quarterly Report (July 1 to September 30) (CL18003(b)) (City Wide) (Item 7.5)**

**(Clark/VanderBeek)**

That Report CL18003(b), respecting the Freedom of Information Quarterly Report (July 1 to September 30), be received.

**CARRIED**

**6. 2019 Development Charges Background Study Status Update (FCS18099) (City Wide) (Item 7.6)**

**(Johnson/VanderBeek)**

That Report FCS18099, respecting the 2019 Development Charges Background Study Status Update, be received.

**CARRIED**

**7. Tax Appeals under Sections 357 and 358 of the Municipal Act, (2001) (FCS18008(c)) (City Wide) (Item 7.7)**

**(Partridge/Pearson)**

(a) That Appendix "A" to Report FCS18008(c) respecting the Tax Appeals processed under Section 357 of the *Municipal Act, (2001)*, in the amount of \$345,550.74 be approved;

(b) That Appendix "B" to Report FCS18008(c) respecting the Tax Appeals, due to a Gross or Manifest Clerical Error, Pursuant to Section 358 of the *Municipal Act, (2001)*, in the amount of \$90.59 be approved.

**CARRIED**

**8. Treasurer's Apportionment of Land Taxes (FCS18066(b)) (Wards 2, 11, 12 and 15) (Item 7.8)**

**(Pearson/Johnson)**

(a) That the 2018 land taxes in the amount of \$3,907 for 255-259 Park Street South, Hamilton (Roll #2518 020 138 50410 0000) be apportioned and split amongst the three newly created parcels as set out in Appendix "A" to Report FCS18066(b);

- (b) That the 2017 land taxes in the amount of \$20,366 for 86 Raymond Road, Ancaster, (Roll #2518 140 280 36748 0000), and 90 Raymond Road, Ancaster (Roll #2518 140 280 38370 0000) be apportioned and split amongst the thirty-five newly created parcels as set out in Appendix “ A” to Report FCS18066(b);
- (c) That the 2018 land taxes in the amount of \$72,193 for 85 Coreslab Drive, Flamborough (Roll #2518 302 330 62802 0000) be apportioned and split amongst the three newly created parcels as set out in Appendix “ A” to Report FCS18066(b);
- (d) That the 2017 land taxes in the amount of \$15,585 for 122 Dundas Street East, Flamborough (Roll #2518 303 330 41400 0000) be apportioned and split amongst the twenty-two newly created parcels as set out in Appendix “ A” to Report FCS18066(b); and,
- (e) That the 2017 land taxes in the amount of \$9,601 for 2-48 Bonhill Boulevard, Glanbrook (Roll #2518 901 130 35805 0000) be apportioned and split amongst the twenty-four newly created parcels as set out in Appendix “ A” to Report FCS18066(b).

**CARRIED**

**9. Procedures for Ward-Specific Funding Initiatives (FCS18014(a)) (City Wide)  
(Item 10.1)**

**(Pearson/VanderBeek)**

That Report FCS18014(a) respecting Procedures for Ward-Specific Funding Initiatives, be received.

**CARRIED**

**10. \$110,820,000 Serial Debentures Dated October 1, 2018 and Due October 1, 2019 to 2033 (FCS18095) (Item 10.2)**

**(Clark/Wilson)**

That Report FCS18095, respecting the \$110,820,000 Serial Debentures Dated October 1, 2018 and Due October 1, 2019 to 2033, be received.

**CARRIED**

**11. Citizen Committee Report - Status of Women Advisory Committee -  
Transfer from Reserve (SWC18001) (Item 10.3)**

**(VanderBeek/Pearson)**

That \$1,000 be transferred from the Status of Women Advisory Committee's Volunteer Reserve account to fund the support the dissemination of information related to Women's issues as identified through the Elect More Women Education Workshops that ran from October 2017 to April 2018.

**CARRIED**

**12. 2019 Budget Submission Volunteer Advisory Committee (HUR18021) (City Wide) (Item 10.4)**

**(Partridge/Johnson)**

That the Volunteer Advisory Committee 2019 budget base submission be approved as follows and forwarded to the 2019 budget process (Audit, Finance and Administration Committee):

- (a) Advisory Committee on Immigrant & Refugees in the amount of \$3500.00;
- (b) Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Advisory Committee in the amount of \$4964.00. The LGBTQ committee's 2019 budget request totals \$3964.00 and an additional \$1000.00 is requested from the Committee's 2018 reserve;
- (c) Aboriginal Advisory Committee in the amount of \$3552.00;
- (d) Hamilton Mundialization Committee (HMC) in the amount of \$6390.00. The HMC's 2019 budget request totals \$5890.00 and \$500.00 is requested from the Committee's 2018 reserve fund in order to cover expenses that may arise from twin city visits or related to Mundialization events that arise throughout the year that are unplanned;
- (e) Hamilton Status of Women Committee in the amount of \$5500.00; The SWC 's 2019 budget request totals \$3500.00 and \$2000.00 is requested from the Committee's 2018 reserve fund in order to support the 2019 Women's March and 2019 Women of Distinction Awards; and,
- (f) Committee Against Racism (includes Lincoln Alexander Day Celebration) in the amount of \$15900.00. The Committee Against Racism's 2019 budget request totals \$8900.00 and \$7000.00 is requested from the Committee's 2018 reserve fund in order to provide ongoing support to the Hamilton Anti-Racism Resource Centre and to support anti-racism related community events.

**CARRIED**

**13. Councillor Ward Office Budgets and Policy and Guidelines for Eligible Expenses for Elected Officials (FCS18083(a)) (Item 10.5)**

**(Clark/Johnson)**

- (a) That the Councillor Ward Office Operating Budgets based on the methodology of staffing, population, number of dwellings and Ward area-specific challenges including post-secondary education student accommodation factor, geographic area factor and inner-city fund as per Appendix "A" to Report FCS18083(a), be approved;
- (b) That the Councillor Ward Office Operating Budgets of \$3,936,730 be included in the City's 2019 Preliminary Tax Operating Budget and be subject to future budget guidelines;



- (c) That the Policy and Guidelines for Eligible Expenses for Elected Officials: Budget for the Office of the Mayor, Legislative Budget and Councillor Ward Office Budget, as amended, as per Appendix "B" to FCS18083(a), be approved.
- (d) ***That staff be directed to investigate the Geographic Factor as it relates to the new ward boundaries and report back to the Governance Review Sub-Committee.***
- (e) ***That staff be directed to review the Wards represented in the Inner-City Fund and report back to the Governance Review Sub-Committee.***

***Main Motion, as Amended CARRIED***

**14. 2019 Advance - City Enrichment Fund (GRA18005) (Item 10.6)**

**(Johnson/VanderBeek)**

- (a) That effective January 1, 2019, an advance of funds be provided to the organizations specified in the attached Appendix "A" to Report GRA18005, and;
- (b) That any outstanding arrears due to the City of Hamilton by the organizations (as shown in the attached Appendix "A" to Report GRA18005) be first applied against the approved grant funding, including advances until the debt is satisfied, prior to that organization receiving the balance of any approved payment.

**CARRIED**

**15. Interview Sub-Committee Appointees to the Audit, Finance & Administration Committee (Item 11.1)**

**(Ferguson/Pearson)**

That the following **three (3)** Councillors be appointed to the Interview Sub-Committee to the Audit, Finance & Administration Committee for the 2018-2022 term of Council:

- (i) Councillor M. Wilson
- (ii) Councillor C. Collins
- (iii) Councillor B. Clark

***Main Motion, as Amended CARRIED***

**16. Commercial Relationship Between the City of Hamilton and Century Group Inc. (FCS18100 / LS18060) (City Wide) (Item 14.2)**

**(VanderBeek/Ferguson)**

- (c) That recommendations (a), (b) and (c) be released publicly following approval by Council; and,
- (d) That the contents of Report (FCS18100/LS060) remain confidential.

**CARRIED**

**FOR INFORMATION:**

**(a) CHANGES TO THE AGENDA (Item 2)**

The Committee Clerk advised of the follow changes to the agenda:

**1. PRIVATE & CONFIDENTIAL**

14.2 Commercial Relationship Between the City of Hamilton and  
Century Group Inc. (FCS18100 / LS18060) (City Wide)

**(Pearson/Partridge)**

That the agenda for the December 17, 2018 Audit, Finance and Administration  
Committee meeting be approved, as amended.

**CARRIED**

**(b) DECLARATIONS OF INTEREST (Item 3)**

There were no declarations of interest.

**(c) APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 4)**

**(i) September 24, 2018 (Item 4.1)**

**(Pearson/VanderBeek)**

That the Minutes of the September 24, 2018 meeting of the Audit, Finance  
and Administration Committee be approved, as presented.

**CARRIED**

**(d) DELEGATION REQUESTS (Item 6)**

**(i) Les Medeiros, LM Enterprises, respecting the City of Hamilton's  
Infrastructure Contracts (For a future meeting)**

**(Clark/Pearson)**

That the delegation request from Les Medeiros, LM Enterprises,  
respecting the City of Hamilton's Infrastructure Contracts, be approved for  
a future meeting.

**CARRIED**

**(e) CONSENT ITEMS (Item 7)**

**(i) Minutes of Various Advisory Committees (Item 7.1)**

**(Ferguson/VanderBeek)**

That the following minutes from various Advisory Committee meetings, be received as presented:

- (1) Committee Against Racism – July 24, 2018 (Item 7.1(a))
- (2) Committee Against Racism – October 23, 2018 (Item 7.1(b))
- (3) Hamilton Mundialization Committee – September 19, 2018 (Item 7.1(c))
- (4) Hamilton Mundialization Committee – October 17, 2018 (Item 7.1(d))
- (5) Hamilton Status of Women Committee – May 24, 2018 (Item 7.1(e))
- (6) Hamilton Status of Women Committee – September 27, 2018 (Item 7.1(f))
- (7) Lesbian, Gay, Bisexual, Transgender and Queer Advisory Committee – October 18, 2018 (Item 7.1(g))
- (8) Lesbian, Gay, Bisexual, Transgender and Queer Advisory Committee – May 17, 2018 (Item 7.1(h))
- (9) Hamilton Aboriginal Advisory Committee – June 7, 2018 (Item 7.1(i))
- (10) Advisory Committee for Immigrants and Refugees – July 12, 2018 (Item 7.1(j))

**CARRIED**

**(f) DISCUSSION ITEMS (Item 10)**

**(i) Councillor Ward Office Budgets and Policy and Guidelines for Eligible Expenses for Elected Officials (FCS18083(a)) (City Wide) (Item 10.5)**

**(Johnson/Clark)**

***That the recommendations be amended by adding the following subsection:***

- (d) *That staff be directed to investigate the Geographic Factor as it relates to the new ward boundaries and report back to the Governance Review Sub-Committee.***

***Amendment CARRIED***

**(Wilson/Clark)**

***That the recommendations be amended by adding the following subsection:***

- (e) *That staff be directed to review the Wards represented in the Inner-City Fund and report back to the Governance Review Sub-Committee.***

***Amendment CARRIED***

**(g) MOTION (Item 11)**

**(i) Interview Sub-Committee Appointees to the Audit, Finance & Administration Committee (Item 11.1)**

**(Ferguson/Pearson)**

That the motion be amended by deleting “five (5), and replacing it with “three (3)”, to read as follows:

That the following ~~five (5)~~ **three (3)** Councillors be appointed to the Interview Sub-Committee to the Audit, Finance & Administration Committee for the balance of the 2018-2022 term of Council:

- (i) Councillor M. Wilson
- (ii) Councillor C. Collins
- (iii) Councillor B. Clark

**Amendment CARRIED**

For disposition of this matter, refer to Item 15.

**(h) PRIVATE & CONFIDENTIAL (Item 14)**

**(i) Closed Session Minutes – September 24, 2018 (Item 14.1)**

**(Ferguson/Johnson)**

- (a) That the Closed Session Minutes of the September 24, 2018 Audit, Finance and Administration meeting, be approved as presented; and
- (b) That the Closed Session Minutes of the September 24, 2018 Audit, Finance and Administration meeting, remain confidential.

**CARRIED**

**(Ferguson/Johnson)**

That Committee move into Closed Session respecting Item 14.2, pursuant to Section 8.1, Sub-section (f) of the City's Procedural By-law 18-270, and Section 239(2), Sub-section (f) of the *Ontario Municipal Act*, 2001, as amended, as the subject matter pertains to advice that is subject to solicitor/client privileges, including communications necessary for that purpose.

**CARRIED**

**(ii) Commercial Relationship Between the City of Hamilton and Century Group Inc. (FCS18100 / LS18060) (City Wide) (Item 14.2)**

Staff were provided with direction in Closed Session.

For further disposition of this matter, refer to Item 16.

(i) **ADJOURNMENT (Item 15)**

**(Pearson/Partridge)**

That, there being no further business, the Audit, Finance and Administration Committee, be adjourned at 11:23 a.m.

**CARRIED**

Respectfully submitted,

Councillor Collins, Chair  
Audit, Finance and Administration  
Committee

Angela McRae  
Legislative Coordinator  
Office of the City Clerk



## 6.1

### Form: Request to Speak to Committee of Council

Submitted on Friday, December 14, 2018 - 9:16 am

==Committee Requested==

**Committee:** Audit, Finance & Administration

==Requestor Information==

**Name of Individual:** Viv Saunders

**Name of Organization:** n / a

**Contact Number:**

**Email Address:**

**Mailing Address:**

**Reason(s) for delegation request:** To speak at a future meeting (preferably on January 17th) regarding the procedures re: Ward Specific Funding Initiatives.

**Will you be requesting funds from the City?** No

**Will you be submitting a formal presentation?** No





## 6.2

### Form: Request to Speak to Committee of Council

Submitted on Friday, December 14, 2018 - 3:34 pm

==Committee Requested==

**Committee:** Audit, Finance & Administration

==Requestor Information==

**Name of Individual:** Eric Zvaniga

**Name of Organization:** Century Group Inc.

**Contact Number:** 905-564-6565

**Email Address:** [eric.zvaniga@cgigc.com](mailto:eric.zvaniga@cgigc.com)

**Mailing Address:**

895 Meyerside Drive  
Mississauga, ON  
L5T 1R8

**Reason(s) for delegation request:** Commercial relationship  
Discussion

**Will you be requesting funds from the City?** No

**Will you be submitting a formal presentation?** No



**6.3****Form: Request to Speak to Committee of Council**

Submitted on Saturday, December 29, 2019 - 7:32 pm

==Committee Requested==

**Committee:** Audit, Finance & Administration Committee

==Requestor Information==

**Name of Individual:** Vince Dipietro**Name of Organization:** Angelica Homes**Contact Number:** 905-961-4385**Email Address:** [info@angelicahomes.com](mailto:info@angelicahomes.com)**Mailing Address:****Reason(s) for delegation request:**

Rental property at 98 East 31<sup>st</sup> had a water and sewer bill for 2 months totalling \$1,754 – My tenant left outside hose bib running continuous – I was charged for not only water usage, but also sewer usage.

**Will you be requesting funds from the City?** No**Will you be submitting a formal presentation?** Yes





## INFORMATION REPORT

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	January 17, 2019
<b>SUBJECT/REPORT NO:</b>	OMERS Plan Changes Approved by Sponsors Corporation FCS19004 (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Barb Howe (905) 546-2424 Ext. 5599
<b>SUBMITTED BY:</b>	Rick Male Director, Financial Services, Taxation & Corporate Controller Corporate Services
<b>SIGNATURE:</b>	

### Council Direction:

Not Applicable

### Information:

The OMERS Sponsors Corporation (SC) Board makes decisions regarding plan design, including benefit changes and contribution rates. The SC Board consists of 14 members, seven of which are employer representatives and the remaining seven are employee representatives. Proposed plan changes are accepted if approved by two-thirds of the SC Board members. A proposal is rejected only if it is rejected by a majority of the SC Board members. A proposal that is neither approved nor rejected will be referred to mediation by a majority vote.

At the June 27, 2018 meeting, the OMERS SC Board approved the list of proposals that they would consider as future plan changes. From July to November 2018 these options were communicated for further consideration and consultation with plan sponsors and members prior to a final decision by the OMERS SC Board in November 2018.

At its November 15th, 2018 meeting, the OMERS SC Board met to vote on the five proposals. Only two proposals were approved; the proposal to remove the maximum

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**SUBJECT: OMERS Plan Changes Approved by Sponsors Corporation FCS19004  
(City Wide) - Page 2 of 4**

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credited service of 35 years and the optional Normal Retirement Age of 60 for Paramedics (subject to collective bargaining negotiations).

**Proposal Approved – Effective January 1, 2021**

- 1) Eliminate the current 35-year cap for credit service.

Credited service is the years and months of pension service that an employee has contributed into the plan or has purchased or transferred into the plan. This service is used to calculate the OMERS pension plan benefit at retirement.

By removing the cap, employees will be able to continue to earn more credited service and increase their lifetime pension plan.

The estimated annual cost to the City to match employee contributions will be \$810,000.

- 2) Normal retirement age (NRA) of 60 for paramedics

The current NRA for Paramedics is age 65 and only Police and Fire have an NRA of 60. The approval of this proposal provides the union representing Paramedics to negotiate an NRA 60 plan provision. Under an NRA 60 provision, both employees and employer contribution rates will increase to provide the enhanced benefit. The current contribution rates are unchanged for 2019 and are:

		2019
<b>Normal retirement age (NRA) 65 members</b>	On earnings up to CPP earnings limit*	9.0%
	On earnings over CPP earnings limit*	14.6%
<b>Normal retirement age (NRA) 60 members (Police &amp; Firefighters)</b>	On earnings up to CPP earnings limit*	9.2%
	On earnings over CPP earnings limit*	15.8%

\*2019 earnings limit for CPP is \$57,400

If an NRA 60 is negotiated for Paramedics, then the annual cost to the City would be \$155,000 in increased employer contributions.

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**SUBJECT: OMERS Plan Changes Approved by Sponsors Corporation FCS19004  
(City Wide) - Page 3 of 4**

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**Summary of Proposals Defeated**

1) Replace guaranteed indexing with conditional indexing for future pensions

Currently pensioners under payments receive a guaranteed annual increase equal to the consumer price index (CPI) increase to a max of 6% annually. It also includes a carry-forward provision if the CPI exceeds 6% in any given year.

To improve the plan's sustainability, the SC Board explored the possibility of introducing conditional indexing which would provide increases when the Plan is financially healthy, and which can be reduced or suspended on a temporary basis when the plan is in financial trouble

The change would only affect pension for service earned after the effective. It would have no impact to current retirees or on service earned prior to the effective date.

2) Change in Pension Formula

At retirement employees receive a pension benefit of:

1.325% of their best five years of pensionable earnings up to the Year's  
Maximum Pension Earnings (YMPE)  
plus  
2% of their best five years of pensionable earnings above the YMPE.  
Multiplied by  
Years of credited Service.

In 2024, the government is introducing a new Year's Additional Maximum Pension Earnings (YAMPE) where employees will continue to contribute Canada Pension Plan beyond the YMPE limit and at a different rate up to the new YAMPE limit. In 2024 the YMPE is projected to be \$67,700 while the YAMPE is projected to be \$72,400.

The proposal changes the formula to reflect the higher YAMPE value. This would mean that each year of service earned after the effective date would have a lower benefit since more of an employee's pensionable earnings would be at the lower rate of 1.325%. Service earned before the effective date would continue to receive the existing formula.

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**SUBJECT: OMERS Plan Changes Approved by Sponsors Corporation FCS19004  
(City Wide) - Page 4 of 4**

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3) Early Retirement

Currently employees may retire up to 10 years prior to their NRA and if they meet the criteria below, they will receive an unreduced pension:

- At least 30 years of service, or
- Age and service equals at least 90 points (85 points for Police and Fire)

If the employee does not meet the criteria for an unreduced pension then their pension is reduced by 5% per year or point before 30 years of service, 90(85) points or their NRA.

Under the proposal, the provisions above would apply for an employee who retires within five years prior to their NRA. And if they retire more than five years from their NRA, then their pension is subject to an actuarial reduction rather than the 5% per year or point before 30 years of service, 90(85) or their NRA. An actuarial reduction is a reduction to reflect the value of receiving the pension earlier, and longer, than if it were paid from the NRA date.

**Appendices and Schedules Attached**

None

BH/dw





**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Services and Taxation Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	January 17, 2019
<b>SUBJECT/REPORT NO:</b>	2019 Interim Levy and Temporary Borrowing By-Laws (FCS19003) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Maria Di Santo (905) 546-2424 Ext. 5254
<b>SUBMITTED BY:</b>	Rick Male Director, Financial Services, Taxation and Corporate Controller Finance and Corporate Services Department
<b>SIGNATURE:</b>	

### RECOMMENDATIONS

- (a) That Appendix "A" attached to Report FCS19003 "By-law to Authorize the Temporary Borrowing of Monies to Meet Current Expenditures Pending Receipt of Current Revenues for 2019", be passed;
- (b) That Appendix "B" attached to Report FCS19003 "By-law to Authorize an Interim Tax Levy for 2019", be passed.

### EXECUTIVE SUMMARY

Both the Interim Tax Levy and Temporary Borrowing By-laws ensure that the City of Hamilton (City) has access to a continuing cash flow to fund operations until a final 2019 budget has been approved.

### ***Alternatives for Consideration – Not Applicable***

### FINANCIAL – STAFFING – LEGAL IMPLICATIONS

**Financial:** The city would have to pay negotiated interest payments should it have to borrow funds under the Temporary Borrowing By-law.

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**SUBJECT: 2019 Interim Levy and Temporary Borrowing By-Laws (FCS19003) (City Wide) - Page 2 of 3**

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**Staffing:** None

**Legal:** The Temporary Borrowing By-law is required under Section 407 of the *Municipal Act, (2001)*. An interim Tax Levy By-law is required under section 317 of the *Municipal Act, (2001)*.

## **HISTORICAL BACKGROUND**

Appendix “A” to Report FCS19003 is a Temporary Borrowing By-law allowing the City to ensure that it has access to adequate cash flow to meet operating commitments. The allowable percentages to borrow as set out in Section 407 of the *Municipal Act, (2001)* are 50% of estimated revenues prior to September 30 and 25% afterwards. It is important to note that actual borrowings under this provision have historically been very limited in both magnitude and duration. The most recent case of the City taking advantage of this provision was in late 1998 and 1999 under the Current Value Assessment conversion, when the Province was adjusting the rules and regulations for taxation of commercial and industrial properties, which held up final tax bills to August and September, respectively.

Appendix “B” to Report FCS19003 is an Interim Tax Levy By-law. In the course of its’ operations, before a final budget has been approved, the City incurs expenses on a regular basis. These expenses, including such items as employee wages, material expenditures and School Board tax payments, would require significant temporary borrowing without the ability to levy taxes in advance of the final tax bills being issued. Section 317 of the *Municipal Act, (2001)* permits the levy of up to 50% of the prior year’s taxes (annualized for adjustments such as supplementary taxes or tax appeals). The Interim Tax Levy By-law provides for the formal mechanism whereby Council can affect this pre-levy. The due dates of the instalments for the 2019 Interim Levy are proposed to be February 28, 2019 and April 30, 2019.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Sections 317 and 407 of the *Municipal Act, (2001)*.

## **RELEVANT CONSULTATION**

The Legal Services Department was originally consulted as to the form of the By-laws.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

By-laws are required under the Municipal Act. Both the Interim Tax Levy and the Temporary Borrowing By-laws ensure the City has adequate funding to run day-to-day operations.

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**SUBJECT: 2019 Interim Levy and Temporary Borrowing By-Laws (FCS19003) (City Wide) - Page 3 of 3**

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**ALTERNATIVES FOR CONSIDERATION**

Not Applicable.

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Economic Prosperity and Growth**

*Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.*

**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report FCS19003 – 2019 Temporary Borrowing By-law.

Appendix “B” to Report FCS19003 – 2019 Interim Tax Levy By-law.

MD/dw

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**Authority:**

**Bill No.**

## **CITY OF HAMILTON**

### **BY-LAW NO.**

#### **To Authorize the Temporary Borrowing of Monies to Meet Current Expenditures Pending Receipt of Current Revenues for 2019**

**WHEREAS** the Council for the City of Hamilton deems it necessary to pass and enact a by-law to authorize the temporary borrowing of monies by the City to meet current budget expenditures for the year 2019 pending receipt of current revenues;

**AND WHEREAS** section 407(1) of the *Municipal Act, 2001*, provides as follows:

"At any time during a fiscal year, a municipality may authorize temporary borrowing, until the taxes are collected, and other revenues are received, of the amounts that the municipality considers necessary to meet the expenses of the municipality for the year and of the amounts, whether or not they are expenses for the year, that the municipality requires in the year"

**AND WHEREAS** Section 407(2) of the *Municipal Act, 2001*, imposes certain limitations on the amounts that may be borrowed at any one time.

**NOW THEREFORE** the Council for the City of Hamilton hereby enacts as follows:

1. (a) The City of Hamilton is hereby authorized to borrow from a Bank or person by way of Promissory Notes or Bankers Acceptances from time to time a sum or sums of monies not exceeding at any one time the amounts specified in subsection (2) of the *Municipal Act, 2001* to pay off temporary bank overdrafts for the current expenditures of the City for the year 2019, including amounts for sinking funds, principal and interest falling due within such fiscal year and the sums required by law to provide for the purposes of the City.
- (b) The amount of monies that may be borrowed at any one time for the purposes of subsection (1) of the *Municipal Act, 2001*, together with the total of any similar borrowings that have not been repaid, shall not, except with the approval of the Ontario Municipal Board, exceed the prescribed percentages of the total of the estimated revenues of the City as set forth in

**Appendix “A” to Report FCS19003  
Page 2 of 2**

the estimates adopted for the year, which percentages are set out in section 407 of the Municipal Act, 2001 as it may be amended from time to time.

2. (a) Until estimates of revenue of the City for the 2019 year are adopted, borrowing shall be limited to the estimated revenues of the City as set forth in estimates adopted for the next preceding year.
- (b) The total estimated revenues of the City, including the amounts levied for Education purposes, adopted for the year 2019 are One Billion, Nine Hundred Million Dollars (\$1,900,000,000).
3. All sums borrowed pursuant to the authority of this By-law, together with any and all similar borrowings in the current year and in previous years that have not been repaid shall, together with interest thereon, be a charge upon the whole of the revenues of the City for the current year and for all preceding years, as and when such revenues are collected or received.
4. The Treasurer shall, and is hereby authorized and directed to, apply in payment of all sums borrowed pursuant to this By-law, together with interest thereon, all of the monies thereafter collected or received for the current and preceding years, either on account or realized in respect of taxes levied for the current year and preceding years or from any other sources which may lawfully be applied for such purpose.
5. That the Mayor and failing such person, the Deputy Mayor of the City Council and failing such person, the City Manager, together with the Treasurer or any one of the Temporary Acting Treasurers be authorized and directed to sign and execute the aforesaid Promissory Notes and Bankers Acceptances, hypothecations, agreements and such other documents, writings and papers which shall give effect to the foregoing.
6. This By-law shall come into force and effect on the 1st day of January 2019 and shall remain in force and effect until December 31, 2019.

PASSED and ENACTED this      day of      , 2019 A.D.

\_\_\_\_\_  
MAYOR

\_\_\_\_\_  
CITY CLERK

**Appendix “B” to Report FCS19003**  
**Page 1 of 2**

**Authority:**

**BILL NO.**

**CITY OF HAMILTON**

**BY-LAW NO.**

**To Authorize an Interim Tax Levy for 2019**

**WHEREAS** the Council for the City of Hamilton deems it necessary to pass a by-law to levy on the whole of the assessment for each property class in the local municipality rateable for a local municipality purpose, a sum not to exceed that which would be produced by applying the prescribed percentage (or 50 percent if no percentage is otherwise prescribed) of the total amounts billed to each property for all purposes in the previous year on the properties that, in the current year, are in the property class as provided for in Section 317 of the *Municipal Act, 2001*;

**AND WHEREAS** Section 317 of the *Municipal Act, 2001*, also authorizes a Municipal Council, by by-law, to adjust the interim taxes on a property if the Council is of the opinion that the Interim Levy on a property is too high or too low in relation to its estimate of the total taxes which will be levied on the property in 2019;

**NOW THEREFORE** the Council for the City of Hamilton hereby enacts as follows:

1. The interim tax levies shall be levied and collected upon the whole of the rateable property categories in columns 1 and 2, shown below:

Column 1

Column 2

<b>Class</b>	<b>Class Code</b>
Residential	RT
Farmlands Awaiting Development	C1/R1/M1
Multi-Residential	MT
New Multi-Residential	NT
Residual Commercial	CT/DT
New Residual Commercial	XT/YT
Residual Commercial Vacant Unit	CU/DU
New Residual Commercial Vacant Unit	XU/YU
Shopping Centre	ST
New Shopping Centre	ZT
Shopping Centre Vacant Unit	SU
New Shopping Centre Vacant Unit	ZU
Parking and Vacant Commercial Land	GT/CX
Residual Industrial	IT
New Residual Industrial	JT

**Appendix “B” to Report FCS19003**  
**Page 2 of 2**

Residual Industrial Vacant Unit/Land	IU/IX
New Residual Industrial Vacant Unit	JU/JX
New Construction Large Industrial	KT
New Construction Large Industrial Vacant Unit	KU
Large Industrial	LT
Large Industrial Vacant Unit	LU
Landfills	HT
Pipeline	PT
Farmland	FT
Managed Forest	TT
Rail Right of Way	WT CN
Rail Right of Way	WT CP
Utility Right of Way	UT
Shortline Railway Right-of-Way	BT

2. The interim tax levy shall become due and payable in two installments as allowed under Section 342(1)(a) of the Municipal Act, 2001, as follows:

Fifty percent of the interim levy, rounded, shall become due and payable on the 28th day of February 2019 and the balance of the interim levy shall become due and payable on the 30th day of April, 2019 and non-payment of the amounts due on the dates stated, in accordance with this section, shall constitute default.

3. That when payment of any instalment or any part of any instalment of taxes levied by this by-law is in default, penalties and where applicable interest, shall be imposed respectively in accordance with City of Hamilton policies.
4. Section 342(1) (b) of the Municipal Act, 2001 allows for alternative instalment due dates to spread the payment of taxes more evenly over the year. Therefore, the interim tax levy for those on a 12-month pre-authorized automatic withdrawal payment plan shall be paid in 6 equal installments due and payable on or after the first or fifteenth day of each month January to June, inclusive. For those on the 10-month pre-authorized automatic withdrawal payment plan, the interim levy shall be paid in 5 equal installments due and payable on or after the first day of each month February to June, inclusive. The pre-authorized payment plans shall be penalty and interest free for as long as the taxpayer is in good standing with the terms of the plan agreements.
5. The interim tax levy rates shall also apply to any property added to the assessment roll after this by-law is enacted.
6. This by-law shall come into force and effect on the 1st day of January 2019.

PASSED and ENACTED this      day of                      , 2019 A.D.

\_\_\_\_\_  
MAYOR

\_\_\_\_\_  
CITY CLERK





# INFORMATION REPORT

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	January 23, 2019
<b>SUBJECT/REPORT NO:</b>	Whistleblower, Fraud & Waste Information Update for Q3 & Q4 2018 (AUD19001) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Brigitte Minard CPA, CA, CIA, CGAP 905-546-2424 x3107
<b>SUBMITTED BY:</b>	Charles Brown CPA, CA, CPA (Illinois) Director, Audit Services City Manager's Office
<b>SIGNATURE:</b>	

## Council Direction:

By-law 09-227 (Whistleblower By-law), Section 19 – Responsibility of the Director of Audit Services requires a quarterly report for, in the aggregate, on the number, nature and outcome of disclosures of serious wrongdoing made under this By-law.

On June 27, 2018, Council directed the Director of Audit Services to implement a Fraud and Waste Hotline with intake performed by an independent third party as part of a three-year pilot project.

## Information:

This Information Report contains information about the number, nature and outcome of disclosures relating to By-law 09-227 for Q3 2018 (July – September 2018) and Q4 2018 (October – December 2018), along with historical information.

On June 27, 2018, Council directed the Director of Audit Services to implement a Fraud and Waste Hotline. After this direction was received, it received some media coverage and there was an increase in the volume of items reported by both staff and citizens. To capture this volume, additional categories have been added to this report and will continue to be included on a go-forward basis. As a result, the numbers from Q1 & Q2 2018 have been updated to reflect the new categories included in this report. This report is now a Whistleblower, Fraud and Waste Information Update.

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**SUBJECT: Whistleblower, Fraud and Waste Information Update for Q3 & Q4 2018  
(AUD19001) (City Wide) Page 2 of 4**

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**Number and Nature of Disclosures/Investigations in 2018**

Timeline	Categories				Total Volume
	Staff Inquiry	Whistle-blower	External Inquiry/ Citizen Complaint	Audit Findings	
Q1 (Jan - Mar)	0	0	2	0	<b>2</b>
Q2 (Apr - Jun)	1	0	1	0	<b>2</b>
Q3 (Jul - Sep)	1	0	1	0	<b>2</b>
Q4 (Oct - Dec)	3	0	2	1	<b>6</b>
<b>2018 (Jan – Dec)</b>	<b>5</b>	<b>0</b>	<b>6</b>	<b>1</b>	<b>12</b>

**Total Volume in 2018 (January to December): 12**

*Note: "Audit Findings" means that because of an audit, an investigation was launched due the findings on a specific matter.*

**Nature and Outcomes**

Q3: There were two items assessed and/or investigated in Q3. The items related to misconduct and government transparency and accountability. One item is closed, and one item is ongoing.

Q4: There were six items assessed and/or investigated in Q4. The items related to fraud, health and safety, public safety and financial management. Four of the items are closed and two are ongoing.

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**SUBJECT: Whistleblower, Fraud and Waste Information Update for Q3 & Q4 2018  
(AUD19001) (City Wide) Page 3 of 4**

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**Number and Nature of Disclosures from 2010 – 2018**

Year	Categories				Total Volume
	Staff Inquiry	Whistle-blower	External Inquiry/Citizen Complaint*	Audit Findings*	
2010	0	2	1	*	3
2011	1	2	0	*	3
2012	1	1	1	*	3
2013	2	2	0	*	4
2014	3	2	0	*	5
2015	1	1	1	*	3
2016	1	3	1	*	5
2017	1	0	1	*	2
2018	5	0	6	1	12
<b>Total</b>	<b>15</b>	<b>13</b>	<b>11</b>	<b>1</b>	<b>40</b>

\* Citizen Complaints and investigations resulting from Audit Findings were not included in this report from 2010-2017. Due to the approval by Council to implement a Fraud and Waste Hotline, this information is included for 2018.

The total volume from 2010 – 2018 was 40 items. These sustained low volumes for an organization the size of the City of Hamilton, with almost 8,000 employees, in comparison with other cities indicated a need for further action to ensure employees are comfortable with reporting concerns.

In 2018, action was taken. On June 27, 2018, Council approved the implementation of a Fraud and Waste Hotline with intake performed by an independent third party as part of a three-year pilot project. The RFP process is currently in progress, with the hotline expected to launch in Q2 2019.

**Relevant Research Findings**

Per a recent Harvard Business Review article *Research: Whistleblowers Are a Sign of Healthy Companies*, the benefits of having a hotline were clearly identified:

*“Our analysis revealed that whistleblowers—and large numbers of them—are crucial to keeping firms healthy and that functioning internal hotlines are of paramount importance to business goals including profitability. The more employees use internal whistleblowing hotlines, the less lawsuits companies face, and the less money firms pay out in settlements.”*

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**SUBJECT: Whistleblower, Fraud and Waste Information Update for Q3 & Q4 2018  
(AUD19001) (City Wide) Page 4 of 4**

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*“We also found that higher use of internal reporting systems is not associated with a greater volume of external reports to regulatory agencies or other authorities. This suggests that a higher volume of internal reports does not imply that problems at the company are more frequent or severe. Instead, internal reports indicate open communication channels between employees and management and a belief that issues raised will be addressed. At the same time, when employees do report externally, it reflects management’s failure to address issues internally.”*

The full article can be found at <https://hbr.org/2018/11/research-whistleblowers-are-a-sign-of-healthy-companies>.

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January 16, 2019

Tina Iacoe, CPPO, CPPB  
Manager of Procurement  
City of Hamilton  
120 King Street West, 9th Floor  
Hamilton Ontario L8P 4V2

**RE: COMMERCIAL RELATIONSHIP BETWEEN THE CITY OF HAMILTON AND CENTURY GROUP INC.**

Dear Ms. Iacoe,

This letter is in response to the December 11, 2018 letter from the City of Hamilton as it pertains to the Commercial Relationship between the City of Hamilton and Century Group Inc. In your letter the City identifies "CGI's performance of this Contract has resulted in several instances of poor vendor performance and non-performance, poor scheduling causing extensive delays, and deficiencies in meeting specifications set out in the Contract." Your letter further concludes the relationship between CGI and the City has been impaired and the City will receive recommendation from City staff that the City not accept any bids nor enter into future contracts with CGI.

I joined CGI in March 2018 and have since restructured the team to include folks who, like me, have worked in the Toronto construction market for more than 25 years. Our careers have been spent with PCL, Eastern Construction, and EllisDon, and we have known each other for a long time. Since coming on board, we have started and completed projects for the City of Brampton and the City of Burlington, and completed projects for the City of Toronto, and the City of Mississauga. We were brought into the company to better represent the values of ownership, and overcome issues that were most evident on the Grightmire Arena project.

CGI has been in business since 1978 and over that time we have successfully completed projects for clients across Canada. We strive to be a trusted partner for our clients, trades, and consultants, and make lasting contributions to our community. I have known CGI for more than 10 years, having hired them on the Woodbine Casino project. The perception the City has of CGI is not the one I carried into the company, and certainly not the one shared by our other clients since. We take seriously the City's concerns, and appreciate the opportunity to address them.

Century Group Inc. has been contracted by the City of Hamilton to provide General Contracting Services to the Addition and Renovations to the J.L. Grightmire Arena project. It is important to understand CGI has no control of or responsibility for the consultants or the design. We build. On this project, that is what the City has hired us to do.

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**Eastern Region**  
895 Meyerside Drive  
Mississauga, Ontario L5T 1R8  
Tel. (905) 564-6565

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**Western Region**  
5150 Cordova Bay Rd. Unit One  
Victoria, British Columbia V8Y 2K6  
Tel. (250) 727-6560



As the General Contractor CGI is responsible for the care and control of the project site, and are therefore the most prominently visible participant on the project. We know this visibility causes folks to turn to us when things do not go well, but we also know the community and the City's Audit, Finance & Administration Committee is limited in the information before them. This letter provides a general outline of design and site issues on the project that have impacted our ability to execute the work and, in light of your letter and the public reporting on the project, have tarnished our name. We believe however this letter offers a broader understanding of the services that continue to be provided by CGI.

1. Delays to completing the parking lot

- a. The completion was delayed in the first instance as the parking lot was turned over to Century Group one month late to accommodate the City.
- b. The civil design of the cistern was deficient and took more than one month for the consultant to resolve.
- c. The designed drain to the headwall did not conform to the as-built condition, nor the uncovered condition.
- d. Throughout the course of the work Change Directives were issued that did not resolve the observed issues on site. When addressed by Century Group, we were directed to proceed irrespective of the issues. The civil consultant resolved continuing issues with drawing revisions that did not update the year with the revision, setting an inaccurate historical record for the revision. The dates were eventually resolved in most cases after the issue was addressed by Invizij.
- e. CD-001 directed Century Group to create a new path into an existing intake headwall that went into the creek. The work was delayed +/- 3 weeks waiting for approvals from the Hamilton Conservation Authority.
- f. The design called for asphalt removal and proof rolling of the base. Spot elevations provided with the grading plan for new curbs did not follow the existing grades which caused a significant change in the grades from the existing condition.
- g. The existing catch basin at the south east corner of the arena was discovered to have no bottom on the chamber. The design called for Century Group to install a new storm line into this chamber. At the direction of the civil consultant Century Group bypassed the chamber and connected to the storm line discharge to the creek. This approach saved the City the cost of a new chamber. The additional cost for the piping work continues to reside with the City without payment to the trade.
- h. The grading plan did not conform to the existing conditions and caused significant change to the topography of the finished site. Spot elevations provided with the design that did not conform to the adjacent structures caused drainage issues for the site that had to be resolved through changes.
- i. Invizij provided correspondence to Century Group to coordinate the architectural and civil designs, for Century Group to read architectural then coordinate with the civil consultant to determine whether the civil needs are to



supplant the architectural design. Design coordination is not part of our Agreement with the City.

- j. Century Group recognized the existing granular and the design did not provide for heavy-duty asphalt in the fire route. CD-002 was issued to resolve this condition. Resolution of the work took 6-weeks.
- k. During our execution of CD-002, Century Group uncovered additional grading issues with the site, with discrepancies of as much as 400mm. Invizij voiced their position these discrepancies were 'low spots' to be filled. The issue is a significant change to the civil design that impacted the schedule and cost for the work.
- l. The existing sanitary line on the SW corner of the building follows an entirely different route from a MH located in an entirely different location than is noted by the design. A change was issued to support a permit revision to resolve this condition and Century Group executed the work of the revision. The timing of this change impacted our ability to pave the walkway in this location.
- m. The civil design identifies swales in the location of existing light standards that are to remain. Century Group raised the issue with the civil consultant and was directed to 'figure it out'.
- n. The elevation 101.14 was provided with the tender documents for the existing floor elevation. CD-003 changed the existing floor elevation to 100.98. This change impacted the completed site services at the north elevation, causing modification to the exterior grades as well as the location of the precast slab on the interior and the constructed works on top of the precast slab, including but not limited to the glazing work.
- o. Century Group uncovered through the progression of the work the existing sanitary MH adjacent to the Theatre was a man-made brick structure covered in plywood. The design called for the sanitary work to tie into this chamber. A change was issued to relocate the new MH adjacent to the crosswalk to the location of the brick structure and re-route the sanitary services to suit the new location.
- p. Delay was caused by a dispute with Invizij to overcome Invizij's concern the base material was contaminated. Century Group engaged the project's geotechnical consultant who determined there was no contamination of the base material and the base was constructed in accordance with the design.

Without submitting a cost to the City, Century Group added a second Superintendent to the project in July 2018 to help overcome these issues. While the allocation of our people in this way is disruptive to our business, we believed it was necessary to navigate the ongoing issues, and is representative of our efforts to deliver the project as expeditiously as possible to the City.

With considerable effort by Century Group, the base asphalt was completed the week of December 10, 2018. Century Group continued to coordinate our subcontractor for installation of the topping. The City discussed the topping work directly with Century Group's subcontractor

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and in consideration of the historical weather, issued CD-006 on December 10, 2018 to Century Group to delete the topping. The change directive further added temporary line painting. The temporary line painting was coordinated and completed on December 29, 2018. The parking lot was turned over to the City on January 4, 2019.

## 2. Changes

- a. Changes currently amount to over 14% of the contract price, excluding those changes that are not fully priced or for which we are waiting on submission of the change from the consultant.
- b. Potential Change work has proceeded without Change Order so as not to impact the progression of the work. It is important to note that CGI has taken on considerable risk by working in this way; it has been done to help move the changes forward without adding to the impact to the City.
- c. Since December, we have received from the Consultants the following changes:
  - i. CD-007 was issued on December 11 and withdrawn on January 10 so that the consultant can revise the issued drawing for the storm water line leaving the mechanical room sump pit;
  - ii. CD-008 is a mechanical revision that requires us to remove the built fire rated assembly as the original design did not include insulation on the sprinkler branch lines;
  - iii. CD-009 is a revision to the electrical breaker to meet the mechanical design requirements for the sump power;
  - iv. CD-010 asks us to provide curb cuts to solve a grading discrepancy in the civil design;
  - v. CD-011 has to do with emergency power related to the elevator sump pit;
  - vi. PC-040 for additional line painting beside the Zamboni area. The line painter completed his work December 29<sup>th</sup>, yet the PC was issued January 2<sup>nd</sup>. The trade now needs to remobilize;
  - vii. PC-041 for infill openings around pre-engineered columns (noted below);
  - viii. PC-042 was issued on January 15, 2019 for Fire Ratings that were not provided in the design for the columns, nor the second-floor canopy, nor the ceiling assembly at the second floor. The PC was withdrawn on January 16, 2019 for revision by the consultant.

## 3. Significant and persistent issues with the building design

- a. While we have not provided a complete summary of the issues with this letter, the following are a few examples of the issues:
  - i. Existing gridlines and room dimensions are noted a +/- which varies wildly from the numeric when measured on a linear plane. This lack of precision in the design caused significant impact to fabrication and construction of the building components. We presume this is a





consequence of no survey of the building being undertaken to support the schematic design which, given the scope of this project, we reasoned would have been an obvious and necessary function to support the design.

- ii. The existing utility light standard at the SW corner of the building is drawn in the design residing inside the new stair at the front of the building. This would appear to be a CAD layering issue missed during design coordination. Century Group was directed through a PC to disconnect the electrical services, coordinate with Bell, have Bell reinstate their services to the Theatre in a new location adjacent to the Theatre, and route Bell from the opposite side of the building for the Arena service. As of this date we do not have a CO to route Bell from the corner of the building to the building phone system. This omission impacts our ability to complete the fire alarm and elevator work and attain SP and Occupancy.
- iii. There have been significant structural changes pertaining to the existing structure and our new construction, including omissions in the structural steel causing Century Group to procure additional steel members while the construction of the work was ongoing.
- iv. The existing structure did not have footings in locations. This caused changes to the design to enable our new build, and likely contributed to the observed issues with the existing structure at the entrance to the ice surface.
- v. Changes were issued to all lintels at the door headers in the basement.
- vi. Mechanical sprinkler room design and coordination among the disciplines caused a number of issues, i.e. the mechanical and electrical services work resided in the same physical location causing relocation of services during the build. This would appear to be a CAD layering issue missed during design coordination.
- vii. Omission of a check valve to the elevator pit is causing water to fall into the pit. There is an outstanding RFI to the consultants to resolve this issue.
- viii. FRR has not been designed to be applied to the existing structure where the new structure ties into the existing building. This issue was identified by the Building Department.
- ix. FRR has not been continually designed to the roof deck at the gallery wall separating the new and existing. This was identified by the Building Department.
- x. +/- 200mm gaps around the existing columns leaves large openings in the floor-to-floor fire separation. This issue was identified by the Building Department.
- xi. Hazardous Materials (asbestos and lead) were uncovered during the course of the build and resolved by Change Order.



- xii. In accordance with the Specifications, moisture readings are too high on the basement slab causing a delay to the installation of the flooring. The work is hold while as are waiting on direction from the consultants.
- xiii. Toilet partition installation is delayed awaiting a Change for structural supports for the toilet partitions. The Architectural design allowed for framing, whereas the specifications called for ceiling hung partitions. The designed detail will not support the partitions.
- xiv. Century Group together with our site and office team has and continues to work diligently to achieve Substantial Performance as it is outlined by Item 8 "Scheduling" in this letter.

In your letter, the City outlines "deficiencies in meeting the specifications" as one cause supporting the City's observation of non-performance by CGI. It is important to recognize the following:

#### 4. Deficiencies

- a. Century Group has not been provided a 'Deficiency List'.
- b. "Observations and Comments" have been provided by the Architect, Mechanical, and Electrical within their Field Reports. The Structural consultant in email. Century Group have requested but have not received anything from the remaining consultants.
- c. Century Group developed an initial consolidated "Deficiency List" based on the consultant reports and provided it to the City on December 11, 2018.
- d. What we understand to be deficiencies noted in the Reports have been enacted upon and are ongoing within the course of the work. These items will continue to be worked on during the ongoing progress of the work.
- e. To date we have noted 75% of the consolidated "Deficiency List" is complete and are awaiting on confirmation from the consultants.

Given these points, it is difficult for CGI to understand the City's position that "deficiencies in meeting the specifications" are a cause supporting the City's observation of non-performance by CGI.

This has not been an ideal project for CGI by any stretch. We recognize it has been difficult for the City and for the surrounding community. We are though steadfast in our belief that with a responsible and collaborative effort by the consultants, the ongoing commitment of the City, Century Group and the project team will deliver a facility that makes a lasting contribution to the community.

We can not understand why the City would seek to exclude CGI from future work for the City. Surely having a contractor populated by veterans of landmark buildings such as the TIFF Bell Lightbox, the Ripley's Aquarium, Bridgepoint Hospital, and several large design-build projects for the University of Toronto, a contractor who continually provides services and strives to deliver a



project fraught with significant design and existing site issues, a contractor who does not pursue conflict with the project participants despite the issues, who rather seeks to help resolve issues, surely the City would want a contractor like CGI bidding your work.

We certainly hope the City amends its position.

Should you have any questions or concerns related to this, please let me know. As we have been, Century Group remains committed to working for the City of Hamilton.

Yours truly,

**CENTURY GROUP CONSTRUCTORS INC.**

A handwritten signature in black ink, appearing to read 'Eric Zvaniga'.

Eric Zvaniga  
Vice President Eastern Region

---

**Eastern Region**  
895 Meyerside Drive  
Mississauga, Ontario L5T 1R8  
Tel. (905) 564-6565

**Western Region**  
5150 Cordova Bay Rd. Unit One  
Victoria, British Columbia V8Y 2K6  
Tel. (250) 727-6560





**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
*Financial Services & Taxation Division*

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	January 17, 2019
<b>SUBJECT/REPORT NO:</b>	2018 City of Hamilton External Audit Plan (FCS19005) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Shelley Hesmer (905) 546-2424 Ext. 3020
<b>SUBMITTED BY:</b>	Rick Male Director, Financial Services, Taxation and Corporate Controller Corporate Services Department
<b>SIGNATURE:</b>	

### RECOMMENDATION

That Appendix “A” attached to Report FCS19005 respecting the 2018 City of Hamilton External Audit Planning prepared by KPMG be received.

### EXECUTIVE SUMMARY

Council, at its meeting of September 11, 2017, approved the Audit, Finance and Administration Committee recommendation and Report FCS17073, “Appointment of External Auditor 2017-2021” wherein KPMG was selected as the City’s external auditor.

KPMG’s audit approach and scope of work for the City of Hamilton (City) and its related entities for the 2018 fiscal year is provided in their Audit Planning Report for the year ended December 31, 2018 (refer to Appendix “A” to Report FCS19005). KPMG’s Audit Planning Report outlines their audit responsibilities and audit approach in accordance with Canadian generally accepted auditing standards. The audit standards focus the audit on areas where there is greater risk of misstatement. KPMG has tailored their audit of the City to several specific audit areas: including revenue recognition and deferral policies, tangible capital assets, employee future benefits, solid waste landfill liabilities, investments and related income and operating expenses.

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*OUR Vision: To be the best place to raise a child and age successfully.*

*OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.*

*OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.*

**SUBJECT: 2018 City of Hamilton Financial Report and Audited Financial Statements (FCS19005) (City Wide) - Page 2 of 3**

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KPMG will be discussing the audit work required on the financial statements for the Library, Housing and Business Improvement Areas with the respective boards or oversight bodies.

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: The 2018 external audit fees of \$215,000 are within the limits of the approved 2018 Operating Budgets for the City and the entities included in the report.

Staffing: There are no associated staffing implications.

Legal: There are no associated legal implications.

**HISTORICAL BACKGROUND**

KPMG, has been the provider of the City of Hamilton's external audit services since 2012, having been the successful proponent of a 2011 Request for Proposals (RFP). In December 2016, KPMG had approached senior management with a proposed contract renewal for the next five years. Financial Services staff brought Report FCS17048 to the Audit, Finance and Administration Committee on May 08, 2017, to seek authority to negotiate with KPMG and to bring back the results of such efforts to a future Committee meeting. Report FCS17073 was presented to the Audit, Finance and Administration Committee on August 16, 2017, and provided the necessary follow-up and recommendations. Council at its meeting of September 11, 2017, approved the Audit, Finance and Administration recommendation and Report FCS17073 "Appointment of External Audit for Fiscal Years 2017 to 2021" wherein KPMG 's annual audit fees for the five-year period of 2017-2021 will be \$215,000 per year.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Not Applicable.

**RELEVANT CONSULTATION**

The 2018 Audit Planning Report from KPMG and the City of Hamilton 2018 Year End Plan had been discussed with management of the City's Departments and Board including:

- Corporate Services Department
  - General Manager of Finance and Corporate Services
  - Director of Finance Services, Taxation and Corporate Controller
  - Director of Financial Planning, Administration and Policy
  - Manager of Business Application Support, Accounts Payable and Receivable
  - Manager of Payroll and Pensions

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**SUBJECT: 2018 City of Hamilton Financial Report and Audited Financial Statements (FCS19005) (City Wide) - Page 3 of 3**

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- Managers of Finance and Administration
  - Manager of Current Budgets and Fiscal Planning
  - Manager of Capital Budget and Development
- Hamilton Police Services – Chief Accountant
  - Hamilton Public Library – Director of Finance and Facilities

The Finance and Administration staff of the Corporate Services Department co-ordinate the audit work with the City's operating departments and divisions.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION**

The annual audit planning report and external audit plan provides the committee with an opportunity to review the audit approach and expectations of the audit. KPGM will be available to answer questions about their report.

**ALTERNATIVES FOR CONSIDERATION**

Not Applicable.

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Our People and Performance**

*Hamiltonians have a high level of trust and confidence in their City government.*

**Community Engagement & Participation**

*Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.*

**APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report FCS19005 – The City of Hamilton Audit Planning Report for the year ended December 31, 2018, as prepared by KPMG.

SH/dw







# The City of Hamilton

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**Audit Planning Report for the  
year ended December 31, 2018**









Prepared for the January 17, 2019 Audit,  
Finance and Administration committee  
meeting

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[kpmg.ca/audit](http://kpmg.ca/audit)



# Table of contents

 <a href="#">Executive summary</a>
 <a href="#">Group Audit Scope</a>
 <a href="#">Audit Risks</a>
 <a href="#">Materiality</a>
 <a href="#">The audit of today, tomorrow &amp; the future</a>
 <a href="#">Key deliverables and milestones</a>
 <a href="#">Current developments and audit trends</a>
 <a href="#">The 2018 Auditors' Report</a>
 <a href="#">Appendices</a>

The contacts at KPMG in connection with this report are:



Lois Ouellette  
Lead Audit Engagement  
Partner  
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louellette@kpmg.ca

Paul Ciapanna  
Audit Senior Manager  
Tel: 905 523 2228  
ppciapanna@kpmg.ca



# Executive summary



## Group audit scope

Our audit consists of a # of components over which we plan to perform:

- 8 full scope audits
- 4 specified procedures

See page 5



## Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include:

- Revenue recognition and deferral policies relating to grants
- Tangible capital assets,
- Post employment benefit liability,
- Landfill liability,
- Investments and related income,
- Operating expenditures

See pages 6-10



## Audit materiality

Materiality has been determined based on prior period total revenues. We have determined group materiality to be \$49,200,000.

We have reviewed the scope of work across segments and business across the group. Materiality will be set at lower thresholds where necessary to meet requirements of various funding agencies.



# Executive summary



## Independence & Quality Control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

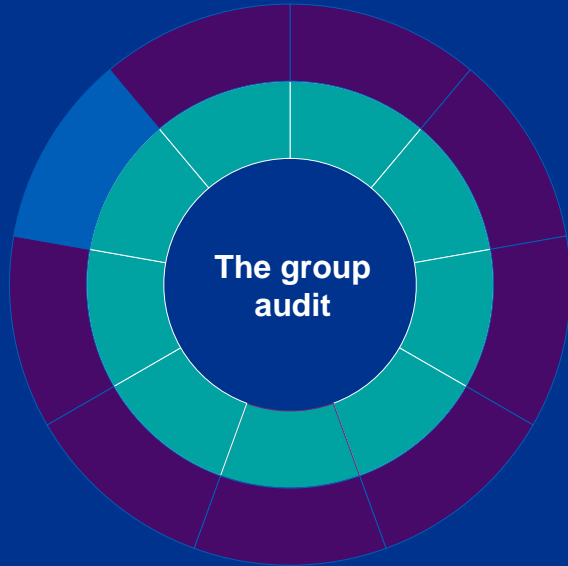




## Current developments and Audit Trends

Please refer to pages 16-17 for relevant accounting and/or auditing changes relevant to the City and relevant audit trends..

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

# Group Audit Scope



Type of work performed	# of Components	Legend
Individually financially significant (Hamilton Utilities Corporation)	1	
In-scope not significant (Hamilton Public Library, Hamilton Renewable Power Incorporated, CityHousing Hamilton, 13 BIA's, Mohawk 4Ice Centre, Hamilton Farmer's Market, Hamilton Future Fund)	19	

Procedures performed by	Legend
Stand-alone audits performed by Group team – KPMG Hamilton	

# Audit risks



## Professional Requirements

## Why is it significant?

Fraud risk from revenue recognition.

This is a presumed fraud risk under Canadian Auditing Standards.



## Our audit approach

We have identified the following areas where this presumed fraud risk is relevant:

- Government grants
- Development charges

Government grant revenue recognition is dependent on the terms of the grant and can be complex depending upon the terms. The City receives many different types of grants with different terms and conditions.

Fraud could include misapplying expenditures to incorrect grant funded programs in order to maximize returnable funding.

The nature of development charges and their use create complexity in the timing of revenue recognition.

Our audit approach will consist of evaluating the design and implementation and testing the operating effectiveness of selected relevant controls. It will also consist of performing substantive procedures to address the relevant assertions associated with the significant risk.



# Audit risks



## Professional Requirements

Fraud risk from management override of controls

## Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.



## Our audit approach

As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions. Data & analytics tools will be used to perform work in this area.

# Audit risks



## Other areas of focus

Government Grants

Tangible Capital Assets

## Why are we focusing here?

Risk of material misstatement related to the completeness and accuracy of grant revenue

Risk of material misstatement related to the classification, completeness, and accuracy of tangible capital assets



## Our audit approach

We will perform a substantive test of timing of revenue recognition

We will perform the following procedures:

- Evaluate the design and implementation of controls over disbursements
- Test the operating effectiveness of the controls
- Substantive test to confirm classification as an asset versus expense





# Audit risks



## Other areas of focus

Post employment benefit liability

Landfill Liability

## Why are we focusing here?

Risk of material misstatement related to the completeness and accuracy of the liability and related expenses

Risk of material misstatement related to the completeness and accuracy of the liability and related expenses



## Our audit approach

We will perform the following procedures:

- Substantive test over the liability balance
- Assess the assumptions of the actuary in order to rely on their work

We will perform a substantive test over the completeness and accuracy of the liability



# Audit risks



## Other areas of focus

Investment and related income

Operating expenditures including payroll

## Why are we focusing here?

Risk of material misstatement related to the existence and valuation of investments and accuracy of related income

Risk of material misstatement related to the completeness, existence, and accuracy of expenditures



## Our audit approach

We will perform the following procedures:

- Confirm investment and income balances with investment managers
- Assess the valuation of investments

We will perform the following procedures:

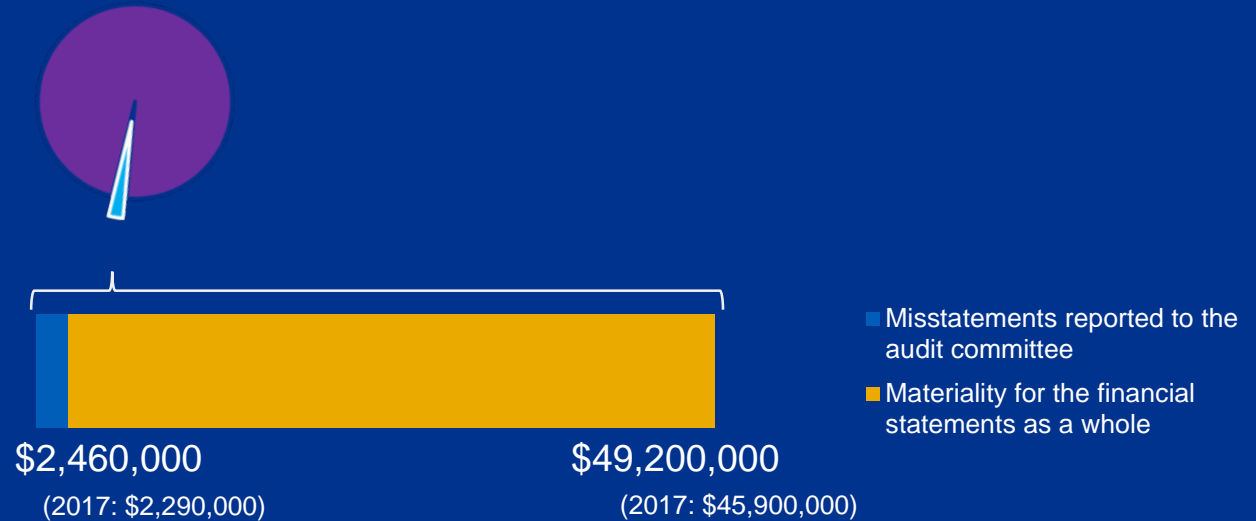
- Evaluate the design and implementation of controls over disbursements
- Test the operating effectiveness of the controls
- Substantively test a sample to confirm appropriate classification and treatment of expenses

# Materiality

## Materiality Benchmark

Total Revenue  
**\$1,969,536,000**  
 (2017: \$1,837,901,000)



**Materiality**  
**\$49,200,000**  
 2.5% of total revenue  
 (2017: \$45,900,000, 2.5% of total revenue)



Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

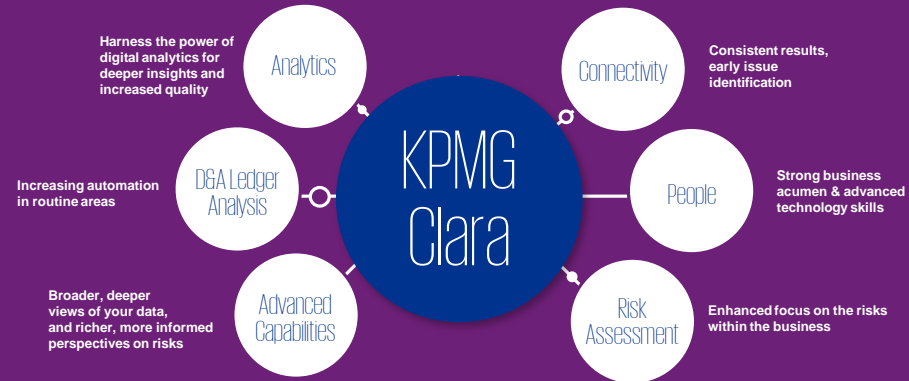
### We will report to the Audit Committee:

-  Corrected audit misstatements
-  Uncorrected audit misstatements

# The audit of today, tomorrow & the future

As part of KPMG’s technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



## Technology we use today

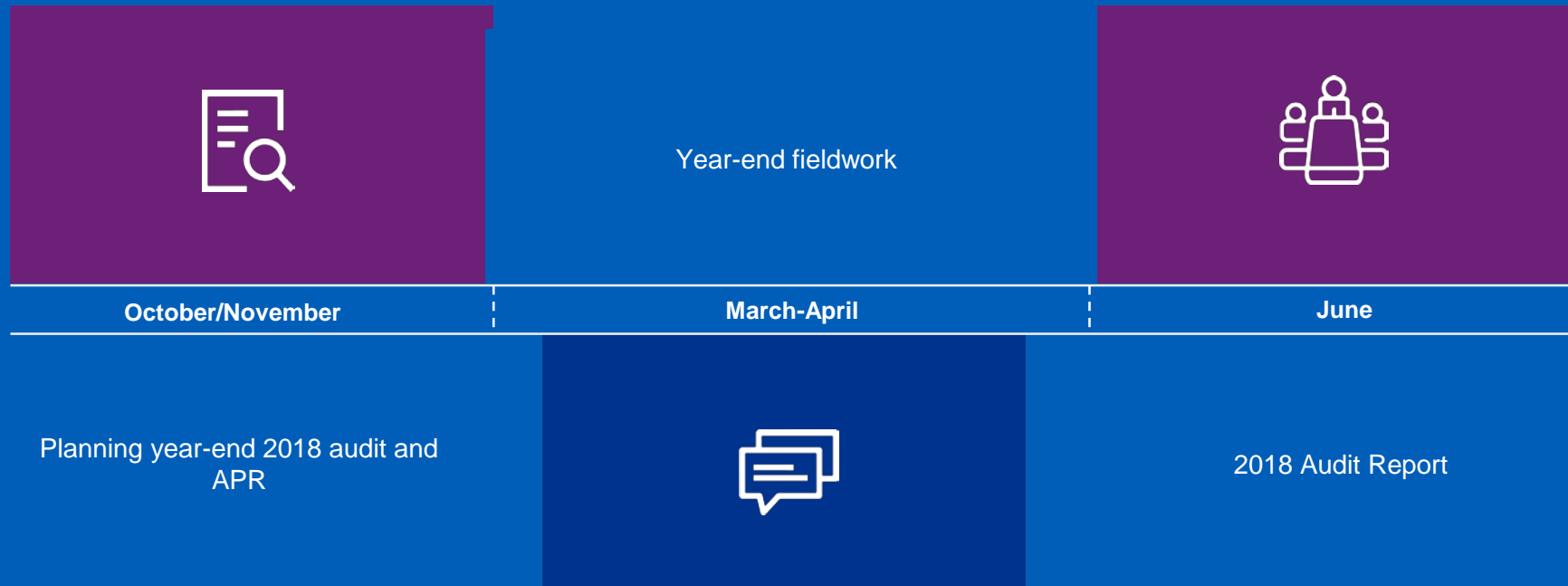
Tool	Benefit to audit
KPMG Clara Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.
Data & Analytics Routines	We will utilize data & analytics to substantively test the entire population of depreciation expense. In addition, we will substantively test development charges using data & analytics tools to identify outliers and investigate further.

# The audit of today, tomorrow & the future

## Technology under development

Tools	Benefit to audit
Dynamic Risk Assessment	Dynamic Risk Assessment (DRA) gives us a more sophisticated, forward-looking and multi-dimensional approach to assessing audit risk. Using network theory, DRA considers not just the traditional, two-dimensional view of severity and likelihood but also how interconnected the risks are, how fast they may emerge and how systemic they are. It will provide a holistic enterprise-wide assessment of your risks, ensuring we have identified the relevant risk exposures that need to be incorporated into our audit approach.
Optical Contract Reader & Analysis Tool	Our Optical Contract Reader & Analysis Tool provides us with capabilities to improve the effectiveness and efficiency of the contract review process. This works by automating the ingestion of contracts and related source documents and extracting and summarizing key terms for the audit engagement team’s consideration, in turn providing increased coverage of the population and resulting in greater audit quality. The tool can also be used to read unstructured source documents in PDF format, extracting certain data such as invoice date, invoice number, account number, order number and total amount. This data is then compiled and compared to structured data from the general ledger. Time savings generated from this intelligent automation solution will allow our team to focus their efforts on areas of greater risk.
Robotic Process Automation (RPA)	This application of cognitive computing technology allows our team to configure computer software—or a “robot”—to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses, and communicating with other digital systems.

# Key deliverables and milestones



# Current developments and audit trends

Please visit KPMG's [Audit Committee Institute \(ACI\) / Current Developments](#) page for current developments in IFRS, Canadian securities matters, and Canadian auditing other professional standards. The following is a summary of the current developments that are relevant to the City:

Standard	Summary and implications
– PS 3450 Financial Instruments	<p>A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this is effective for fiscal periods beginning on or after April 1, 2019 (the City's December 31, 2020 year-end).</p> <p>Implications: This standard will require the City to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of re-measurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.</p>
– PS 3280 Asset Retirement Obligations	<p>New standard released in April 2018 which provides guidance on recognition, measurement, presentation and disclosure of obligations associated with the retirement of tangible capital assets.</p> <p>Applies to TCA in or no longer in productive use.</p> <ul style="list-style-type: none"> <li>- If the asset is in use, the carrying value of the TCA is increased by the asset retirement cost, which is then expensed in a rational and systematic manner</li> <li>- If the asset is not in use, asset retirement costs are expensed</li> </ul> <p>Standard includes the removal of asbestos.</p> <p>Liability incurred on acquisitions, construction, development or use of TCA and is measured using net present value.</p> <p>This new Section PS 3280 is proposed to apply to fiscal years beginning on or after April 1, 2021 (the City's December 31, 2022 year end) with early adoption permitted.</p>

# The 2018 Auditors' Report



## Highlights of changes to your 2018 auditors' report

- Re-ordering of the auditors' report including moving opinion to the first section

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- Separate section on "Material Uncertainty Related to Going Concern" if a material uncertainty is identified.

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- Separate section on "Other Information" (e.g. MD&A)

---

- Expanded descriptions of management's, including those related to assessing the Entity's ability to continue as a going concern

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- New description of responsibilities of those charged with governance

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- Expanded descriptions of management's, those charged with governance and auditors' responsibilities

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- Disclosure of name of the engagement partner

## Key audit matter reporting

Communicating the key audit matters (KAMs) applies for audits performed in accordance with the Canadian Audit Standards.

KAMs are those matters communicated to those charged with governance that required significant auditor attention in performing the audit, and in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so.

It is expected that KAM reporting will be required for certain listed entities in Canada starting in 2020.

## Impact to the 2018 auditors' report

Accordingly, your 2018 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication.



# Appendices



[Appendix 1: Audit quality and risk management](#)



[Appendix 2: KPMG's audit approach and methodology](#)



[Appendix 3: Lean in Audit™](#)



[Appendix 4: Required Communications](#)

# Appendix 1: Audit quality and risk management



KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems. Visit our [Audit Quality Resources](#) page for more information including access to our audit quality report, *Audit quality: Our hands-on process*.

Other controls include:

- Before the firm issues its audit report, Engagement Quality Control
- Reviewer reviews the appropriateness of key elements of publicly listed client audits.
- Technical department and specialist resources provide real-time support to audit teams in the field.

We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.

We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.

We do not offer services that would impair our independence.



All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.

The processes we employ to help retain and develop people include:

- Assignment based on skills and experience;
- Rotation of partners;
- Performance evaluation;
- Development and training; and  
Appropriate supervision and coaching.

We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.



# Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

## Collaboration in the audit

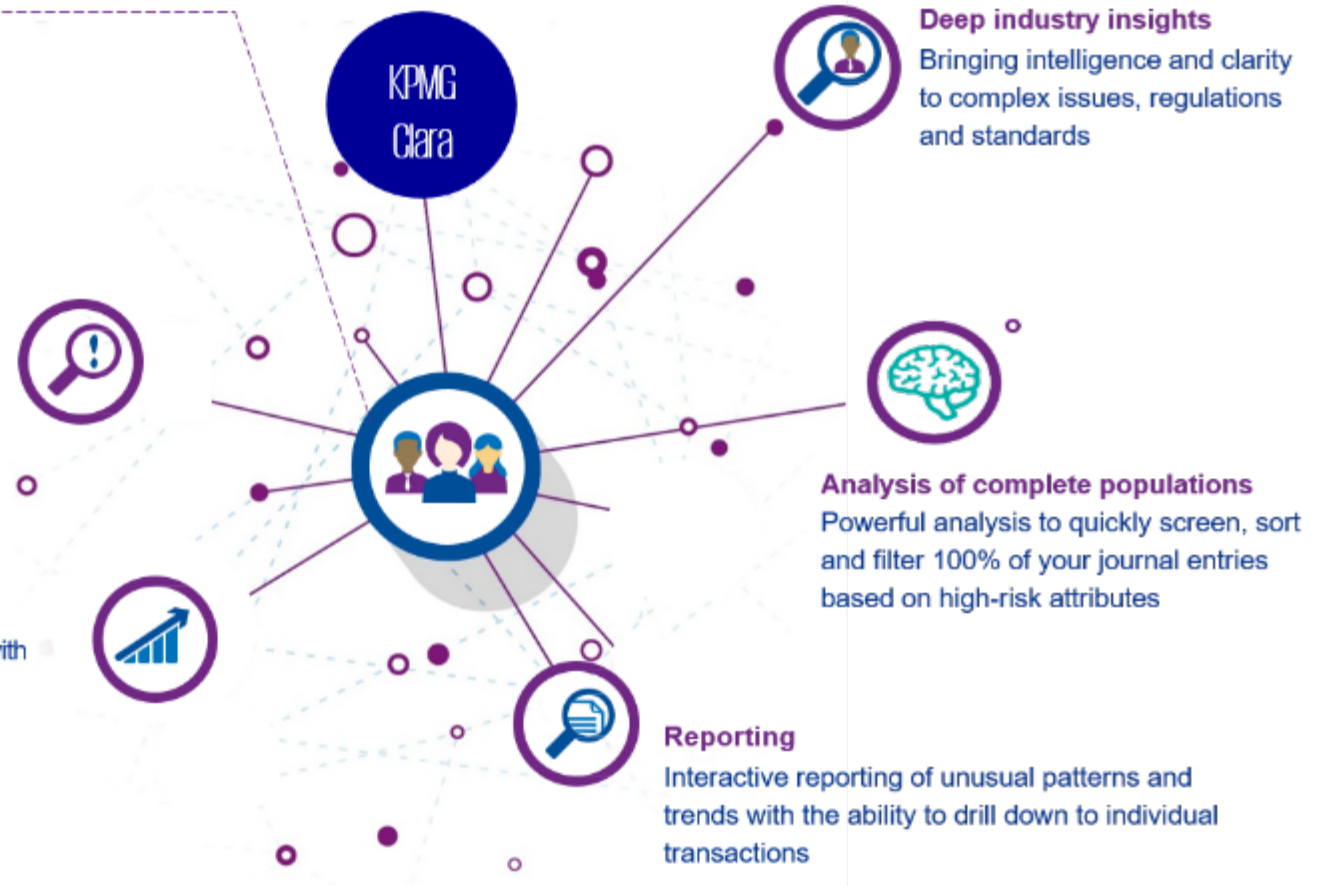
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

## Issue identification


Continuous updates on audit progress, risks and findings before issues become events

## Data-driven risk assessment

Automated identification of transactions with unexpected or unusual account combinations — helping focus on higher risk transactions and outliers



# Appendix 3: Lean in Audit™



An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.



How it works

Lean in Audit employs three key Lean techniques:



## 1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



## 2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.



## 3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

# Appendix 4: Required communications



In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:



## Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as provided by management.



## Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.



## Audit planning report

This report.



## Audit findings report

At the completion of our audit, we will provide our audit findings to the Audit Committee.



## Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.



[kpmg.ca/audit](https://kpmg.ca/audit)

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KPMG member firms around the world have 174,000 professionals, in 155 countries.

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss entity. Each KPMG firm is a legally distinct and separate entity, and describes itself as such.

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Hamilton

**HMRF/HWRF PENSION ADMINISTRATION SUB-COMMITTEE  
REPORT 18-001**

**8:30 a.m.**

**Tuesday, December 18, 2018  
Hamilton City Hall, Room 264  
71 Main Street West**

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**Present:** Councillors M. Pearson (Chair) and L. Ferguson  
HMRF Members: D. Skarratt (Co-Vice Chair) and D. Alford  
HWRF Members: J. Garchinski (Co-Vice Chair), and R. Slack

**Absent With  
Regrets:** HWRF Members: H. Hicks

---

**THE HMRF/HWRF PENSION ADMINISTRATION SUB-COMMITTEE PRESENTS  
REPORT 18-001 AND RESPECTFULLY RECOMMENDS:**

- 1. Appointment of Chair and Vice-Chair (Item 1)**
  - (a) That Councillor M. Pearson be appointed as Chair for the 2018 – 2022 term.
  - (b) That Don Skarratt (HMRF Member) be appointed as Co-Vice Chair for the 2018 – 2022 term.
  - (c) That Jim Garchinski (HWRF Member) be appointed as Co-Vice Chair for the 2018 – 2022 term.
  
- 2. Hamilton Municipal Retirement Fund (HMRF) December 31, 2017 Valuation (FCS18092) (City Wide) (Item 9.1)**

That the December 31, 2017 actuarial valuation for the Hamilton Municipal Retirement Fund (HMRF) attached as Appendix “A” to Report FCS18092, be received.



**3. Master Trust Pension Investment Performance Report as at December 31, 2017 (FCS17088(a)) (City Wide) (Item 10.1)**

That Report FCS17088(a) respecting the Master Trust Pension Investment Performance Report as at December 31, 2017, be received.

**4. Master Trust Pension Investment Performance Report as at June 30, 2018 (FCS18091) (City Wide) (Item 10.2)**

That Report FCS18091 respecting the Master Trust Pension Investment Performance Report as at June 30, 2018, be received.

**5. 2018 Master Trust Pension Statement of Investment Policies and Procedures (FCS18090) (City Wide) (Item 10.3)**

(a) That the 2017 Master Trust Statement of Investment Policies and Procedures be deleted and replaced with the 2018 Master Trust Statement of Investment Policies and Procedures, attached as Appendix "A" to HMRF-HWRF Pension Administration Sub-Committee Report 18-001; and,

(b) That the 2018 Master Trust Statement of Investment Policies and Procedures, attached as Appendix "A" to HMRF-HWRF Pension Administration Sub-Committee Report 18-001, be forwarded to the Hamilton Street Railway Pension Advisory Committee for their information.

**6. HMRF/HWRF/HSR Pension Plan Possible Transfer to OMERS (FCS18093) (City Wide) (Item 10.4)**

That staff be directed to investigate a possible transfer of the City of Hamilton's (City) three legacy pension plans to Ontario Municipal Employees Retirement System (OMERS):

- (i) Hamilton Municipal Retirement Fund (HMRF);
- (ii) Hamilton Wentworth Retirement Fund (HWRF); and
- (iii) Hamilton Street Railway Pension Plan (HSR).

**7. Hamilton Municipal Retirement Fund Plan Text Amendment (FCS18084) (City Wide) (Item 10.5)**

(a) That the Treasurer be authorized and directed to file the amendment to Section 4.01 to the Hamilton Municipal Retirement Fund (HMRF), per Appendix 'B' to HMRF-HWRF Pension Administration Sub-Committee Report 18-001 with the applicable government agencies; and,



- (b) That the City Solicitor be authorized and directed to prepare any necessary amendments to the HMRF or prepare any necessary by-law amendments facilitate the direction given in sub-section (a).

**FOR INFORMATION:****(a) APPROVAL OF AGENDA (Item 2)**

The Committee Clerk advised that there were no changes to the agenda.

The agenda for the December 18, 2018 meeting of the HMRF/HWRF Pension Administration Sub-committee was approved, as presented.

**(b) DECLARATIONS OF INTEREST (Item 3)**

There were no declarations of interest.

**(c) APPROVAL OF MINUTES OF PREVIOUS MEETING (Item 4)****(i) November 30, 2017 (Item 4.1)**

The November 30, 2017 Minutes of the HMRF / HWRF Pension Administration Sub-Committee meeting were approved, as presented.

**(d) STAFF PRESENTATIONS (Item 9)****(i) Hamilton Municipal Retirement Fund (HMRF) December 31, 2017 Valuation (FCS18092) (City Wide) (Item 9.1)**

Mr. Bill Liu, Willis Towers Watson, addressed the Committee respecting the Hamilton Municipal Retirement Fund (HMRF) Valuation as of December 31, 2017. Mr. Liu highlighted items contained in the Appendix to Report FCS18092 and answered questions from the Committee, with the aid of a handout. This handout has been added to the official record.

The presentation from Bill Liu, Willis Towers Watson, respecting the Valuation of the Hamilton Municipal Retirement Fund (HMRF) as of December 31, 2017, was received.

A copy of the handout is available on the City's website or through the Office of the City Clerk.

For disposition of this matter, please refer to Item 2.

**(e) ADJOURNMENT (Item 15)**

There being no further business, the HMRP/HWRF Pension Administration Sub-Committee adjourned at 9:16 a.m.

Respectfully submitted,

Councillor M. Pearson, Chair  
HMRP/HWRF Pension Administration  
Sub-Committee

Angela McRae  
Legislative Coordinator  
Office of the City Clerk

## **Statement of Investment Policies and Procedures**

City of Hamilton Defined Benefit Pension Plans Master Trust

December 2018

**APPROVED** on this                      day of December, 2018

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## Section 1—Overview

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### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the "Policy" or "Master Trust SIPP") provides the framework for the investment of the assets of the City of Hamilton Defined Benefit Pension Plans Master Trust (the "Master Trust").

This Policy is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Master Trust are within the parameters set out in the *Pension Benefits Act*, (Ontario) and the Regulations thereunder.

### 1.02 Background of the Master Trust

The inception date of the Master Trust is November 1, 1999, when three defined benefit pension plans, the "Plans", (the Hamilton Municipal Retirement Fund (Registration number 0275123), the Hamilton Street Railway Pension Plan (1994) (Registration number 0253344), and the Hamilton Wentworth Retirement Fund (Registration number 1073352)) invested in units of the Master Trust. The portfolio of assets in the Master Trust is referred to as "the Fund". These Plans hold units of the Master Trust and share, on a pro-rata basis, in all income, expenses and capital gains and losses of the Master Trust.

For reference purposes, the details of the Statement of Investment Policies and Procedures for each of the above mentioned Plans participating in the Master Trust have been attached to Appendix A of this Policy.

### 1.03 Objective of the Plan

The objective of the Plans is to provide members of the Plans with retirement benefits prescribed under the terms thereof.

### 1.04 Investment and Risk Philosophy

The primary investment objective is to provide an economic return on assets sufficient to fund Plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plans and the City of Hamilton (the "City").

In recognition of the risk and return objectives of the Plans and the City, an initial asset allocation policy was developed by the Investment Consultant in consultation with both the Chief Investments Officer and the Treasurer of the City (the "Treasurer") based on the Plans' current (at that time) funded status and the characteristics of the Plans and City. It is recognized, however, that the Plans' return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plans' funded statuses improve.

### **1.05 Administration**

The General Manager of Finance and Corporate Services for the City ("General Manager of Finance and Corporate Services") is the designated contact person at the City for administrative purposes.

## Section 2—Asset Mix and Diversification Policy

### 2.01 Master Trust Return Expectations

Each of the investment managers appointed to invest the assets of the Master Trust (the "Investment Managers") is directed to achieve a satisfactory long-term real rate of return through a diversified portfolio, consistent with acceptable risks, performance objectives and prudent management.

In order to achieve their long-term investment goals, the Plans must invest in assets that have uncertain returns, such as Canadian equities, foreign equities and bonds. However, the City attempts to reduce the overall level of risk by diversifying the asset classes and further diversifying within each individual asset class. Based on historical data and reasonable expectations for future returns, the City believes that a diversified portfolio of Canadian equities, nominal bonds, real return bonds and foreign equities will likely outperform over the long term.

The overall goal of this Policy is to maximize the return of the Fund while bearing a reasonable level of risk relative to the liabilities in order to ensure the solvency of the Fund over time. The assets of the Plans are sufficiently liquid to make payments which may become due from the Plans. The weights applied to each of the asset classes are based on the targets in the initial asset allocation outlined in Section 2.03 and adjusted based on the target allocation in the Dynamic Investment Policy Schedule in Section 2.03.

### 2.02 Expected Volatility

The volatility of the Master Trust is directly related to its asset mix, specifically, the balance between Canadian bonds, Canadian equities and foreign equities. Since the Investment Managers do not have the authority to make any type of leveraged investment on behalf of the Master Trust, the volatility of the Master Trust should be similar to the volatility of the Benchmark Portfolio set out in Section 4.02 (Performance Measurement).

### 2.03 Asset Mix

(a) In order to achieve the long-term objective within the risk/return considerations described in Section 1.04, the following asset mix policy (Benchmark Portfolio) and ranges were selected for the initial asset allocation:

Assets	Minimum %	Initial Target Weight %	Maximum %	Asset Category
Canadian Equity	25	30	35	Return-Seeking
Global Equity	25	30	35	Return-Seeking
Total Equities	50	60	70	Return-Seeking
Fixed Income	30	40	50	Liability-Hedging

For purpose of the total asset mix described above, the Investment Managers' asset class pooled funds are deemed to be 100% invested, even though these funds may contain a portion held in cash and cash equivalent instruments.

The Plan's target asset allocation for each investment category listed in subsection 76(12) of the Regulation 909 to the Pension Benefits Act (Ontario) is as follows:

Investment Category under subsection 76(12) of Regulation 909	Target Asset Allocation	Accessed through mutual or pooled or segregated funds
1. Insured Contracts	0.0%	-
2. Mutual or pooled funds or segregated funds	N/A	-
3. Demand deposits and cash on hand	0.0%	-
4. Short-term notes and treasury bills	0.0%	-
5. Term Deposits and guaranteed investment certificates	0.0%	-
6. Mortgage Loans	0.0%	-
7. Real Estate	0.0%	-
8. Real Estate Debentures	0.0%	-
9. Resource properties	0.0%	-
10. Venture Capital	0.0%	-
11. Corporations referred to in subsection 11(2) of Schedule III to the federal investment regs	0.0%	-
12. Employer issued securities	0.0%	-
13. Canadian stocks other than investments referred to in 1 to 12 above	30.0%	Yes
14. Non-Canadian stocks other than investments referred to in 1 to 12 above	30.0%	Yes
15. Canadian bonds and debentures other than investments referred to in 1 to 12 above	40.0%	Yes
16. Non-Canadian bonds and debentures other than investments referred to in 1 to 12 above	0.0%	-
17. Investments other than investments referred to in 1 to 16 above	0.0%	-

For inclusion within a fixed income investment category in the above table, the minimum ratings for target asset allocations of fixed income assets are outlined below. This framework is used to inform whether the target asset allocation to an investment category qualifies as fixed income for purposes of calculating the Provision for Adverse Deviations (PfAD) as defined under Regulation 909.

Credit Rating Agency	Rating – Bond Market Securities	Rating – Money Market Securities
DBRS	BBB	R-2 (middle)
Fitch Ratings	BBB-	F-3
Moody's Investors Services	Baa3	P-3
Standard & Poor's	BBB-	A-3

- (b) **Return-Seeking Assets:** These assets generally will consist of all non-fixed income investments, such as equities and alternatives, with a main focus on price appreciation with generally higher expected long-term returns.
- (c) **Liability-Hedging Assets:** These assets generally will be fixed-income investments, such as bonds, with similar duration characteristics as the pension liabilities (i.e., these assets generally behave like pension liabilities). Since these assets focus mainly on current income, their expected long-term returns will generally be lower than return-seeking assets.
- (d) **Sub-Allocations and Rebalancing Ranges:** The sub-allocations and rebalancing ranges within the return-seeking portfolio will be reviewed from time to time as the total return-seeking allocation changes due to the Dynamic Investment Policy Schedule below. The rebalancing ranges for the total return-seeking assets and liability-hedging assets (fixed income) are also determined by the Dynamic Investment Policy Schedule below.



(e) In recognition of the risk and return objectives of the Plans and the City, an initial asset allocation policy was developed by the Investment Consultant in consultation with both the Chief Investments Officer and the Treasurer based on the Plans' current (at that time) funded status and the characteristics of the Plans and City. It is recognized, however, that the Plans' return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plans' funded statuses improve.

Based on an assessment of the Plans' long-term goals and desired risk levels, the HMRF/HWRF Pension Administration Sub-Committee (following advice from the Investment Consultant) recommended to City Council a "Dynamic Investment Policy" which was subsequently approved by City Council. The Dynamic Investment Policy was developed by the Investment Consultant in consultation with the Chief Investments Officer and the Treasurer, and is based on the 2010 Dynamic Investment Policy Study which was conducted by the Investment Consultant.

The Dynamic Investment Policy dynamically adjusts the allocation to return-seeking assets and liability-hedging assets as the Plans' funded statuses improve. Funded status may change due to any combination of investment returns, contributions, benefit payments, fund expenses, and changes to liabilities (including discount rate changes).

This Policy is based on the results of the 2010 Dynamic Investment Policy Study and the Dynamic Investment Policy Schedule is as follows:

Funded Ratio <sup>1 2</sup>	Return -Seeking Allocation		
	Minimum	Target	Maximum
<65%	50%	60%	70%
65%	50%	60%	70%
66%	50%	60%	70%
67%	50%	60%	70%
68%	50%	60%	70%
69%	50%	60%	70%
70%	50%	60%	70%
71%	49%	59%	69%
72%	47%	57%	67%
73%	46%	56%	66%
74%	44%	54%	64%
75%	43%	53%	63%
76%	41%	51%	61%
77%	40%	50%	60%
78%	38%	48%	58%
79%	37%	47%	57%
80%	35%	45%	55%
81%	34%	44%	54%
82%	32%	42%	52%
83%	31%	41%	51%

Return -Seeking Allocation			
Funded Ratio <sup>1 2</sup>	Minimum	Target	Maximum
84%	29%	39%	49%
85%	28%	38%	48%
86%	26%	36%	46%
87%	25%	35%	45%
88%	23%	33%	43%
89%	22%	32%	42%
90%	20%	30%	40%
91%	19%	29%	39%
92%	17%	27%	37%
93%	16%	26%	36%
94%	14%	24%	34%
95%	13%	23%	33%
96%	11%	21%	31%
97%	10%	20%	30%
98%	8%	18%	28%
99%	7%	17%	27%
100%	5%	15%	25%
>100%	5%	15%	25%

<sup>1</sup> Funded ratio defined on a Wind-up basis.

<sup>2</sup> Funded ratio will change based on any combination of investment returns, contributions, benefits payments, expenses and changes in liabilities.

Sub-Allocations: The sub-allocations within the liability hedging and return seeking categories will be drawn down approximately based on the table below. However, allocations to illiquid assets may be adjusted at a slower rate. Sub-allocations should be within 5% of their targets. The sub-allocations will be adjusted proportionately when the return-seeking allocation is between the levels listed in the table below.

	Return Seeking		Liability Hedging	
	Canadian Equity	Global Equity	Long-Term Bonds	Real Return Bonds
15% return seeking	8%	7%	11%	74%
20% return seeking	10%	10%	12%	68%
25% return seeking	13%	12%	14%	61%
30% return seeking	15%	15%	15%	55%
35% return seeking	18%	17%	17%	48%
40% return seeking	20%	20%	18%	42%
45% return seeking	23%	22%	20%	35%
50% return seeking	25%	25%	21%	29%
55% return seeking	28%	27%	23%	22%
60% return seeking	30%	30%	25%	15%

Duration Strategy: Based on the Dynamic Investment Policy Study completed in 2010, the portfolio interest rate dollar duration will increase as the funded status improves and the allocation to liability hedging assets increases. Interest rate derivatives may be used on either a strategic or opportunistic basis to mitigate risk by increasing the hedge ratio up to 100%. This will be at the discretion of the Administrator and based on the duration of the Plan's liabilities.

Rebalancing and Monitoring: A systematic rebalancing procedure will be utilized to ensure that the asset allocation of the Fund stays within the ranges defined above. As the return-seeking asset allocation changes, the sub-category allocations will be kept approximately proportional to the Initial allocation specified above. However, the allocations to illiquid investments may be adjusted more slowly. The funded ratio and asset allocation of the Fund will be reviewed regularly or when significant cash flows occur, and will be monitored and reported on at least an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time. The Fund will be rebalanced as necessary, making use of benefit payments and contributions to the extent possible and considering the transaction costs involved in the rebalancing.

## **2.04 Management Structure**

The Master Trust may employ a mix of active and passive management styles. Active management provides the opportunity to outperform specific investment benchmarks and it can provide lower absolute volatility of returns. Passive, or index, management minimizes the risk of underperformance relative to a benchmark index and is generally less expensive than active management. This approach also diversifies the manager risk, making the Master Trust less reliant on the skills of a single Investment Manager.

Because holding large amounts of foreign assets can expose the Master Trust to fluctuations in the level of the Canadian dollar, a portion of the foreign assets may be hedged back into Canadian dollars.

## **2.05 Environmental, Social and Governance (ESG) Issues**

The Administrator's primary responsibility is to make decisions in the best interest of the Plan beneficiaries. This responsibility requires that there be an appropriate balance between the need to seek long-term investment returns to help build better pensions for all members of the Plans and the needs for those returns to be delivered in as stable a manner as possible (given the behaviour of the investment markets).

The Administrator neither favours nor avoids managers and investments based on ESG integration. In keeping with the foregoing, and having regard to the size of the Plans and the pension fund, the Administrator does not take ESG factors into account when making investment decisions. As previously noted, the Administrator has delegated the search for investment managers to its Investment Consultant. On the direction of the Administrator, the Investment Consultant is directed to search and select the best investment managers for investing the assets of the Plans considering factors such as business, staff, historical performance and investment process, since the Administrator believes that these factors will contribute to higher investment returns in the long run and manage risk. Investment Managers are not prohibited from considering ESG factors if they believe that it will have a positive impact on the Plans' investment returns.

## Section 3—Permitted and Prohibited Investments

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### 3.01 General Guidelines

The investments of the Master Trust must comply with the requirements and restrictions set out in the *Income Tax Act* (Canada) and the *Pension Benefits Act* (Ontario), and their respective Regulations.

### 3.02 Permitted Investments

In general, and subject to the restrictions in this Section 3, the Investment Managers may invest in any of the following asset classes and in any of the investment instruments listed below:

- (a) **Canadian and Foreign Equities**
  - (i) Common and convertible preferred stock the shares of which are (a) listed on a prescribed stock exchange in Canada; or (b) listed on a prescribed stock exchange outside Canada;
  - (ii) Debentures convertible into common or convertible preferred stock, provided such instruments are traded on a recognized public exchange or through established investment dealers;
  - (iii) Rights, warrants and special warrants for common or convertible preferred stock the shares of which are (a) listed on a prescribed stock exchange in Canada; or (b) listed on a prescribed stock exchange outside Canada;
  - (iv) Private placement equities, where the security will be eligible for trading on a recognized public exchange within a reasonable and defined time frame;
  - (v) Instalment receipts, American Depository Receipts, Global Depository Receipts and similar exchange traded instruments;
  - (vi) Units of real estate investment trusts (REITs);
  - (vii) Exchange traded index-participation units (e.g., iUnits; SPDRs);
  - (viii) Income trusts registered as reporting issuers under the Securities Act, domiciled in a Canadian jurisdiction that provides limited liability protection to unit holders; and
  - (ix) Units of limited partnerships which are listed on the TSX exchange.

(b) **Canadian and Foreign Fixed Income**

- (i) Bonds, debentures, notes, non-convertible preferred stock and other evidence of indebtedness of Canadian or developed market foreign issuers whether denominated and payable in Canadian dollars or a foreign currency, provided such instruments are traded on a recognized public exchange or through established investment dealers, subject to Section 3.04 below;
- (ii) Real return bonds, subject to Section 3.04 below;
- (iii) Mortgages secured against Canadian real estate subject to Section 3.05 below;
- (iv) Mortgage-backed securities, guaranteed under the *National Housing Act*;
- (v) Term deposits and guaranteed investment certificates;
- (vi) Private placements of bonds subject to Section 3.03 below; and,
- (vii) Investment in bond and debenture issues of the City and affiliated bodies is neither encouraged nor discouraged. The decision by the Investment Manager(s) to invest in such issues is entirely their responsibility and they should be governed by the same degree of due diligence and prudence that they would apply when assessing any other investment in respect of a registered pension plan.

(c) **Cash and Short Term Investments**

- (i) Cash on hand and demand deposits;
- (ii) Canadian and U.S. Treasury bills and bonds (with remaining maturities not exceeding 365 days) issued by the federal (Canada & U.S., as applicable) and provincial governments and their agencies;
- (iii) Sovereign short-term debt instruments of developed countries, with maturities not exceeding 365 days;
- (iv) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances;
- (v) Commercial paper and term deposits; and
- (vi) Other money market instruments (maturity not exceeding 365 days).

(d) **Derivatives**

Assets are not invested in derivative instruments and the trust will not invest in derivatives directly (including options and futures). In the event that a pooled fund invests in derivatives, prior to investing in such pooled fund, appropriate risk management processes and procedures will be in place in order to help mitigate any risks associated with derivatives. Specifically, all derivative investments will

be made in accordance with applicable legislation and regulatory policies relating to the investment of pension plan assets in derivatives. The following uses of non-leveraged derivative instruments are permitted:

- (i) Covered put and/or call options with respect to publicly traded securities that are held in the portfolio;
  - (ii) The Investment Manager of an index portfolio may utilize fully backed, i.e. non-leveraged, derivative strategies designed to replicate the performance of specific market indices, i.e.- exchange-traded equity index futures contracts;
  - (iii) Investment Managers may use currency futures contracts and forward contracts to hedge foreign currency exposure; and
  - (iv) Interest rate derivatives can be used to hedge the interest rate risk in the liabilities.
- (e) **Other Investments**
- (i) Investments in open-ended or closed-ended pooled funds provided that the assets of such funds are permissible investments under this Policy, and
  - (ii) Deposit accounts of the Custodian can be used to invest surplus cash holdings.
- (f) **Index Mandates**
- (i) For managers of index mandates, permitted investment vehicles may include all instruments that may form part of the respective index.

### 3.03 Minimum Quality Requirements

- (a) **Quality Standards**  
 Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.
- (i) The minimum quality standard for individual bonds and debentures is 'BBB-' or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.
  - (ii) The minimum quality standard for individual short term investments is 'R-1' low or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.
  - (iii) The minimum quality standard for individual preferred shares is 'P-1' or equivalent as rated by a Recognized Bond Rating Agency, at the time of purchase.
  - (iv) All investments shall be reasonably liquid (i.e. in normal circumstances they should be capable of liquidation within 1 month).

(b) **Split Ratings**

In cases where the Recognized Bond Rating Agencies do not agree on the credit rating, the bond will be classified according to the following methodology:

- (i) If two agencies rate a security, use the lower of the two ratings;
- (ii) If three agencies rate a security, use the most common; and if four agencies rate a security, use the lowest most common; and
- (iii) If three agencies rate a security and all three agencies disagree, use the middle rating; if four agencies rate a security and all four agencies disagree, use the lowest middle rating.

(c) **Downgrades in Credit Quality**

Each Investment Manager will take the following steps in the event of a downgrade in the credit rating of a portfolio asset by a Recognized Rating Agency to below the purchase standards set out in Section 3.03 (a) Quality Standards:

- (i) The Chief Investments Officer will be notified of the downgrade by telephone at the earliest possible opportunity;
- (ii) Within ten business days of the downgrade, the Investment Manager will advise the Chief Investments Officer in writing of the course of action taken or to be taken by the Investment Manager, and its rationale; and
- (iii) Immediately upon downgrade, the Investment Manager will place the asset on a Watch List subject to monthly review by the Investment Manager with the Chief Investments Officer until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the above guidelines.

(d) **Rating Agencies**

For the purposes of this Policy, the following rating agencies shall be considered to be 'Recognized Bond Rating Agencies':

- (i) Dominion Bond Rating Service Limited;
- (ii) Standard and Poor's;
- (iii) Moody's Investors Services Inc.; and
- (iv) Fitch Ratings

(e) **Private Placement Bonds**

Private placement bonds are permitted subject to **all** of the following conditions:

- (i) The issues acquired must be 'A' or equivalent rated;
- (ii) The total investment in such issues must **not** exceed 10% of the market value of the Investment Manager(s) bond portfolio;

- (iii) The Investment Manager's portfolio may **not** hold more than 5% of the market value of any one private placement;
- (iv) The Investment Manager(s) must be satisfied that there is sufficient liquidity to ensure sale at a reasonable price; and
- (v) The minimum issue size for any single security must be at least \$150 million.

### **3.04 Maximum Quantity Restrictions**

#### **(a) Total Fund Level**

No one equity holding shall represent more than 10% of the total market value of the Master Trust's assets.

#### **(b) Individual Investment Manager Level**

The Investment Manager(s) shall adhere to the following restrictions:

##### **(i) Equities**

- (A) No one equity holding shall represent more than 10% of the market value of any one Investment Manager's equity portfolio.
- (B) No one equity holding shall represent more than 10% of the voting shares of a corporation.
- (C) No one equity holding shall represent more than 10% of the available public float of such equity security.
- (D) Income Trusts shall not comprise more than 15% of any Investment Manager's Canadian equity portfolio.

##### **(ii) Bonds and Short Term**

- (A) Except for federal and provincial bonds (including government guaranteed bonds), no more than 10% of an Investment Manager's bond portfolio may be invested in the bonds of a single issuer and its related companies.
- (B) Except for federal and provincial bonds, no one bond holding shall represent more than 10% of the market value of the total outstanding for that bond issue.
- (C) No more than 8% of the market value of an Investment Manager's bond portfolio shall be invested in bonds rated BBB (this includes all of BBB's: BBB+, BBB, and BBB-) or equivalent.
- (D) This Policy will permit the continued holding of instruments whose ratings are downgraded below BBB- after purchase, provided that such instruments are disposed of in an orderly fashion.



- (E) No more than 10% of the market value of an Investment Manager's bond portfolio shall be invested in bonds denominated in a currency other than Canadian dollars.
- (F) Except for the dedicated real return bond mandate, no more than 10% of the market value of the bond portfolio may be held in real return bonds.

**(iii) Other**

The use of derivative securities shall be supported at all times by the explicit allocation of sufficient assets to back the intended derivative strategy. For greater certainty, Investment Managers are not permitted to leverage the assets of the Master Trust. The use of derivative securities is only permitted for the uses described in this Policy. Purchase or sale of any of these instruments for speculative purposes is prohibited.

Notwithstanding the limits described in this Section, the single security limits do not apply to an Investment Manager's index mandate.

### **3.05 Prior Permission Required**

The following investments are permitted **provided that** prior permission for such investments has been obtained from the Administrator:

- (a) Investments in private placement equities (except for the foreign equity investment managers investing in pooled funds where the pooled fund policy permits private placement equities).
- (b) Direct investments in mortgages.
- (c) Direct investments in any one parcel of real property that has a book value less than or equal to 5% of the book value of the Master Trust's assets. The aggregate book value of all investments in real property and Canadian resource properties shall not exceed 25% of the book value of the Master Trust's assets. (Previously, the overall 25% limit in respect of real and resource properties was a requirement under the *Pension Benefits Act* (Ontario).)
- (d) Direct investments in venture capital financing or private equity partnerships; and
- (e) Derivatives other than those described in 3.02(d).

### **3.06 Prohibited Investments**

The Investment Managers shall not:

- (a) Invest in companies for the purpose of managing them;
- (b) Invest in securities that would result in the imposition of a tax on the Fund under the *Income Tax Act* (Canada) unless they provide a prior written acknowledgement that such investments will result in a tax and receive prior written permission for such investments from the Administrator or;
- (c) Make any investments not specifically permitted by this Policy.

### **3.07 Securities Lending**

The investments of the Master Trust may be loaned, for the purpose of generating revenue for the Fund, subject to the provisions of the *Pension Benefits Act* (Ontario) and the *Income Tax Act* (Canada), and applicable regulations.

For securities held in segregated accounts, such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and bankers' acceptances of chartered banks. For loaned securities, the security held or collateral must have an aggregate market value which shall never be less than the percentage of the aggregate market value of the loaned securities which is the highest of: (i) the minimum percentage required by any applicable legislation, regulatory authority or prevailing market practice; or (ii) 105%. The aggregate market value of the loaned securities and of the collateral shall be monitored and calculated by the Custodian daily.

The terms and conditions of any securities lending program will be set out in a contract with the custodian. The custodian shall, at all times, ensure that the Chief Investments Officer has a current list of those institutions that are approved to borrow the Fund's investments.

Lending of the portion of the Master Trust's assets held in a pooled fund is governed by the terms of the conditions set out in the pooled fund Statement of Investment Policies and Procedures or similar document.

### **3.08 Borrowing**

The Master Trust shall not borrow money, except to cover short-term contingency and the borrowing is for a period that does not exceed ninety days, subject to the *Pension Benefits Act* (Ontario), the *Income Tax Act* (Canada) and the written permission of the General Manager of Finance and Corporate Services.

### **3.09 Conflicts between the Policy and Pooled Fund Investment Policies**

While the guidelines in this Policy are intended to guide the management of the Master Trust, it is recognized that, due to the use of pooled funds, there may be instances where there is a conflict between the Policy and the investment policy of a pooled fund. In that case, the Investment Manager is expected to notify Chief Investments Officer upon the initial review of the Policy and whenever a change in the pooled fund policy creates a conflict. However, it is understood that any ambiguity will be interpreted in favour of the pooled fund policy, provided such interpretation complies with all applicable laws.

## Section 4—Monitoring and Control

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### 4.01 Delegation of Responsibilities

The General Manager of Finance and Corporate Services is the designated contact person for administrative matters. However, City Council has delegated certain administrative duties and responsibilities to internal and external agents, including to the HMRF/HWRF Pension Administration Sub-committee, the Chief Investments Officer and the General Manager of Finance and Corporate Services. Overall responsibility for the Master Trust ultimately rests with City Council, and the City (acting through Council) is the pension plan administrator of the Plans (for each Plan, the "Administrator").

**(a) Chief Investments Officer**

The Chief Investments Officer has been delegated the following responsibilities:

- (i) monitoring the Master Trust asset mix and rebalancing as required, including executing asset mix changes required per the Dynamic Policy Schedules outlined in section 2.03;
- (ii) day-to-day liaison including contract management with external Investment Managers, the Investment Consultant, and the Custodian/Trustee;
- (iii) monitoring and budgeting for cash flow within the pension fund;
- (iv) researching, recommending and implementing improvements to asset management of the Master Trust;
- (v) directing and implementing strategy for self-managed portfolios, if any; and
- (vi) preparing and presenting to City Council and the HMRF/HWRF Pension Administration Sub-Committee a report on the Plan's investment performance and asset mix, and such other information as City Council may require and/or other such information as the Chief Investments Officer considers appropriate to include in the report, on at least an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time.

**(b) Investment Managers**

The Investment Managers have been delegated the following responsibilities:

- (i) invest the assets of the Master Trust in accordance with this Policy;

- (ii) meet with the Chief Investments Officer as required and provide written reports regarding the Investment Manager's past performance, their future strategies and other issues as requested;
- (iii) notify the Chief Investments Officer, in writing of any significant changes in the Investment Manager's philosophies and policies, personnel or organization and procedures;
- (iv) will provide periodically, but no less than on an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time, lists of assets and such other information as may be requested by the Chief Investments Officer; and,
- (v) file, on at least an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time compliance reports (see Section 4.03).

**(c) Custodian/Trustee**

The custodian/trustee will:

- (i) Fulfil the regular duties of a Custodian/Trustee as required by law;
- (ii) maintain safe custody over the assets of the Master Trust Plans;
- (iii) execute the instructions of the Chief Investments Officer and the Investment Managers; and
- (iv) record income and provide financial statements to the Chief Investments Officer on at least an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time, or as otherwise required.

**(d) Investment Consultant**

The investment consultant has been delegated the following responsibilities:

- (i) assist the Chief Investments Officer in developing a prudent long-term asset mix, and specific investment objectives and policies;
- (ii) monitor, analyse and report on the Master Trust's investment performance and to support the Chief Investments Officer on any investment related matters;
- (iii) monitor and report the funded status of the Plans to the Chief Investments Officer on at least an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time;
- (iv) assist with the selection of Investment Managers, custodians and other suppliers; and

(v) meet with the Chief Investments Officer as required.

(e) **Actuary**

The actuary has been delegated the following responsibilities:

(i) perform actuarial valuations of the Plan as required; and

(ii) advise the Chief Investments Officer and the Investment Consultant on any matters relating to Plan design, membership and contributions, and actuarial valuations.

**4.02 Performance Measurement**

For the purpose of evaluating the performance of the Master Trust and the Investment Managers, all rates of returns are measured over moving four-year periods. Return objectives are net of fees and include realized and unrealized capital gains or losses plus income from all sources. Returns will be measured quarterly and will be calculated as time-weighted rates of return.

(a) **Active and Index Canadian Equity Managers**

Investment results of the active and index Canadian Equity Managers are to be tested regularly against a Benchmark Portfolio comprising:

Benchmark	%
S&P/TSX Composite Index	100

(b) **Active and Index Global Equity Managers**

Investment results of the active and index Global Equity Managers are to be tested regularly against a long-term Benchmark Portfolio comprising:

Benchmark	%
MSCI World Index (C\$)	100

(c) **Active and Index Canadian Bond Managers – Long Bonds**

Investment results of the active and index Canadian Bond Managers for Long Bonds are to be tested regularly against a Benchmark Portfolio comprising:

Benchmark	%
FTSE Canada Long Bond Index	100

- (d) **Active and Index Canadian Bond Managers – Real Return Bonds**  
 Investment results of the active and index Canadian Bond Managers for Real Return Bonds are to be tested regularly against a Benchmark Portfolio comprising:

Benchmark	%
FTSE Canada Real Return Bond Index	100

#### 4.03 Compliance Reporting by Investment Manager

The Investment Managers are required to complete and deliver a compliance report to the Chief Investments Officer and the Investment Consultant on at least an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time. The compliance report will indicate whether or not the Investment Manager was in compliance with this Policy during the period covered in the report.

In the event that an Investment Manager is not in compliance with this Policy, the Investment Manager is required to advise the Chief Investments Officer immediately, detail the nature of the non-compliance and recommend an appropriate course of action to remedy the situation.

The Master Trust invests in pooled funds with separate investment policies. In that case, the Investment Manager must confirm compliance to the pooled fund policy. In addition, should a conflict arise between a pooled fund policy and this Policy, the Investment Manager is required to advise the Chief Investments Officer immediately and detail the nature of the conflict.

#### 4.04 Standard of Professional Conduct

The Investment Managers are expected to comply, at all times and in all respects, with a written code of ethics that is no less stringent in all material respects than the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

The Investment Managers will manage the assets with the care, diligence and skill that an investment manager of ordinary prudence would use in dealing with pension plan assets. The Investment Managers will also use all relevant knowledge and skill that they possess or ought to possess as prudent investment managers.

## Section 5—Administration

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### 5.01 Conflicts of Interest

#### (a) Responsibilities

This standard applies to the City's staff, as well as to all agents employed by the City, in the execution of their responsibilities under the *Pension Benefits Act* (Ontario) (the "Affected Persons").

An "agent" is defined to mean a company, organization, association or individual, as well as its employees who are retained by the Administrator to provide specific services with respect to the investment, administration and management of the assets of the Master Trust.

#### (b) Disclosure

In the execution of their duties, the Affected Persons shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Master Trust assets.

Further, it is expected that no Affected Person shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted in accordance with City policies as approved by Council.

No Affected Person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the employee deals in the course of performance of his or her duties and responsibilities for the Master Trust.

It is incumbent on any Affected Person who believes that he or she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the General Manager of Finance and Corporate Services and/or the Treasurer immediately. The General Manager of Finance and Corporate Services and/or the Treasurer, in turn, will decide what action is appropriate under the circumstances.

No Affected Person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure, unless otherwise determined permissible by decision of the General Manager of Finance and Corporate Services and/or the Treasurer.

## 5.02 Related Party Transactions

The Chief Investments Officer shall not, on behalf of the Plans or the Master Trust, directly or indirectly,

- (i) lend the moneys of the Plans to a related party or use those moneys to hold an investment in the securities of a related party; or
- (ii) enter into a transaction with a related party.

The Chief Investments Officer may enter into a transaction with a related party:

- (i) for the operation or administration of the Plans if it is under terms and conditions that are not less favourable to the Plans than market terms and conditions and such transaction does not involve the making of loans to, or investments in, the related party or
- (ii) the value of the transaction is nominal or the transaction is immaterial. In assessing whether the value of the transaction is nominal or immaterial, two or more transactions with the same related party shall be considered as a single transaction.

For the purposes of Section 5.02, only the market value of the combined assets of the Fund shall be used as the criteria to determine whether a transaction is nominal or immaterial. Transactions less than 0.5% of the combined market value of the assets of the Fund are considered nominal.

The following investments are exempt from the related party rules:

- (i) investments in an investment fund or a segregated fund (as those terms are used in the *Pension Benefits Standards Regulations*) in which investors other than the administrator and its affiliates may invest and that complies with Section 9 and Section 11 of Schedule III to the *Pension Benefits Standards Regulations*;
- (ii) investments in an unallocated general fund of a person authorized to carry on a life insurance business in Canada;
- (iii) investments in securities issued or fully guaranteed by the Government of Canada, the government of a province, or an agency of either one of them;



- (iv) investments in a fund composed of mortgage-backed securities that are fully guaranteed by the Government of Canada, the government of a province, or an agency of either one of them;
- (v) investments in a fund that replicates the composition of a widely recognized index of a broad class of securities traded at a marketplace (as that term is used in the *Pension Benefits Standards Regulations*); or
- (vi) investments that involve the purchase of a contract or agreement in respect of which the return is based on the performance of a widely recognized index of a broad class of securities traded at a marketplace (as that term is used in the *Pension Benefits Standards Regulations*).

A "related party" is defined to mean the Administrator of the Plans, including any officer, director or employee of the Administrator. It also includes, the Investment Managers and their employees, a union representing employees of the employer, a member of the Master Trust, a spouse or child of the persons named previously, or a corporation that is directly or indirectly controlled by the persons named previously, and any other person constituting a "related party" under the *Pension Benefits Act (Ontario)*. Related party does not include government or a government agency, or a bank, trust company or other financial institution that holds the assets of the Master Trust.

### **5.03 Selecting Investment Managers**

In the event that a new Investment Manager must be selected or additional Investment Manager(s) added to the existing Investment Manager(s), the Chief Investments Officer will undertake an Investment Manager search with or without the assistance of a third-party investment consultant depending on the expertise required. The criteria used for selecting an Investment Manager will be consistent with the investment and risk philosophy set out in Section 1.04 (Investment and Risk Philosophy).

### **5.04 Directed Brokerage Commissions**

Investment Managers may use directed brokerage to pay for research and other investment related services provided they comply with, and provide the disclosure required by, the Soft Dollar Standards promulgated by the CFA Institute.

### **5.05 Monitoring of Asset Mix**

In order to ensure that the Master Trust operates within the minimum and maximum guidelines stated in this Policy as outlined in Section 2, the Chief Investments Officer shall monitor the asset mix on at least an annual basis, or upon such more frequent basis as may be requested by City Council or its delegates from time to time. Rebalancing between the investment mandates can take place over a reasonably short period of time after an imbalance has been identified. Rebalancing may be effected by redirecting the net cash flows to and from the Master Trust, or by transferring cash or securities between portfolios and/or Investment Managers.

## 5.06 Monitoring of Investment Managers

An important element in the success of this Policy is the link between the Investment Managers and the Chief Investments Officer. It is expected that the Investment Managers will communicate with the Chief Investments Officer whenever necessary. Periodic, written investment reports from the Investment Managers are sent to and reviewed by the Chief Investments Officer and form part of the monitoring process.

Meetings including telephone conference call meetings between the Investment Managers and the Chief Investments Officer will be scheduled as required. At each meeting or telephone conference call meeting, it is expected that the Investment Managers will prepare a general economic and capital markets overview, which will be distributed prior to or during the meeting. They should also include the following in their presentations:

- review of the previous period's strategy and investment results,
- discussion of how the condition of the capital markets affects the investment strategy of their respective portfolios,
- economic and market expectations,
- anticipated changes in the asset mix within the limits provided in this Policy, and,
- discussion of compliance and any exceptions.
- discussion of any votes that were cast against the wishes of company management by the Investment Managers in exercising voting rights (Section 5.08).

## 5.07 Dismissal of an Investment Manager

Reasons for considering the termination of the services of an Investment Manager include, but are not limited to, the following factors:

- (a) performance results which are below the stated performance benchmarks;
- (b) changes in the overall structure of the Master Trusts' assets such that the Investment Manager's services are no longer required;
- (c) change in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- (d) failure to adhere to this Policy.

## 5.08 Voting Rights

The Administrator has delegated voting rights acquired through the investments held by the Master Trust to the custodian of the securities to be exercised in accordance with the Investment Manager's instructions. Investment Managers are expected to exercise all voting rights related to investments held by the Master Trust in the interests of the members of the underlying pension plans. The Investment Managers shall report when they vote against the wishes of the company management to the Chief Investments Officer, providing information as to the reasons behind this vote.

## 5.09 Valuation of Investments Not Regularly Traded

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) **Equities**  
Average of bid-and-ask prices from two major investment dealers, at least once every calendar quarter.
- (b) **Bonds**  
Same as for equities.
- (c) **Mortgages**  
Unless in arrears, the outstanding principal plus/minus the premium/discount resulting from the differential between face rate and the currently available rate for a mortgage of similar quality and term, determined at least once every month.
- (d) **Real Estate**  
A certified written appraisal from a qualified independent appraiser at least once every two years.

### 5.10 Policy Review

This Policy may be reviewed and revised at any time, but at least once every calendar year it must be formally reviewed. Should the Investment Manager(s) wish to review this Policy at any time, it is his/her responsibility to contact the Chief Investments Officer with specific recommendations.

The appropriateness of the Dynamic Investment Policy asset allocation parameters should be reviewed on an ongoing basis. A new Dynamic Investment Policy Study (Dynamic Asset-Liability Modeling Study) may be undertaken if any of the following events occur:

- (a) The plan gets significantly closer to the end-state of the flight path, including if the flight path funded ratio measurement changes significantly (to over 84%) from the starting point of the 2010 study, which was 69%.
- (b) There are significant changes to the regulations that affect the key metrics used in making decisions in the 2010 Dynamic Investment Policy Study or should affect the asset allocation in the future;
- (c) Capital market conditions change significantly such that the assumptions embedded in the 2010 Dynamic Investment Policy Study are no longer reasonable; or
- (d) The plan sponsor's risk posture changes significantly.

## **Appendix A – Statement of Investment Policies & Procedures**

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# Statement of Investment Policies & Procedures - Hamilton Municipal Retirement Fund

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## Overview

### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the "Hamilton Municipal Retirement Fund SIPP") provides the framework for the investment of the assets of the Hamilton Municipal Retirement Fund, registration number 0275123 (the "Plan");

The objective of the Hamilton Municipal Retirement Fund SIPP is to ensure that the assets of the Plan, together with expected contributions made by both the City and the Plan members, shall be invested in a continued prudent and effective manner.

The Hamilton Municipal Retirement Fund SIPP is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Plan (the "Fund") are within the parameters set out in the *Pension Benefits Act*, (Ontario) and the Regulations thereunder.

All provisions in the Master Trust SIPP apply to this Appendix.

### 1.02 Background of the Plan

The Hamilton Municipal Retirement Fund is a contributory defined benefit plan. The plan has been closed to new entrants since 1965. Municipal employees hired after June 30, 1965 participate in the OMERS Pension Plan. Therefore, this is a closed fund and will terminate upon the death of the last retiree or successor. Effective July 1, 2001, the last active member retired from the Plan.

### 1.03 Plan Profile

#### a) Contributions

Under the terms of the Plan text:

For normal retirement age 60 class: 7% of contributory earnings up to YMPE plus 8.5% of contributory earnings in excess of the YMPE.

For normal retirement age 65 class: 6% of contributory earnings up to the YMPE plus 7.5% of contributory earnings in excess of the YMPE.

Effective August 1, 1998, the last member attained "Paid Up" status and employee contributions to the Plan ceased.

#### b) Benefits

2% of average annual earnings in best consecutive 5 years before retirement for each year of credited service up to 35 years reduced by 0.675% of the 5-year average earnings up to the final year's YMPE for each year of contributory service after

January 1, 1966. CPP Offset suspended from date of retirement to age 65. Effective Jan 1, 2008 annual increases will not be less than the increase provided to retirees under the OMERS plan which is currently equal to 100% of the increase in the Consumer Price Index to a maximum of 6.0% per annum.

**c) Liabilities**

As of the most recent actuarial valuation of the Plan as at December 31, 2017 there were no active members, 3 deferred members and 186 retirees and beneficiaries.

As of December 31, 2017 the going-concern liability of the plan was \$73,940,300 compared to the actuarial value of assets of \$77,679,500. On a solvency basis, the liability was \$63,784,500, while the assets (at market) were \$77,579,500.

**1.04 Objective of the Plan**

The objective of the Plans is to provide members of the Plans with retirement benefits prescribed under the terms thereof.

**1.05 Investment and Risk Philosophy**

The primary investment objective is to provide an economic return on assets sufficient to fund plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plan and the City.

In recognition of the risk and return objectives of the Plan and the City, an initial Asset Allocation Policy was developed based on the Plan's current funded status and the characteristics of the Plan and City. It is recognized, however, that the Plan return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plan's funded status improves.

**1.06 Administration**

The General Manager of Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

**1.07 Pooling of Assets**

For investment purposes, certain assets of the Plan are invested in units of the City of Hamilton Defined Benefit Plans Master Trust, along with certain assets of the Hamilton-Wentworth Retirement Fund and the Hamilton Street Railway Pension Plan (1994).

Up to 2 % of Plan assets may be invested outside of the City of Hamilton Defined Benefit Plans Master Trust for operating expenses and liquidity purposes, in accordance with the parameters set out in Section 3.02 (c) and (e) of the City of Hamilton Defined Benefit Plans Master Trust SIPP. The provisions of the City of Hamilton Defined Benefit Plans Master Trust SIPP apply to the investment of these assets.

**1.08 Master Trust SIPP**

The Master Trust SIPP is the policy that should be followed while investing the pooled assets of the Hamilton Municipal Retirement Fund.

# Statement of Investment Policies & Procedures - Hamilton Street Railway Pension Plan (1994)

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## Overview

### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the "Hamilton Street Railway Pension Plan SIPP") provides the framework for the investment of the assets of the Hamilton Street Railway Pension Plan (1994), registration number 0253344 (the "Plan");

The objective of the Hamilton Street Railway Pension Plan SIPP is to ensure that the assets of the Plan, together with expected contributions made by both the City and the Plan members, shall be invested in a continued prudent and effective manner.

The Hamilton Street Railway Pension Plan SIPP is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Plan (the "Fund") are within the parameters set out in the *Pension Benefits Act*, (Ontario) and the Regulations thereunder.

All provisions in the Master Trust SIPP apply to this Appendix.

### 1.02 Background of the Plan

The current Plan dates from January 1, 1994 when two former plans – Canada Coach Lines and Hamilton Street Railway plans were merged. Effective January 1, 2009 this contributory defined benefit plan was closed to new members and active members stopped contributing and accruing service under the plan.

### 1.03 Plan Profile

#### a) Contributions

Under the terms of the Plan text, members' contributions prior to 1999 were 7.5% of earnings less contributions made to Canada Pension Plan. For the calendar years 1999 through 2008, members (depending on the year) either enjoyed a contribution holiday or were limited to contribution rates of 1% of earnings. Effective January 2009, as members became City employees, no member contributions have been required or permitted to be made to the Plan.

#### b) Benefits

Members receive a pension equal to 1.5% of average pensionable earnings up to the average Year's Maximum Pensionable Earnings (YMPE) as established under the Canada Pension Plan, plus 2% of the excess, multiplied by years of credited service accrued up to December 2008. The "average pensionable earnings" are defined as the average of best five years' earnings during the member's credited service and OMERS credited service, if any. The "average YMPE" is defined as the average of the YMPE for the last thirty-six months of plan membership.

In the event that pensions accrued under the prior plan exceed the pension accrued under the current plan for service prior to July 1, 1980, then the pension is increased accordingly. Pensions are subject to annual indexing equal to the indexing provided to retirees under the OMERS plan (100% of inflation to a maximum of 6% per annum).

**c) Liabilities**

As of the most recent actuarial valuation of the Plan as at January 1, 2017, there were 388 active members, 26 deferred members and 599 retirees and beneficiaries. The average age of the active members was approximately 52.8 years with average pensionable earnings of \$66,849.

As of January 1, 2017, the going-concern liability of the plan was \$214,681,000 compared to the actuarial value of assets of \$193,491,000. Approximately 34.2% of the accrued liability was related to active members, approximately 65.3% was related to retirees, and approximately 0.5% was related to deferred members. On a solvency basis, the liability was \$219,410,000 while the assets (at market) were \$193,291,000. Both the going-concern and solvency deficits are being eliminated through a series of special payments.

#### **1.04 Objective of the Plan**

The objective of the Plan is to provide members of the Plan with retirement benefits prescribed under the terms thereof.

#### **1.05 Investment and Risk Philosophy**

The primary investment objective is to provide an economic return on assets sufficient to fund plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plan and the City.

In recognition of the risk and return objectives of the Plan and the City, an initial Asset Allocation Policy was developed based on the Plan's current funded status and the characteristics of the Plan and City. It is recognized, however, that the Plan return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plan's funded status improves.

#### **1.06 Administration**

The General Manager of Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

#### **1.07 Pooling of Assets**

For investment purposes, certain assets of the Plan are invested in units of the City of Hamilton Defined Benefit Plans Master Trust, along with certain assets of the Hamilton-Wentworth Retirement Fund and the Hamilton Municipal Retirement Fund.

Up to 2 % of Plan assets may be invested outside of the City of Hamilton Defined Benefit Plans Master Trust for operating expenses and liquidity purposes, in accordance with the parameters set out in Section 3.02 (a), (c) and (e) of the City of Hamilton Defined Benefit



Plans Master Trust SIPP. The provisions of the City of Hamilton Defined Benefit Plans Master Trust SIPP apply to the investment of these assets.

### **1.08 Master Trust SIPP**

The Master Trust SIPP is the policy that should be followed while investing the pooled assets of the Hamilton Street Railway Pension Plan (1994).

# Statement of Investment Policies & Procedures - The Hamilton-Wentworth Retirement Fund

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## Overview

### 1.01 Purpose of Statement

This Statement of Investment Policies and Procedures (the "Hamilton-Wentworth Retirement Fund SIPP") provides the framework for the investment of the assets of the Hamilton-Wentworth Retirement Fund, registration number 1073352 (the "Plan");

The objective of the Hamilton-Wentworth Retirement Fund SIPP is to ensure that the assets of the Plan, together with expected contributions made by both the City and the Plan members, shall be invested in a continued prudent and effective manner.

The Hamilton-Wentworth Retirement Fund SIPP is based on the "prudent person portfolio approach" to ensure the prudent investment and administration of the assets of the Plan (the "Fund") are within the parameters set out in the *Pension Benefits Act*, (Ontario) and the Regulations thereunder.

All provisions in the Master Trust SIPP apply to this Appendix.

### 1.02 Background of the Plan

The Plan is a contributory, defined benefit Plan. Effective January 1, 1985 all active Region Other Participants, excluding Police Civilians, were transferred to OMERS. The liability to transfer such members to OMERS was met by monthly payments of \$115,187 until December 31, 2000 and monthly payments of \$361 thereafter, concluding September 30, 2003. Effective January 1, 2002, the last active member retired from the plan.

### 1.03 Plan Profile

#### a) Contributions

Under the terms of the Plan text:

For normal retirement age 60 class:

- 1) Senior Police Officers: contributions should be 7% of earnings up to the YMPE plus 8.5% of contributory earnings in excess of YMPE.
- 2) Other Police Officers: contributions should be 6.5% of earnings up to YMPE plus 8% of contributory earnings in excess of YMPE.

For a normal retirement age of 65 contributions should be 5.75% of earnings.

**b) *Benefits***

2% of average annual earnings in best 5 years before retirement for each year of credited service up to 35 years reduced by 0.675% of the 5-year average earnings up to the final year's YMPE for each year of contributory service after January 1, 1966. CPP Offset suspended from date of retirement to age 65. Effective Jan 1, 2008 annual increases will not be less than the increase provided to retirees under the OMERS plan, which is currently equal to 100% of the increase in the Consumer Price Index to a maximum of 6.0% per annum.

**c) *Liabilities***

As of the most recent actuarial valuation of the Plan as at December 31, 2016, there were no active members, no deferred members and 171 retirees and beneficiaries.

As of December 31, 2016, the going-concern liability of the plan was \$55,249,000 compared to the actuarial value of assets of \$59,443,000. On a solvency basis, the liabilities were \$63,005,000 while the assets were \$59,373,000. Both deficits are being eliminated through a series of special payments.

**1.04 Objective of the Plan**

The objective of the Plan is to provide members of the Plan with retirement benefits prescribed under the terms thereof.

**1.05 Investment and Risk Philosophy**

The primary investment objective is to provide an economic return on assets sufficient to fund plan liabilities over the long-term, while adhering to prudent investment practices.

The investment philosophies and strategies must take into account both return and risk objectives of the Plan and the City.

In recognition of the risk and return objectives of the Plan and the City, an initial Asset Allocation Policy was developed based on the Plan's current funded status and the characteristics of the Plan and City. It is recognized, however, that the Plan return requirements and risk tolerance will change over time, and the intent is to reallocate the portfolio to lower risk allocations dynamically as the Plan's funded status improves.

**1.06 Administration**

The General Manager of Finance and Corporate Services for the City of Hamilton is the designated contact at the City for administrative purposes.

**1.07 Pooling of Assets**

For investment purposes, certain assets of the Plan are invested in units of the City of Hamilton Defined Benefit Plans Master Trust, along with certain assets of the Hamilton Street Railway Pension Plan (1994) and the Hamilton Municipal Retirement Fund.

Up to 2 % of Plan assets may be invested outside of the City of Hamilton Defined Benefit Plans Master Trust for operating expenses and liquidity purposes, in accordance with the parameters set out in Section 3.02 (c) and (e) of the City of Hamilton Defined Benefit Plans Master Trust SIPP. The provisions of the City of Hamilton Defined Benefit Plans Master Trust SIPP apply to the investment of these assets.

### **1.08 Master Trust SIPP**

The Master Trust SIPP is the policy that should be followed while investing the pooled assets of the Hamilton-Wentworth Retirement Fund Pension Plan.

## **Appendix B – Compliance Reports**

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**The City of Hamilton Master Trust  
 Index Bond Manager**

**Compliance Report for the Quarter Ended \_\_\_\_\_  
 (date)**

		<b>GUIDELINES</b>	<b>POLICY COMPLIED WITH</b>
<b>ASSET MIX (at Market Value)</b>		<b>%</b>	<b>YES/NO *</b>
<b>FIXED INCOME</b>	<b>BONDS</b>	100%	
<b>CASH</b>	<b>SHORT-TERM &amp; CASH</b>	0%	
<b>CONSTRAINTS</b>			
<b>GENERAL</b>	Investment Policy Section 3.01 – General Guidelines		
<b>BONDS</b>	Investment Policy Section 3.02 (b) – Bonds		
<b>CASH</b>	Investment Policy Section 3.02 (c) – Cash		
<b>DERIVATIVES</b>	Investment Policy Section 3.02 (c) – Derivatives		
<b>OTHER</b>	Investment Policy Section 3.02 (e) – Other Investments		
<b>INDEX</b>	Investment Policy Section 3.02 (f) – Index Mandates		
<b>QUALITY REQUIREMENTS</b>	Investment Policy Section 3.03 – Minimum Quality Requirements		
<b>QUANTITY RESTRICTIONS</b>	Investment Policy Section 3.04 – Maximum Quantity Restrictions		
<b>PRIOR PERMISSION</b>	Investment Policy Section 3.05 – Prior Permission Required		
<b>PROHIBITED INVESTMENTS</b>	Investment Policy Section 3.06 – Prohibited Investments		
<b>SECURITIES LENDING</b>	Investment Policy Section 3.07 – Securities Lending		
<b>RESPONSIBILITIES</b>	Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers		
<b>STANDARDS OF PROFESSIONAL CONDUCT</b>	Investment Policy Section 4.04 - Standards of Professional Conduct		
<b>CONFLICTS OF INTEREST</b>	Investment Policy Section 5.01 - Conflicts of Interest		
<b>VOTING RIGHTS</b>	Investment Policy Section 5.08 - Voting Rights		

\* If policy not complied with, comment on specifics

**COMPLETED BY:** \_\_\_\_\_ **SIGNED BY:** \_\_\_\_\_

**The City of Hamilton Master Trust  
 Index Equity Manager**

**Compliance Report for the Quarter Ended \_\_\_\_\_  
 (date)**

		<b>GUIDELINES</b>	<b>POLICY COMPLIED WITH YES/NO *</b>
<b>ASSET MIX (at Market Value)</b>		%	
<b>EQUITIES</b>			
	U.S.		
	EAFE		
	TOTAL FOREIGN		
<b>CASH</b>	SHORT-TERM & CASH		
<b>CONSTRAINTS</b>			
<b>GENERAL</b>	Investment Policy Section 3.01 – General Guidelines		
<b>EQUITIES</b>	Investment Policy Section 3.02 (a) – Canadian and Foreign Equities		
<b>CASH</b>	Investment Policy Section 3.02 (c) – Cash and Short Term Investments		
<b>DERIVATIVES</b>	Investment Policy Section 3.02 (d) – Derivatives		
<b>OTHER INVESTMENTS</b>	Investment Policy Section 3.02 (e) – Other Investments		
<b>INDEX</b>	Investment Policy Section 3.02 (f) – Index Mandates		
<b>QUALITY REQUIREMENTS</b>	Investment Policy Section 3.03 – Minimum Quality Requirements		
<b>QUANTITY RESTRICTIONS</b>	Investment Policy Section 3.04 – Maximum Quantity Restrictions		
<b>PRIOR PERMISSION</b>	Investment Policy Section 3.05 – Prior Permission Required		
<b>PROHIBITED INVESTMENTS</b>	Investment Policy Section 3.06 – Prohibited Investments		
<b>SECURITIES LENDING</b>	Investment Policy Section 3.07 – Securities Lending		
<b>BORROWING</b>	Investment Policy Section 3.08 – Borrowing		
<b>RESPONSIBILITIES</b>	Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers		
<b>STANDARDS OF PROFESSIONAL CONDUCT</b>	Investment Policy Section 4.04 - Standards of Professional Conduct		
<b>CONFLICTS OF INTEREST</b>	Investment Policy Section 5.01 - Conflicts of Interest		
<b>VOTING RIGHTS</b>	Investment Policy Section 5.08 - Voting Rights		

\* If policy not complied with, comment on specifics

**COMPLETED BY:** \_\_\_\_\_ **SIGNED BY:** \_\_\_\_\_

**The City of Hamilton Master Trust  
 Active Bond Manager**

**Compliance Report for the Quarter Ended \_\_\_\_\_  
 (date)**

		<b>GUIDELINES</b>	<b>POLICY COMPLIED WITH YES/NO *</b>
<b>ASSET MIX (at Market Value)</b>		%	
<b>FIXED INCOME</b>	BONDS	100%	
<b>CASH</b>	SHORT-TERM & CASH	0%	
<b>CONSTRAINTS</b>			
<b>GENERAL</b>	Investment Policy Section 3.01 – General Guidelines		
<b>BONDS</b>	Investment Policy Section 3.02 (b) – Bonds		
<b>CASH</b>	Investment Policy Section 3.02 (c) – Cash		
<b>DERIVATIVES</b>	Investment Policy Section 3.02 (c) – Derivatives		
<b>OTHER</b>	Investment Policy Section 3.02 (e) – Other Investments		
<b>INDEX</b>	Investment Policy Section 3.02 (f) – Index Mandates		
<b>QUALITY REQUIREMENTS</b>	Investment Policy Section 3.03 – Minimum Quality Requirements		
<b>QUANTITY RESTRICTIONS</b>	Investment Policy Section 3.04 – Maximum Quantity Restrictions		
<b>PRIOR PERMISSION</b>	Investment Policy Section 3.05 – Prior Permission Required		
<b>PROHIBITED INVESTMENTS</b>	Investment Policy Section 3.06 – Prohibited Investments		
<b>SECURITIES LENDING</b>	Investment Policy Section 3.07 – Securities Lending		
<b>RESPONSIBILITIES</b>	Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers		
<b>STANDARDS OF PROFESSIONAL CONDUCT</b>	Investment Policy Section 4.04 - Standards of Professional Conduct		
<b>CONFLICTS OF INTEREST</b>	Investment Policy Section 5.01 - Conflicts of Interest		
<b>VOTING RIGHTS</b>	Investment Policy Section 5.08 - Voting Rights		

\* If policy not complied with, comment on specifics

**COMPLETED BY:** \_\_\_\_\_ **SIGNED BY:** \_\_\_\_\_



**The City of Hamilton Master Trust  
 Active Equity Manager**

**Compliance Report for the Quarter Ended \_\_\_\_\_  
 (date)**

		<b>GUIDELINES</b>	<b>POLICY COMPLIED WITH YES/NO *</b>
<b>ASSET MIX (at Market Value)</b>		%	
<b>EQUITIES</b>	CANADIAN		
	U.S.		
	EAFE		
	TOTAL FOREIGN		
<b>CASH</b>	SHORT-TERM & CASH		
<b>CONSTRAINTS</b>			
<b>GENERAL</b>	Investment Policy Section 3.01 – General Guidelines		
<b>EQUITIES</b>	Investment Policy Section 3.02 (a) – Canadian and Foreign Equities		
<b>CASH</b>	Investment Policy Section 3.02 (c) – Cash and Short Term Investments		
<b>DERIVATIVES</b>	Investment Policy Section 3.02 (d) – Derivatives		
<b>OTHER INVESTMENTS</b>	Investment Policy Section 3.02 (e) – Other Investments		
<b>INDEX</b>	Investment Policy Section 3.02 (f) – Index Mandates		
<b>QUALITY REQUIREMENTS</b>	Investment Policy Section 3.03 – Minimum Quality Requirements		
<b>QUANTITY RESTRICTIONS</b>	Investment Policy Section 3.04 – Maximum Quantity Restrictions		
<b>PRIOR PERMISSION</b>	Investment Policy Section 3.05 – Prior Permission Required		
<b>PROHIBITED INVESTMENTS</b>	Investment Policy Section 3.06 – Prohibited Investments		
<b>SECURITIES LENDING</b>	Investment Policy Section 3.07 – Securities Lending		
<b>BORROWING</b>	Investment Policy Section 3.08 – Borrowing		
<b>RESPONSIBILITIES</b>	Investment Policy Section 4.01 (b) – Delegation of Responsibilities – Investment Managers		
<b>STANDARDS OF PROFESSIONAL CONDUCT</b>	Investment Policy Section 4.04 - Standards of Professional Conduct		
<b>CONFLICTS OF INTEREST</b>	Investment Policy Section 5.01 - Conflicts of Interest		
<b>VOTING RIGHTS</b>	Investment Policy Section 5.08 - Voting Rights		

\* If policy not complied with, comment on specifics

**COMPLETED BY:** \_\_\_\_\_ **SIGNED BY:** \_\_\_\_\_

**Appendix "B" to Item 7 of HMRF-HWRF Report 18-001  
Page 1 of 2**

**RESOLUTION OF THE COUNCIL  
OF  
THE CITY OF HAMILTON**

**Amendment to The Hamilton Municipal Retirement Fund**

**WHEREAS** The City of Hamilton (the "Employer") established The Hamilton Municipal Retirement Fund, as amended from time to time, (the "Plan");

**AND WHEREAS** the Employer now wishes to amend the Plan to comply with the changes which came into force on May 1, 2018 under Ontario Regulation 250/18 of the Pension Benefit Act,

**AND WHEREAS** the Employer has the right to amend the Plan;

**NOW THEREFORE BE IT RESOLVED THAT effective May 1, 2018:**

1. Section 4.01 shall be deleted in its entirety, and is replaced with the following:

**Corporation Contributions** The Corporation shall contribute the amount required in excess of the Member contributions to provide for payment of the benefits of this Plan in accordance with the Plan, the Act and the Income Tax Act, and shall pay into the Fund from time to time as required by the Act, and based on the advice of the Actuary after taking into account the assets of the Fund and all other relevant factors, subject to the maximum contribution limitations of the Income Tax Act:

- (a) the contributions deducted under Article III from the Contributory Earnings of Members together with the amount required to be paid by the Corporation to provide the normal cost of the benefits currently accruing in accordance with the provisions of the Plan, including contributions required in respect of any provision for adverse deviations, as defined in the Act;
- (b) contributions in respect of the amortization of the cost of any Plan amendment that increases going concern liabilities, where required by and as defined in the Act; and
- (c) contributions in respect of the amortization of any unfunded liability and reduced solvency deficiency, as defined in the Act;

all in accordance with, and within the time limits specified in, the Act.

2. The Administrator of the Plan is authorized to execute such other agreements, certificates,

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**Page 2 of 2**

consents, corporate papers and other documents, make such payments and take all other action (including the filing of all required documents with appropriate governmental agencies and ensuring compliance with any reasonable changes or conditions imposed by the Canada Revenue Agency, the Financial Services Commission of Ontario or any other appropriate governmental authorities in connection with the actions authorized or approved in the foregoing resolutions) that the Administrator deems necessary or desirable to carry out the intent and purposes of the foregoing resolution.

The foregoing resolutions are hereby certified as adopted by the authority granted by the Council of the City of Hamilton at a meeting on the \_\_\_ day of \_\_\_\_\_, 2018.

**DATED** the \_\_\_ day of \_\_\_\_\_, 2018.

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