

**CITY WIDE
IMPLICATIONS**

CITY OF HAMILTON

***MAYOR'S COMMUNITY TRUSTEE PANEL
To Create a Permanent Hamilton Future Fund***

Report to: Mayor and Members Committee of the Whole	Submitted by: Hamilton Community Trustee Panel
Date: August 26, 2002	Prepared by: C. Elliott 546-2162 R. Rossini 546-6150

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107)(City Wide)**

RECOMMENDATION:

- a) That the projects listed in Appendix A totalling \$37,024,000 be funded from the Hamilton Future Fund.
- b) That the Hamilton Future Fund be invested and managed internally by City of Hamilton staff, as described in the body of the report.
- c) That the Governance Model for the Hamilton Future Fund as described in the body of the report be endorsed.

Robert E. Wade
Mayor, City of Hamilton and Panel Chair

EXECUTIVE SUMMARY:

This report presents the findings and final recommendations of the Mayor's Community Trustee Panel on the establishment of a permanent Hamilton Future Fund, the recommended projects to be funded from the initial \$37 million and the governance of the fund.

Preliminary report (FCS02027) presented to Committee of the Whole March 19, 2002 recommended and received endorsement to establish a separate and permanent community trust fund (i.e., the Hamilton Future Fund) to be used to focus on some key areas of investment in the City. Council also approved a split fund model, protecting \$100 million for 5 years and \$37 million to be strategically invested over 5 years. The

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107) (City Wide) - Page 2 of 8**

approved funding structure allows investment to be made in the near term, while at the same time maintaining a sizeable permanent fund to benefit Hamiltonians in perpetuity.

This report recommends a list of projects totalling \$37,024,000 (Appendix A) for funding from the Hamilton Future Fund and the preferred fund governance model.

BACKGROUND:

The City of Hamilton has received \$137 million from Hamilton Hydro in July 2002 for the value of Hydro assets owned by the City. The Mayor's Community Trustee Panel was established to develop a strategy for consideration by Council on the establishment and financial management of a permanent Hamilton Future Fund, with the original capital or seed money sourced from the Hamilton Hydro proceeds owing to the people of the City of Hamilton.

The establishment of this broad based community panel was designed to ensure the community is involved in deliberations about the permanent Hamilton Future Fund and its strategic use in building a city that will work, grow and prosper.

The panel consists of the Mayor, Councillors Caplan, Dilanni, and Ferguson, and 13 members of the community representing a broad community perspective both geographically and through interests. A list of the community members and a brief summary of their background is included in Appendix B.

In the initial meetings, staff presented the panel with an overview of the issues facing the City to assist in panel deliberations. The group then developed a mission statement and identified appropriate principles and criteria to guide the management of the fund, which are summarized below.

Mission Statement

To create and protect a permanent legacy for the current and future generations of Hamiltonians to enjoy economic prosperity and improved quality of life.

Guiding Principles

Investments Provide Permanent Community Benefit

- Funds should be "invested" rather than "spent" so as to be of permanent benefit to the community.
- Concept of "Return on Investment" included in all funding allocation decisions.
- Create a legacy for future generations
- Investments should be made with the long-term impact fully understood.

Improve the Economic Prosperity of Hamiltonians

- Investments should take into account the potential for economic development.
- Tax Competitiveness with neighbouring municipalities

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107) (City Wide) - Page 3 of 8**

- Downtown redevelopment
- Development of key economic clusters (e.g. the airport, the waterfront, etc.)
- Strategic investments in job creation.
- the Business Tax Reduction (BTR) program.

Self-Sustaining Fund

- Funding structure options were reviewed by the panel
- Recommend establishment of \$100 million permanent fund
- Growth over 5 years to return it to the original amount (\$137 million)
- Recommendations for allocation of \$37 million over 5 years forthcoming

Investments should Achieve Specific, Measurable Results

- Investments will include specific performance measures
- Clear articulation of expected outcome at time of investment (short and long term)
- Means by which success will be measured must be identified and accepted

Fund Management should include a Clear Accountability Framework

- Fund management should be accountable to its stakeholders and the community at large
- Separate and regular reporting of investment outcomes to Council.

Fund Management should be Transparent and Include Community Consultation

- Fund management should be transparent to stakeholders
- Regular community input
- Regular review of the fund and its direction be undertaken
- Clear accountability for Council and the Board

In order to create a self-sustaining fund, the panel recommended a Split Fund model, whereby \$100 million would be protected for 5 years and \$37 million would be strategically invested in projects over 5 years.

To provide guidance in the detailed panel deliberations, the Hamilton Community Trustee Panel submitted report "Creation of a Permanent Hamilton Future Fund – Preliminary Report (FCS02027)" to Committee of the Whole March 19, 2002, seeking Council approval of the following recommendations:

- a) That the Mission Statement and Principles developed by the Mayor's Community Trustee Panel described in the body of this report and summarized in Appendix A to Report FCS02027 be endorsed.
- b) That the Split Fund model (\$100 million protected for 5 years and \$37 million to be strategically invested over 5 years) be endorsed.
- c) That the Community Trustee Panel be directed to report back with recommendations for the apportionment of the \$37 million.

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107) (City Wide) - Page 4 of 8**

- d) That the Community Trustee Panel be directed to report back with further recommendations regarding a preferred governance model.”

Council endorsed the recommendations as presented. This report will address recommendations c) and d), making recommendation to Council on the apportionment of the \$37 million and the preferred governance model to be used in administering the fund.

ANALYSIS OF ALTERNATIVES:

ALLOCATION OF THE \$37 MILLION

The Panel identified three strategic investment categories and recommends allocating a portion of funds according to its potential impact on Hamilton’s future and support for the mission statement and the investment principles listed in the background section of this report. Growing Hamilton’s economic base in order to create jobs and generate subsequent investment revenues was deemed most critical, and accorded the majority (65%) of investment funds by the Panel. Enhancing Hamilton’s social fabric is recommended to receive 20% of funds, and 15% of investment funds are proposed to be earmarked with the goal of enhancing community life within the city.

The recommended investment categories are reflected on Appendix A (Proposed Projects Listing) and can be summarized as follows:

Enhancing Hamilton’s Economy	65%
Enhancing Hamilton’s Social Fabric	20%
Enhancing Hamilton’s Community Life	<u>15%</u>
	100%

Staff provided the panel with a list of projects to consider for funding from the Hamilton Future Fund. The projects presented were considered high priority projects, however are unlikely to receive funding within the normal budget process for several years due to the City’s current financial constraints. Presentations by staff provided the panel with details of each project.

The Panel also received funding requests from outside organizations or agencies including the Art Gallery of Hamilton, Giant’s Rib, YWCA and the Urban Development Bank. The outside organizations were invited to make presentations to provide project details and answer questions related to the funding requests.

An interim report, FCS0264, recommended “that members of Council provide input on possible funding projects in accordance with investment and management principles previously endorsed by council in report FCS0227 and in accordance with the investment categories set out in the report herein.” Several councillors submitted projects for consideration and made presentations to the panel supporting those projects.

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107) (City Wide) - Page 5 of 8**

EVALUATION OF PROJECTS

The Panel evaluated each submitted project using the Mission Statement and the Principals as a guide. Background material on projects being recommended for funding are contained in Appendix C.

RECOMMENDED PROJECTS

After careful consideration of each project, weighing the funding request against the guiding principles and the three investment categories to meet the needs of the City, the panel is recommending the projects listed in Appendix A. The projects total \$37,024,000 of total available funds of \$38,980,000 (including estimated earned interest of \$1,980,000), leaving a contingency of \$1,956,000.

Investment in Downtown Hamilton was considered a high priority by the panel and various Downtown related projects are recommended in this report, appearing in a separate section in Appendix A. The recommended funds earmarked for Downtown projects total \$16,064,000.

The Proposed Project listing also categorizes the projects into the three investment categories, with total recommended projects in each category as follows:

Enhancing Hamilton’s Economy	\$24,564,000	66.3%
Enhancing Hamilton’s Social Fabric	5,900,000	16.0%
Enhancing Hamilton’s Community Life	<u>6,560,000</u>	<u>17.7</u>
	\$37,024,000	100.0%

MANAGING THE FUND’S INVESTMENT PORTFOLIO

There are two options to managing the investment portfolio of the Hamilton Future Fund; use internal staff or hire a Fund Manager.

Option 1 – Internal Staff

Funds would be invested and managed by existing City Of Hamilton staff. The City has qualified investment personnel on staff, and for years have maintained a large and sophisticated investment program. Currently, the City’s portfolio averages about \$350 million. Our Chief Investment Officer, Gerry Boychuk, who has considerable private sector investment management experience, manages these funds. The City’s investment performance has consistently matched or exceeded government bond fund indices. Therefore the Hamilton Future Fund can be professionally managed in-house by the Finance and Corporate Services Department.

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107) (City Wide) - Page 6 of 8**

Option 2 – External Fund Manager

This option entails employing the services of an external fund manager to invest and manage the fund.

A fund manager would charge a management fee of approximately 40 basis points on the value of the portfolio, which would equate to an annual cost of about \$550,000 based on \$137 million invested. These costs would be paid from the Fund's portfolio, thereby reducing the Fund's investment return.

An outside fund manager is restricted to invest in the same high quality bonds and bond funds as the City, as regulated by the Municipal Act, therefore the prospect of a fund manager producing significantly greater returns on investment than City staff is very unlikely.

The custodial fees and investment tracking costs are the same whether the investments are managed internally or externally.

Recommendation - Option 1

The only material difference between the two options is the annual management fee of approximately \$550,000 to be paid to the fund manager under Option 2. Therefore staff and the Mayor's Community Trust Panel recommend Option 1, that the investment of the Hamilton Future Fund be managed internally by City of Hamilton staff. Avoiding the cost of the management fee will maximize the investment returns of the Fund.

FUND GOVERNANCE

In initial discussions of a proposed governance model the panel has identified three basic approaches to the permanent management of the fund.

- Charitable Trust Board of Trustees
- Direct Council / City administration of the funds
- Development Corporation or other arms length body

The Panel believes that the Fund should be managed separate and distinct from the ongoing financial affairs of the City. Initial discussions indicate a preference for an arms length group that would provide advice to Council. Such an arms length group would involve representation from Council and the community and would report to Council, who would have all final decision making authority. While staff nor the Panel have had the opportunity to research the feasibility or legality of establishing a Charitable Trust under the Income Tax Act, this can be explored in the future by the group selected to direct / manage the Hamilton Future Fund. The most likely scenario would be to explore the possibility of funding raising contributions to the Fund that would be income tax deductible.

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107) (City Wide) - Page 7 of 8**

Board of Governors for the Hamilton Future Fund

The Panel recommends that a permanent group called the Board of Governors for the Hamilton Future Fund (HFF) be established. The primary role of the Board would be to make recommendations to Council. The group would be responsible for:

- Recommending to Council future uses for the remaining \$100 million fund component that will be invested over the next five years;
- Developing appropriate performance criteria and future investment priorities, and making related recommendations to Council;
- Soliciting public input on the future directions and priorities of the HFF;
- Tracking the HFF performance and ensuring projects are completed and the expected benefits materialize; and
- Issuing an annual report on the operation of the Fund (e.g., revenues, expenditures, investment performance, projects initiated and/or completed, etc.).

The Mayor's Community Trust Panel recommends the present panel, comprised of the Mayor, Councilors Caplan, Dilanni and Ferguson, and the 13 community members form The Board of Governors for the Fund for a 3 year term from the date of approval, with a quorum of 8. The Board would be supported by City staff and would meet as required.

It is recommended that the Board establish a Succession Sub-committee, with future membership to the Board of Governors for the Fund nominated by the Succession Sub-committee and ratified by Council.

The Panel also recommends the following:

- The Hamilton Future Fund be maintained in two separate reserves; one for the \$37 million to be spent over the next five years and one of the other \$100 million;
- Financial performance of the fund be accounted for and reported on separately from the City's other financial operations in an annual report format.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

FINANCIAL

The 2002 Capital Budget and 2002 – 2011 Forecast assumes \$7.4 million per year (1/5th of \$37 million) would be available from the Hamilton Future Fund for the years 2002 – 2006 to fund capital projects. Specific projects to be funded were not identified in the budget.

It is anticipated that the Hydro Funds will be used to fund projects that would otherwise be unaffordable if funded from the City's Capital Levy. Therefore using the Hydro Funds to finance the recommended projects will not result in a reduction to the Capital Levy.

**SUBJECT: Creation of a Permanent Hamilton Future Fund – Final Report
(FCS02107) (City Wide) - Page 8 of 8**

STAFFING

The recommendation that the Hamilton Future Fund administered in-house by City staff will have no staffing implications. The City currently has competent and qualified personnel to invest and manage the assets of the Hamilton Future Fund.

POLICIES AFFECTING PROPOSAL:

N/A

**CONSULTATION WITH RELEVANT
DEPARTMENTS/AGENCIES:**

All City of Hamilton Departments were consulted and invited to present projects for the consideration of the Panel for funding from the Hamilton Future Fund. Several agencies including the Art Gallery of Hamilton, Giant's Rib, YWCA and the Urban Development Bank also made funding requests and presentations to the Panel.

CITY STRATEGIC COMMITMENT:

The recommended projects are investments in the City to improve the economic prosperity and social and environmental quality of life for all Hamiltonians.

COMMUNITY TRUST FUND PROPOSED PROJECTS

AVAILABLE FUNDS	Enhancing Hamilton's Economy	Enhancing Hamilton's Social Fabric	Enhancing Hamilton's Community Life	Total
% Applied	65%	20%	15%	100%
Funds available(not including interest)	\$24,050,000	\$7,400,000	\$5,550,000	\$37,000,000
Estimated Interest Earned**	\$1,287,000	\$396,000	\$297,000	\$1,980,000
Estimated Funds Available	\$25,337,000	\$7,796,000	\$5,847,000	\$38,980,000

PROPOSED PROJECTS

Downtown Redevelopment Projects

Urban Development Bank Business Plan \$50K, Operating \$250K	\$2,000,000 \$300,000			
Streetscape Hughson and King William St.	\$4,264,000			
Business Tax Relief (2002, 2003 & 2004) *	\$8,000,000			
Art Gallery (Transitional Assistance)			\$1,500,000	
Subtotal - Downtown Projects	\$14,564,000	\$0	\$1,500,000	\$16,064,000

Other Projects

Hamilton Gateway Infrastructure - Airport (Seed Money)	\$5,000,000			
Hamilton Waterfront Trail Extention - Phase 1 - West half of pier 8.			\$800,000	
Dieppe Memorial Park			\$350,000	
Hamilton Scenic Waterfall Program			\$500,000	
Hamilton Heritage Curatorial Centre			\$1,500,000	
Skills Development Resource Centre and related initiatives		\$2,400,000		
Affordable Housing Projects (HAPPI, etc.)		\$3,000,000		
Hamilton Bio-Technology Incubator	\$5,000,000			
Giants's Rib Discovery Centre			\$300,000	
YWCA Ottawa St. Renovations / New West Mtn. Facility (funding over 3 years)			\$810,000	
Skateboard Parks (2)			\$500,000	
Opportunity Fund		\$500,000		
Powerline Trail - Conservation Authority			\$300,000	
Subtotal - Other Projects	\$10,000,000	\$5,900,000	\$5,060,000	\$20,960,000

Total - All Projects	\$24,564,000	\$5,900,000	\$6,560,000	\$37,024,000
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Contingency				\$1,956,000
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Balance				\$0
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* \$4,000,000 has been committed for Business Tax Relief in the 2002 Tax Budget

** Estimated based on 4.0% annually commencing in 2003, as interest earned in 2002 was committed for other purposes in the 2002 Tax Budget. Expenditures of capital assumed to be \$4,000,000 in 2002 and \$8,250,000 plus earned interest in 2003, 2004, 2005 and 2006.

**ESTIMATED INTEREST
EARNED**

	Enhancing Hamilton's Economy	Enhancing Hamilton's Social Fabric	Enhancing Hamilton's Community Life	Total
% Applied	65%	20%	15%	100%
Funds available(not including interest)	\$24,050,000	\$7,400,000	\$5,550,000	\$37,000,000
Interest 2002*	\$0	\$0	\$0	\$0
Interest 2003	\$643,500	\$198,000	\$148,500	\$990,000
Interest 2004	\$429,000	\$132,000	\$99,000	\$660,000
Interest 2005	\$214,500	\$66,000	\$49,500	\$330,000
Interest 2006	\$0	\$0	\$0	\$0
Total Interest	\$1,287,000	\$396,000	\$297,000	\$1,980,000
Total Funds Available	\$25,337,000	\$7,796,000	\$5,847,000	\$38,980,000

* Assumes 6 months at 6.75% (interest on Note) and 6 months at 4% totalling \$1,908,750, committed for other purposes in the 2002 Tax Budget.

Assumes \$4,000,000 expended in 2002, and 4 equal expenditures of \$8,250,000 at the beginning of each of the next four years plus interest earned.

APPENDIX "B" TO FCS02107 Page 1 of 2

**Community Members of the Mayor's Community Trustee Panel
for Creating a Permanent Hamilton Future Fund**

Name	Sector(s)	Area	General Background / Affiliations
Mr. Tom Atterton	Labour	Dundas	<ul style="list-style-type: none"> ♦ Bachelor of Arts, McMaster University ♦ Has served as a volunteer on various Boards and on numerous committees and task forces ♦ Executive Director of the Worker Education Centre ♦ United Way Board of Directors ♦ Vice Chair, Board of Governors, Mohawk College ♦ Hamilton-Wentworth Training Board ♦ Industry Education Council ♦ Local 42 Treasurer ♦ Secretary, District Labour Council
Mr. Shawn Chamberlin	Finance and Commerce	Business is in Ward 1	<ul style="list-style-type: none"> ♦ Former president of the Chamber of Commerce ♦ Independent business owner – Light Computer Centre ♦ Member of the Board of Governors for Mohawk College and Chair of the Small Business Management Advisory Board ♦ Involved in St. Joseph's Capital Campaign ♦ Chamberlin Property Management – Owns and operates single and multiple family units in Hamilton and Burlington
Ms. Christa Chamberlain	Neighbourhood, Community Development	Ward 3 – East City	<ul style="list-style-type: none"> ♦ Very enthusiastic, grass roots individual – long-time east Hamilton resident ♦ Currently employed with McMaster University as an Information Officer in the Office of Research Services ♦ Former City of Hamilton employee (Ec. Dev., Clerks, Airport, City Alderman's offices and Engineering) and former Dofasco employee ♦ Transportation Coordinator for Royal Bank Aquafest ♦ Volunteer / fundraiser – community recreational organizations
Mrs. Elham Farah	Community Development, Culture, Education, Business	Dundas	<ul style="list-style-type: none"> ♦ Very active in community service ♦ Chair of the Canadian Institute of International Affairs, Hamilton Branch ♦ Owner, Farah Foods / Hasty Markets ♦ Teacher ♦ Speaks English, Arabic, Hebrew and French
Mr. Brian Henley	Arts, Heritage and Culture	Ward 1	<ul style="list-style-type: none"> ♦ Former Hamilton Public Library employee – special collections ♦ Writer, researcher and broadcaster in local history ♦ Current member of the Hamilton Historical Board ♦ Current Board Member, Royal Botanical Gardens ♦ Regular spot on CH TV ♦ Involved with LACAC

APPENDIX "B" TO FCS02107 Page 2 of 2

Mr. Greg Hoath	Labour, Recreation	Ward 8	<ul style="list-style-type: none"> ♦ Planning education ♦ Employed as a Business Agent, International Union of Operating Engineers ♦ Previous employment for Region and the PUMC ♦ Active community volunteer in recreational activities – coach
Ms. Pat MacDonald	Social Services, Education, Voluntary Sector	Ward 7 – Mountain	<ul style="list-style-type: none"> ♦ Current Chair, Continuing Education, Mohawk College ♦ President Volunteer Centre ♦ Vice President, Board of Directors, Social Planning and Research Council ♦ Social Work education and training ♦ Other community involvement and volunteering
Mr. Bill Manson	Arts, Community, Education, Heritage	Ward 2 – Downtown	<ul style="list-style-type: none"> ♦ Executive, Durand Neighbourhood Association ♦ Author of 2 books on Hamilton history ♦ Retired Teacher / Educator ♦ Past Member of Local Teacher's Federation Executive ♦ Involved in various arts organizations
Mr. Mark Milligan	Environment, Arts Finance and Commerce (Small Business),	Ward 1 (Residence), Ward 2 (Business)	<ul style="list-style-type: none"> ♦ Multi-sectoral experience ♦ Previous Director, Hamilton Region Conservation Authority ♦ Cast member – Opera Hamilton ♦ Secretary / Treasurer, King St. W. BIA
Ms. Judy Partridge	Social Services, Community Development	Flamborough	<ul style="list-style-type: none"> ♦ Manager, Community Services, Hamilton Spectator ♦ Many contacts with non-profits and service groups ♦ Experience in fund management ♦ Regularly liases with 80 charitable groups developing partnerships ♦ Past YMCA Board Member and Chair of Childcare Advisory Committee ♦ 20 years experience developing marketing strategies
Mr. Paul Shewfelt	Finance and Commerce, Health Services	Ward 12 – Ancaster	<ul style="list-style-type: none"> ♦ Accountant ♦ Former Superintendent of Finance & Treasury – Hamilton Board of Education ♦ Former Chief Financial Officer of the Foundation Fund ♦ Former Director St. Peter's Hospital ♦ Senior ♦ Former municipal employee – Finance Department, Town of Ancaster ♦ Previous involvement with neighbourhood association
Mr. Thomas Weisz	Urban Development, Finance and Commerce, Law	Business in Ward 1	<ul style="list-style-type: none"> ♦ President / CEO Effort Trust ♦ Senior Partner, Weisz, Rocchi and Scholes ♦ Past and present Director and Trustee of various public and private charitable foundations
Mr. Larry White	Education, Law, Neighbourhood Association	Ward 8	<ul style="list-style-type: none"> ♦ Police Officer / Investigator / Trainer ♦ Co-Chair, Correctional Service of Canada, Hamilton Citizen's Advisory Committee ♦ Former Member, Board of Directors, Hamilton East Community Services ♦ Involved on Constituent Assembly