



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

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|---------------------------|--|
| TO: | Governance Review Sub-Committee |
| COMMITTEE DATE: | May 30, 2022 |
| SUBJECT/REPORT NO: | Hamilton Future Fund Governance Review and Reserve Strategy (FCS22045) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Gloria Rojas (905) 546-2424 Ext. 6247 |
| SUBMITTED BY: | Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department |
| SIGNATURE: | |

RECOMMENDATION(S)

- (a) That staff be directed to develop and execute public engagement and consultation on the Hamilton Future Fund governance and reserve strategy and report back on the results in January 2023;
- (b) That the framework of the public engagement and consultation on Hamilton Future Fund governance and reserve strategy, attached as Appendix "A" to Report FCS22045, be approved.

EXECUTIVE SUMMARY

The Hamilton Future Fund (HFF) was established in 2002 from the proceeds of \$137 M from the creation of Hamilton Hydro Incorporated under the *Energy Competition Act 2000* following restructuring of the electricity industry in Ontario (under the *Electricity Act, 1998*). Two reserves were created: Fund A for \$100 M was to be invested to provide income which would be used to fund various capital projects and initiatives; Fund B for \$37M was to provide funding for various City and community organizations and initiatives. As at December 31, 2021, reserve balances are \$60.3 M in Fund A and \$1.9 M in Fund B.

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In December of 2021, the Office of the City Auditor presented Hamilton Future Fund Audit (Report AUD21013) with the results of a compliance and value-for-money audit on the HFF and 10 recommendations to strengthen the fund's governance. Appendix "B" to Report AUD21013 "Recommendations and Management Response" is reproduced as Appendix "B" to Report FCS22045.

Recommendations 1 and 2 of "Recommendations and Management Response" (Appendix "B" to Report AUD21013) focus on creating a fund strategy that aligns with the City's strategic plan and for that purpose, staff is recommending the development and execution of a public consultation to gain public input on fund governance and the future use of the reserves.

On fund governance, staff will consult citizens on the option of continuing with the Board of Governors or make the HFF a City fund consistent with other funds such as the City Enrichment Fund. A number of investment alternatives will be presented including infrastructure, affordable housing, economic prosperity and community initiatives.

Staff will also consult with Councillors, HFF Board members and other interested stakeholders. Staff will report back to the Governance Review Sub-Committee in January 2023 with the results of the public engagement and recommendations on a fund strategy and governance model.

The framework for the consultation is attached as Appendix "A" to Report FCS22045.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: There are no financial implications from Report FCS22045. As at December 31, 2021, HFF reserve balances are \$60.3 M in Fund A and \$1.9 M in Fund B. The public engagement and consultation on the strategy for the HFF Reserves could result in changes to future uses.

Staffing: There are no staffing implications from Report FCS22045. However, staff's other priorities may need to be adjusted.

Legal: There are no legal implications from Report FCS22045. The outcome of the public engagement and consultation could result in a review of HFF agreements.

HISTORICAL BACKGROUND

The Hamilton Future Fund (HFF) was established in 2002 when the proceeds of \$137 M from the creation of Hamilton Hydro Inc. were received by the City of Hamilton. Hamilton Hydro was created to conform to the *Energy Competition Act, 2000* from the amalgamation of municipal electric commissions in Ancaster, Dundas, Flamborough, Hamilton and Stoney Creek. The Hamilton Future Fund was created through reports in 2002. Report FCS02027 was approved by Committee of the Whole at its meeting on March 19, 2002 and Report FCS02107 was approved by Committee of the Whole on September 10, 2002. The mission of the HFF is to create a permanent legacy for current and future generations of Hamiltonians to enjoy economic prosperity and improved quality of life.

Two reserve funds were created.

Fund A of \$100 M was to be invested and protected for a five-year period from inception to provide investment income as a permanent source of funding. After the five-year initial investment period and growth of the HFF, the funds could be used for capital projects.

Fund A investments, however, were not protected during the first five-year period, as was required when the fund was established. Some of the funds were used during the first five years to reduce taxes and as an internal source of borrowing for City capital projects. The loans to the City were promissory notes to be repaid to the HFF with interest. These loans were an alternative to taking on external debt to finance capital projects and the principal and interest is repaid annually.

Significant uses of Fund A since inception include:

- Reduction of property taxes to improve tax competitiveness through the transfer of \$13.8 M in investment interest from 2003 to 2008;
- Loans to the City of Hamilton from 2005 to 2017 for approximately \$98 M (approved through a by-law) to fund various capital projects;
- Grants for the Poverty Reduction Investment Strategy for construction of affordable rental housing for a total of \$20 M paid from 2017 to 2021;
- Grants for \$55.2 M in 2009 for capital projects related to the 2015 Pan-Am Games; and
- Loans to external organizations for capital projects for the McMaster Health Campus (\$10 M), Good Shepherd Centre (\$5 M) and Bob Kemp Hospice (forgivable loan for \$1.5 M).

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Table 1 shows the transaction of Fund A as of December 31, 2021 including the loans to the City with and outstanding balance of \$79.1 M in principal and \$29.7 M in interest.

Table 1

| HAMILTON FUTURE FUND A | | |
|--|-------------------|-------------------------|
| as of December 31, 2021 | | |
| Beginning Balance | | \$ 100,000,000 |
| Additions: | | |
| Investment Income | | 49,611,448 |
| Loan Repayments - City of Hamilton | - Principal | 79,094,307 |
| | - Interest | 29,712,834 |
| Loan Repayments - Good Shepherd | - Principal | 2,820,000 |
| | - Interest | 327,049 |
| Less: | | |
| Transfers to Operating (2003 - 2008) | | (13,845,000) |
| Fund / Return Capital Projects - COH | | (97,690,414) |
| Poverty Reduction Investment (\$20M over 5 yrs committed) | | (20,000,000) |
| <u>Pan Am Games</u> | <u>Approved</u> | |
| Ivor Wynne / Brian Timmis Stadiums | 45,000,000 | (44,994,672) |
| Velodrome (not being built in Hamilton, \$5 Million in funding redirected back to HFF) | | (247,224) |
| West Harbour Initiatives (Loan) | 10,000,000 | (10,000,000) |
| Total | 55,000,000 | (55,241,896) |
| McMaster Health Campus (Loan) | 10,000,000 | (10,000,000) |
| Forgivable Loan to Dr. Bob Kemp Hospice | | (1,500,000) |
| Good Shepherd Loan (Extended for additional 5 Yrs.) | | (3,000,000) |
| Ending Balance - Cash & Investments | | \$ 60,288,327.88 |

It is estimated that the Fund will grow back to \$99.4 M in 2028 due to investment income and loan repayments. However, this projection is based on the assumption that no new loans or grants are withdrawn after 2021. Table 2 shows the projected repayments and investment income for the next ten years.

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.

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Table 2

| HAMILTON FUTURE FUND A | | | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| (\$ 000's) | | | | | | | | | | | |
| | Actual | | | | | | | | | | |
| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| Opening Asset Value | 54,559 | 60,288 | 65,549 | 70,782 | 76,173 | 81,725 | 87,443 | 93,334 | 99,400 | 105,649 | 112,086 |
| Revenues | 3.0% | | | | | | | | | | |
| Investment Income | 1,165 | 1,809 | 1,966 | 2,123 | 2,285 | 2,452 | 2,623 | 2,800 | 2,982 | 3,169 | 3,363 |
| Loan Repayment (P&I) - COH | 7,923 | 3,267 | 3,267 | 3,267 | 3,267 | 3,267 | 3,267 | 3,267 | 3,267 | 3,267 | 3,267 |
| Loan Rpymt. (P&I) - Good Shepherd | 189 | 185 | | | | | | | | | |
| Expenditures | | | | | | | | | | | |
| Transfer to Operating | 452 | | | | | | | | | | |
| Hospice Loan | | | | | | | | | | | |
| Loans to Fund Capital - COH | | | | | | | | | | | |
| Good Shepherd Loan | | | | | | | | | | | |
| Pan Am Games - Ivor Wynne | | | | | | | | | | | |
| Pan Am Games - Velodrome | | | | | | | | | | | |
| * West Harbour lands (Loan) | | | | | | | | | | | |
| * McMaster Health Campus (Loan) | | | | | | | | | | | |
| Poverty Reduction (\$20M) | (4,000) | | | | | | | | | | |
| Balance (Cash & Investments) | 60,288 | 65,549 | 70,782 | 76,173 | 81,725 | 87,443 | 93,334 | 99,400 | 105,649 | 112,086 | 118,715 |
| Outstanding Loans Receivable | | | | | | | | | | | |
| COH - to Fund Capital | 18,503 | 14,381 | 11,083 | 8,284 | 6,068 | 4,149 | 2,449 | 969 | (238) | (1,048) | (1,253) |
| Good Shepherd | 180 | - | - | - | - | - | - | | | | |
| Total Asset Value | 78,971 | 79,930 | 81,865 | 84,457 | 87,793 | 91,592 | 95,783 | 100,369 | 105,411 | 111,038 | 117,462 |
| (1) Recommendation to extend payback term on City loans from 2031 to 2036 existing , report BOH16034/CES16043 approved by Council on Sep. 27, 2017. The purpose of the loan repayment extension was to accommodate funding for the Poverly Reduction Plan in the amount of \$20M. | | | | | | | | | | | |
| (2) The \$10 million for purchase of the West Harbour lands and \$10 million for the McMaster Health Campus is to be repaid to the Hamilton Future Fund with the net proceeds from sale of West Harbour lands. (Approvals: West Harbour Jan. 31, 2011 Council; McMaster Health - Aug. 11, 2011 Council) | | | | | | | | | | | |

At the inception of the fund, it was recommended that after the five-year investment period a community consultation be conducted in order to obtain input before any further allocations were made. However, these consultations have not been undertaken.

Fund B of \$37 M was to be used to provide funding for various capital projects both within City programs and for external organizations. The funds are grants which are awarded as part of an application process.

Spending portfolios for Fund B were established in 2002 as key areas of focus for funding of various City and community organizations and initiatives. The spending portfolios included three investment categories:

- Enhancing Hamilton's Economy;
- Enhancing Hamilton's Social Fabric; and
- Enhancing Hamilton's Community Life.

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Fund B grants were awarded, for example, for the capital improvement or construction of sports facilities, for the purchase of orthopaedic robotics surgery equipment and for the construction of a common area in a residential hospice.

A Board of Governors was established to provide oversight of the HFF. The Board is currently composed of the Mayor, four City Councillors and 13 citizen members. The Board of Governors reports to the General Issues Committee (GIC) and makes recommendations regarding the use of the HFF reserves.

In 2019, Council approved Report “Office of the City Auditor Work Plan 2019 (AUD19007)” which included a compliance and value-for-money audit of the HFF. Through Report AUD21013, the Office of the City Auditor (OCA) reviewed the HFF’s fund governance and oversight including the processes to manage grants and loans, and the adequacy of performance measures. The OCA’s Report and its appendices contained 10 recommendations to strengthen the fund’s governance, including:

- Development of a strategic plan for the use of funds, which incorporates public consultation;
- Formalization of the roles of City employees to support the HFF, including a fund administrator;
- Improvements in the processes for grant awards; and
- Monitoring of performance measures for projects receiving funding.

Management agreed with all 10 of the recommendations. Comprehensive management action plans are to be provided to the OCA by June 2022.

Appendix “B” to Report AUD21013 “Recommendations and Management Response” is reproduced as Appendix “B” to Report FCS22045.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Corporate Services staff consulted with staff from the Office of the City Auditor, the Office of the City Clerk and the Government Relations and Community Engagement Division who supported the recommendations included in Report FCS22045.

Staff also consulted with the Chair of the HFF Board of Governors principally to advise the Chair of the intent of Report FCS22045 in response to the City Auditor’s Report.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

The Hamilton Future Fund is comprised of two reserves.

Fund A with an initial reserve of \$100 M is to be invested in various capital projects that provide permanent community benefit and improve the economic prosperity of the citizens of Hamilton. As of December 31, 2021, the adjusted reserve balance of Fund A is \$60.3 M.

Fund B with an initial reserve of \$37 M provides grants for capital projects for various City and community organizations and initiatives. As of December 31, 2021, the reserve balance of Fund B is \$1.9 M.

One of primary roles of the HFF Board of Governors was to make recommendations to Council. The Board was to be responsible for:

- Recommending to Council future uses for the remaining \$100 M fund component that would be invested over 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.).

From 2002 to 2022, the Board recommended a number of projects and initiatives.

In 2021, the Office of the City Auditor conducted a compliance and value-for-money audit of the HFF. The Audit findings included opportunities to strengthen oversight, clarity of strategies for use and nature of fund investments. The report also found that a strategic plan for use of the reserve over the longer term would assist in improving transparency and alignment with City strategic directions. The Audit resulted in 10 recommendations to improve the oversight and governance of the fund.

Recommendations 1 and 2 of the “Recommendations and Management Response” (Appendix “B” to Report AUD21013) focus on creating a fund strategy that aligns with the City’s strategic plan as follows.

Recommendation 1 – Reserve Strategy

“That a terms of reference and a reserve strategy for the HFF be developed in order to ensure fund transparency, sufficiency and that the mission and guiding principles are achieved. A reserve strategy for the HFF can outline how the funds will be used in alignment with the City’s strategic plan.”

Recommendation 2 – Public Consultation

“That Management (in consultation with the HFF Board of Governors), consider conducting public consultations regarding the development of a fund strategy that includes ensuring future approved projects are in alignment with the City’s strategic plan.”

Management agreed with the recommendations and through Report FCS22045 is recommending a public engagement and consultation which is expected to take place in the third quarter of 2022. Staff will utilize Engage Hamilton to solicit public input on fund governance and the future use of the reserves.

On fund governance, staff will be presenting two options for consideration:

Option 1

Maintain existing governance structure with the Hamilton Future Fund Board of Governors making recommendations to Council on investments of Funds A and B. Fund A will continue to be a permanent fund to be invested in capital initiatives and Fund B will continue to fund City and community initiatives.

Option 2

Change the governance structure by eliminating the Hamilton Future Fund Board of Governors and transfer Funds A and B to City Council for decision making. Funds will be invested in the short term with significant impact to the selected initiatives and will be closed once all the funds have been allocated.

Regarding the use of the HFF Reserves (Funds A and B), under both options, they will continue to be invested in City’s Strategic Priorities. Citizens will be consulted on investments in the following areas of focus:

- Municipal infrastructure asset management
- Investments in affordable housing
- Time limited investments in Strategic Priorities
- Supplemental funding for City Enrichment Fund

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Staff will also consult with Councillors, HFF Board members and other interested stakeholders and will report back to the Governance Review Sub-Committee in January 2023 with the results of the public engagement and recommendations on a fund strategy and governance model.

The framework for the consultation is attached as Appendix “A” to Report FCS22045.

HFF Governance Review and Reserve Strategy – Work Plan Key Dates

| | |
|--------------------|---|
| May 2022: | Governance Review Sub-committee considers Report FCS22045 |
| June 2022 | General Issues Committee and Council Approval of recommendations from Governance Review Sub-committee |
| Sept. / Oct. 2022: | Public engagement through Engage Hamilton, public consultation and feedback |
| January 2023 | Governance Review Sub-committee considers Report FCS22045(a) with results of the public engagement and consultation |

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement and 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

Economic Prosperity and Growth

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

Our People and Performance

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

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS22045 – Hamilton Future Fund Public Engagement Framework

Appendix “B” to Report FCS22045 – Hamilton Future Fund Audit Recommendations and Management Response

GR/dt