

Staff Report to Council

Title: Bruce Telecom Legacy Fund

Report Number: Financial Services-2023-31

Director: Corporate Services

Manager: Manager.

Meeting Date:

Wednesday, October 25, 2023

Date to be considered by Council:

Wednesday, October 25, 2023

Recommendation:

That Council approves the creation of the Bruce Telecom Legacy Fund to maintain the proceeds from the sale of Bruce Telecom Holdings Inc; and

Further, that Council direct staff to prepare a Legacy Fund Investment Policy to provide for the framework for the Bruce Telecom Legacy Fund;

Executive Summary:

The purpose of this report is to obtain Council's approval to establish a Legacy Fund that would hold the net proceeds from the sale of Bruce Telecom Holdings Inc. The proposed Bruce Telecom Legacy Fund would hold the principal proceeds of the sale (net of disbursements) and would utilize only the investment earnings (or a portion of the earnings) to fund the long-term capital plan. A Legacy Fund Investment Policy would be developed which would provide the framework on how the investments would be managed and as well as detailing the distribution of income to fund capital projects.

Strategic Priorities:

D.16-Ensure the Municipality provides value for money and long-term sustainability

Financial Considerations:

A Legacy Fund will provide the Municipality with an ongoing source of revenue to contribute to the Municipality's capital program. Income from investment of the Legacy Fund would be provide funding for capital and infrastructure projects for the betterment of the community.

The Legacy Fund would be a segregated fund containing investments that meet the Prescribed List under Ontario Regulation 438/97. Based on initial calculations and depending

on the final net proceeds, the Municipality may achieve more on the Legacy Fund than what it is currently receiving through the annual dividend.

Policy:

Investment Policy GG.2.11; Section 418 of the Municipal Act, as amended by Ontario Regulation 438/97

Context and Background Information:

On October 5, 2023, Council announced the planned sale of Bruce Telecom Holdings Inc., with proceeds from the sale estimated to be \$32.65 million (less any closing costs and disbursements). The purpose of this report is to review investment options for the sale proceeds and consider establishing a perpetual Bruce Telecom Legacy Fund, whereby the principal would remain intact in perpetuity and the investment income would be used to fund municipal capital projects. The long-term goal of the Fund is capital preservation of the ~ \$32.65 million initial contribution while providing an ongoing source of income to the Municipality's capital program.

The objective of the Legacy Fund would be to:

- 1) Adhere to statutory requirements for all investments;
- 2) Maximize the rate of return within acceptable risk levels while respecting the security of principal; and
- 3) Maintain the initial ~ \$32.65 million principal amount.

Currently, the Shareholder Declaration provides the Municipality with an annual dividend of \$500,000. With proceeds of \$32.65 million (gross), a minimum annual return on investment of 1.5% would be required to sustain the current distribution level. The Municipality's operating bank account currently offers a variable rate of 5.7% (August 2023).

In accordance with Ontario's Eligible Investments and Related Financial Agreements Regulation (Ontario Regulation 438/97, formerly under Municipal Act, 2001), the Municipality is not authorized to invest in securities other than those listed in the Regulation. This list is predominantly comprised of bank bonds, government bonds, and deposit instruments (guaranteed investment certificates).

Amendments to the *Municipal Act, 2001* were introduced in 2019 which allowed municipalities to adopt a Prudent Investor Standard under restricted conditions. This framework allows municipalities to invest beyond the scope of the prescribed investment list and take on greater financial risk in order to generate potentially greater investment returns.

In order to qualify for the Prudent Investor Standard, a municipality must have, in the opinion of its treasurer, at least:

- i. \$100,000,000 in money and investments that it does not require immediately; or
- ii. \$50,000,000 in net financial assets, as indicated in Schedule 70 of the most recent Financial Information Return supplied to the Ministry of Municipal Affairs by the municipality under the Act and posted on the Ministry's website on the day the municipality passes the by-law under subsection 418.1 (2) of the Act.

The Municipality of Kincardine currently meets the second criteria of \$50 million in net financial assets, however staff does not recommend adopting the Prudent Investor Standard for the following reasons:

- The 2022 FIR shows Net Financial Assets of \$61.955 million. Of this amount, \$33.745 million (54%) represents the investment in Bruce Telecom. This skews the FIR data and does not accurately show a surplus of cash that is not immediately required;
- An Investment Board would need to be established, which would be given control and management of the municipality's investments over to the Board. This would apply to all municipally-held investments, and not select investments (i.e. no distinguishment between the proposed Bruce Telecom Legacy Fund versus funds required for municipal operations);
- The Investment Board must not be represented by members of Council or employees, with the exception of the municipal Treasurer. Day-to-day investment activities would therefore need to go through the arm's length Investment Board which could pose logistical issues in making investment decisions;
- There may be limited ability for the Municipality to obtain funds from the Board to deal with unforeseen circumstances, in a timely manner;
- An Investment Board governance structure would result in additional costs, including Board member honorariums, insurance, and transaction fees; and
- Once an investment board is established using the Prudent Investor Standard, the municipality alone does not have the ability to exit the process. To exit from the process, a regulation of the Lieutenant Governor in Council is required.

Since the Prudent Investor Standard creates several potential governance issues, it is not recommended by Staff.

The creation of a Legacy Fund and the fundamental provision of preserving the principal proceeds in perpetuity is a model that has been adopted by other municipalities that have sold telecommunication/utility entities (e.g. Orillia, Norfolk, Brant, Woodstock, Peterborough, Midland).

Advantages of a Bruce Telecom Legacy Fund:

- The rich history and legacy of Bruce Telecom would be protected and would provide a perpetual benefit to Municipality of Kincardine taxpayers;
- A defined policy and by-law that governs the use and control of the funds would create transparency and accountability;
- Would provide a major source of revenue to finance future municipal assets and infrastructure;
- Interest income could be used towards the annual Lifecycle Reserve Fund contribution, which would potentially reduce the need for a 3% annual tax rate increase;

- Interest earned annually could be saved up for large, significant legacy projects deemed to provide municipal-wide benefit, which would otherwise require long-term borrowing;

Investing the proceeds into a Legacy Fund removes the temptation of future Councils to simply spend the principal amount on a future project.

Upon receiving direction from Council, a Legacy Fund Investment Policy will be developed setting out how the Legacy Fund investments will be managed and detailing the distribution of income to fund to capital projects.

Consultation Overview:

Staff have had an initial meeting with ONE Investment Advisory Services to discuss investment goals and strategies, including the creation of a Legacy Fund. Further consultation with financial and investment advisors will be undertaken throughout the development of the Legacy Fund policy.

ONE Investment (ONE) is a not-for-profit organization that was established in 1993 to serve the investment needs of the Ontario municipal sector. There are currently 175 Ontario municipalities that invest with ONE, including the Municipality of Kincardine. ONE has the expertise available to assist with policy development, investment advice, defining targets, and strategy implementation, and have assisted in the process of a Legacy Fund setup for other public sector entities.

The ONE team has offered to come to a future Council meeting to provide an overview of their services and how they can assist in the creation of a Legacy Fund.

Origin:

Sale of Bruce Telecom Holdings Inc.

Implementation Considerations:

Municipal finance staff will work on developing the framework for a Bruce Telecom Legacy Fund Policy, in collaboration with financial investment advisors as required. The draft policy will be brought back to Council for review and approval.

Proceeds from the transaction are anticipated to be transferred upon closing. The proceeds will be held by the Municipality's financial institution until the investments are made. A separate bank account may be established to hold the funds in the interim.

Actual proceeds received are expected to be less than the purchase price and will be adjusted upon closing for disbursements and closing costs.

Risk Analysis:

The municipality is exposed to several risks with respect to its investments, including the following:

- **Credit Risk:** The risk that an issuer will default in the payment of interest and/or principal on a security.

- **Interest Rate Risk:** The risk that the interest rate will decline and cause an investment in a fixed income security to decrease in value.
- **Market Risk:** The risk that the value of a security will decline as a result of changes in market conditions.

While these risks can be mitigated to some extent through portfolio diversification and prudent investment management, they cannot be negated entirely. Staff will continue to consult with investment advisory services, including ONE Investment, to access potentially better risk-adjusted returns over the long term and to guarantee compliance with legislation that governs municipal investments in Ontario.

Attachments: None

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