

Staff Report to Council

Title: Bruce Telecom Legacy Fund Investment Policy

Report Number: Financial Services-2024-04

Director: Corporate Services

Manager: Manager.

Meeting Date:
Wednesday, March 6, 2024

Date to be considered by Council:
Wednesday, March 27, 2024

Recommendation:

That Council approves the attached Bruce Telecom Legacy Fund Policy; and

That ONE Investment staff will be leveraged for the optimal delivery and management of the Bruce Telecom Legacy Fund; and

Further, that Council form a Legacy Fund Advisory Committee consisting of the Mayor, Treasurer, and CAO.

Executive Summary:

The purpose of this report is to obtain Council's input on the draft Bruce Telecom Legacy Fund Policy, which would hold the net proceeds from the sale of Bruce Telecom Holdings Inc. in perpetuity. The Policy provides the framework on how the investments would be managed and how the investment earnings would be utilized. The creation of a Legacy Fund would protect the rich history and legacy of Bruce Telecom and would provide a perpetual benefit to Municipality of Kincardine ratepayers.

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 provide funding for capital and infrastructure projects for the betterment of the community.

Depending on the final net proceeds, the Municipality may achieve more on the Legacy Fund than what it is currently receiving through the annual \$500,000 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 sale of Bruce Telecom Holdings Inc. to Windsor Private Capital for a gross purchase price of \$32.65 million, less any purchase price adjustments and transaction expenses. The transaction is subject to regulatory approval from Innovation Science and Economic Development Canada (ISED) and customary closing conditions.

In accordance with the Share Purchase Agreement, \$1,500,000 must be held in escrow for a period of 150 days for post-working capital adjustments and indemnity obligations. In addition, funds must be set aside as a separate Liability Allowance in order to meet any possible indemnity, environmental, or other liabilities.

External legal counsel has advised the Municipality to set aside sufficient cash to cover potential obligations and liabilities that may arise from the transaction in the amount of \$7.365 million for a period of at least 2 years following closing. Appendix A of the draft Legacy Fund Policy includes a transition plan for the amount set aside for these contingencies, in order to maintain adequate liquidity of those funds as required.

The draft Policy also reflects Council's decision to utilize \$250,000 from the sale proceeds to fund the 2024 tax-supported operating budget in order reduce the property tax rate.

At its meeting of October 25, 2023, Council approved the recommendations in Report Financial Services-2023-31 Bruce Telecom Legacy Fund as follows:

10/25/23 – 07

Moved By: Jennifer Prenger Seconded by: Doug Kennedy

That Council approve 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;

Result: Carried.

Based on this resolution, staff reviewed several existing Legacy Fund policies to develop a draft policy for review. The draft policy includes the following objectives:

- Ensure investment activities are in compliance with statutory limitations;
- Ensure preservation of the principal investment;
- Ensure an adequate level of liquidity;
- Maximize the investment income return for the benefit of the community.

Municipal Investment Framework:

A municipality may invest its funds in accordance with Ontario Regulation 438/97, which outlines a fairly limited set of conservative investment instruments that include short term money market products (i.e. guaranteed income certificates, bankers acceptances, and term deposits) and medium term bonds (i.e. government bonds). Municipalities are not permitted to independently invest in instruments such as longer-term corporate bonds or shares of corporations (equities), even with the aid of a professional investment manager.

However, per the regulation investments in Corporate Bonds (with duration greater than 5 years) and Equities are only permitted with the ONE Investment Program of the Local Authority Services (division of AMO) and the CHUMS Financing Corporation (subsidiary of the Municipal Finance Officer's Association).

ONE Investment:

LAS and CHUMS are 50/50 partners in the ONE Investment Program, which is non-profit dedicated to servicing the investment needs of Ontario Municipalities. As of September 30, 2023, ONE Investment had 195 municipal and broader public sector investors, with a total investment balance of \$3.1 billion. Forty percent of Ontario Municipalities invest through ONE.

ONE Investment has 4 program portfolios, offering different investment objectives depending on the needs of the participant. These include:

- High-Interest Savings Account: 1+ month investments (Short-Term)
- Bond: 18 Months to 3 Years (Short to Medium-Term)
- Universe Corporate Bond: 4+ Years (Medium to Long-Term)
- Equity: 5+ Years (Long-Term)

ONE Investment also offers Advisory Services that enables municipalities to access advice from both a municipal finance expert and an investment expert and can provide guidance on an appropriate investment policy and portfolio structure. Participation in ONE Investment will allow the municipality to achieve a substantial annual return on investment using a range of investment products that will provide both diversity and flexibility.

A draft investment policy for the Bruce Telecom Legacy Fund has been attached to this report. The policy articulates the investment guidelines and outlines how investment earnings will be transferred from the Fund.

Staff is recommending that the Bruce Telecom Legacy Fund Policy be adopted and that the funds be invested with ONE Investment in accordance with this policy. This will ensure that the proceeds of the sale of Bruce Telecom will create a strong and growing source of long-term capital funding for the Municipality.

Consultation Overview:

Staff have consulted with One Investment to discuss and assist in the development of the Legacy Fund Policy. ONE Investment has prepared a presentation for Council to provide additional information on their investment program and services offered.

Origin:

Resolution #10/25/23 - 07

Implementation Considerations:

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.

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: Draft Bruce Telecom Legacy Fund Policy; ONE Investment Presentation

Prepared by: Roxana Baumann, Director of Corporate Services/Treasurer

Submitted by: Roxana Baumann, Director of Corporate Services/Treasurer