



City of  
**Peterborough**

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**To:** **Members of the General Committee**

**From:** **Richard Freymond**  
**Commissioner of Corporate and Legislative Services**

**Meeting Date:** **February 8, 2021**

**Subject:** **Report CLSFS21-005**  
**Recommendations from the Investment Options Review**  
**Working Group on Investing Proceeds from Sale of Assets of**  
**Peterborough Distribution Inc.**

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## **Purpose**

A report on behalf of the Investment Options Review Working Group to recommend how the proceeds from the sale of Assets of Peterborough Distribution Inc. to Hydro One should be invested.

## **Recommendations**

That Council approve the recommendations outlined in Report CLSFS21-005 dated February 8, 2021, of the Commissioner of Corporate and Legislative Services on behalf of the Investment Options Review Working Group, as follows:

- a) That the proceeds of the sale of Assets of Peterborough Distribution Inc. to Hydro One be invested with ONE Investment, as a Legacy Fund;
- b) That any consideration of an investment in preferred shares of the City of Peterborough Holdings Inc., be deferred pending:
  - i. In accordance with Section 5.3 of the current Shareholder Direction and Unanimous Shareholder Declaration, the details of a specific investment opportunity(s) being presented to Council at a future date providing information with respect to the due diligence completed to date, the financial structure of the investment, the expected financial returns and risk;

- ii. In consultation with COPHI's President, CEO and CFO, the City's Chief Administrative Officer, Commissioner of Corporate and Legislative Services and City Solicitor, further recommendations with respect to updating the July 30, 2012 Shareholder Declaration for Council consideration;
  - iii. In any event, the amount of any investment be restricted to no more than 50% of the net proceeds; and
- c) That staff be directed to update the City's Investment Policy, as required, for Council consideration.

## Budget and Financial Implications

The net sale proceeds received by the City to date is \$59.7 million.

The funds received to date have been temporarily placed in a high interest savings account with the ONE Fund. The funds are fully liquid and will be invested as per Council's direction through approval of the recommendations in this report.

The investment in ONE will increase interest income. Should the investment in CoPHI take place, financial dividends paid to the City have the potential to increase also.

## Background

As reported to Council through Report CLSFS20-049 dated September 21, 2020, on August 4-5, 2020, the City has received amounts totaling \$59.7 Million related to the sale of the assets of Peterborough Distribution Inc. As indicated in the Report, it is possible that further distributions may yet be forthcoming.

As directed through recommendation b) of Report CLSFS10-029 dated June 8, 2020, 100% of the proceeds are to be invested to bring a financial return to the City. The motion read as follows:

That 100% of the proceeds from the sale of Assets of Peterborough Distribution Inc. to Hydro One be invested to generate a return to the City of Peterborough and other spending options only be considered for the return itself.

Council further directed that an Investment Options Working Group be formed for the purposes of making a final investment recommendation to Council. The Working Group consisted of:

- i) Deputy Mayor Beamer
- ii) Councillor Pappas – Chair of the Finance Committee
- iii) Councillor Baldwin – Vice Chair of the Finance Committee

- iv) Ms. Sandra Clancy – Chief Administrative Officer
- v) Mr. Richard Freymond – City Treasurer
- vi) Ms. Cynthia Fletcher - Commissioner Infrastructure & Planning Services
- vii) Mr. Sheldon Laidman - Commissioner Community Services
- viii) Ms. Yvette Peplinskie - Manager of Financial Services

The Working Group has completed interviews with all six prospective proponents. The remainder of this report provides a brief summary of each of the options as well high-level summary feedback from the Working Group.

In providing feedback the Group considered such criteria as:

- Return on Investment - the income stream for the City, amount, reliability, timing, and additional costs/fees.
- Access to Principal - ease of access, lead time required, penalty/cost incurred to use principal.
- Risk - the likelihood of occurrence of losses relative to the expected return on any particular investment
- Does the Proposal exceed the expectation of Recommendation b) in Report CLSFS20-029.
- Qualifications of Investment Manager/Team - the experience with the proposed type of investment and knowledge of municipal investment restrictions

Chart 1 provides a summary of the ratings by the Working Team.

## Chart 1

### Summary Ratings

CRITERIA DESCRIPTION	Return on Investment	Access to Principal	Risk	Proposal exceeds expectation of Recommendation b)	Qualifications of Investment Manager/Team	
	Criteria 1	Criteria 2	Criteria 3	Criteria 4	Criteria 5	WEIGHTED SCORE Out of 100
WEIGHTING	30%	20%	20%	10%	20%	100%
OPTIONS	Criteria 1 SCORES	Criteria 2 SCORES	Criteria 3 SCORES	Criteria 4 SCORES	Criteria 5 SCORES	
ONE Investment	3.0	5.0	4.5	2.2	5.0	80
CoPHI	4.1	2.3	2.5	3.4	4.1	67
BMO Nesbitt Burns	2.7	4.8	3.3	2.0	2.1	61
Community Foundation of Greater Peterborough (CFGF)	2.5	0.7	2.2	2.3	3.4	45
Alan Slavin	0.8	0.6	1.5	2.1	0.6	20
Transition Town Peterborough (TTP)	1.2	0.5	1.1	2.0	0.3	18

### Recommendation 1: ONE Investment - Legacy Fund

The basic tenet of a legacy fund is the preservation of the capital in perpetuity. This means that only the investment income would be available to be spent on an annual basis.

A key feature of the framework in support of a legacy fund idea would be to invest the funds to maximize returns with a minimum of risk to maintain and potentially grow the original proceeds. This strategy requires a portfolio composed of a mix of financial instruments with guaranteed returns which could be augmented by some higher risk instruments.

ONE Investment is a non-profit organization established in 1993 that provides customized investment advice, guidance and options for municipalities. They manage approximately \$2.1 Billion in various portfolios on behalf of municipalities.

Summary Feedback from the Working Group:

- Investments are fully liquid – the entire portfolio can be liquidated in 2 to 4 days if required due to a sudden change in circumstance.
- Portfolio valuations are updated daily, so the value of investments is 100% transparent and current.
- ONE's Portfolios are diversified across different industrial sectors to reduce risk.

- If a future Council sets a different direction, or circumstances change, no special planning is required to dispose of, or wind down, the investment.
- ONE Investment guarantees that the investments are compliant with the restrictions of the Municipal Act.
- Proven track record. ONE Investment represents 176 Ontario municipalities as clients.
- The financial returns can be used for any priority of Council.

Although not addressed by the Working Group, ONE has since reached out to the City and offered to assist the City in participating in the ONE Joint Investment Board (JIB). The key advantage in doing so is that it opens the door to investing under the Prudent Investor Standard. The introduction of 418.1 in the **Municipal Act, 2001** Prudent Investor Standard offers municipal governments more investment options. ONE offers a turnkey solution and in doing so the City would have access to broader investment powers.

### **Recommendation 2: Invest in Renewable Energy through the City of Peterborough Holdings Inc.**

The City of Peterborough has a proven track record in developing renewable energy through its investment company, City of Peterborough Holdings Inc. (CoPHI). CoPHI operates electricity (until the sale to Hydro One) and water distribution systems in the City and surrounding communities. The Company also develops and operates renewable hydro and solar generation facilities and operates a wholesale metering business. The Company and its related entities operate as the Peterborough Utilities Group.

As published in their 2019 Annual Report, the efforts of the Company over the past several years have provided a base for renewable energy equivalent to powering approximately 52% of the City's supply. The Company has been a conservation leader in providing its customers with opportunities to reduce their consumption.

Over the years, the investment returns paid to the City, as the sole shareholder, has been an important source of revenue and has been very effective in mitigating tax increases and moving important capital works forward.

From the City's perspective, the nature of the investment being proposed in this option would be in the form of preferred shares in CoPHI or any of its direct or indirect subsidiary companies. The City's current investment in CoPHI is in the form of common shares and supplemented by earnings retained in the company. A portion of the retained earnings are then reduced by the annual dividend payment to the City.

Preferred shares are being recommended as the City already owns 100% of the common shares of CoPHI. This will also give the City certain protections such as

cumulative dividend rights and retraction rights (i.e. redemption at the option of the holder).

The current Shareholder Declaration was last updated in July 2012. It would be appropriate that it be updated prior to the transfer of any funds. As such, it is proposed that in consultation with COPHI's President, CEO and CFO, the City's Chief Administrative Officer, Commissioner of Corporate and Legislative Services and City Solicitor be directed to provide further recommendations to Council with respect to updating the July 30, 2012 Shareholder Direction Declaration.

Summary Feedback from the Working Group:

- The company is 100% owned and controlled by the Peterborough community.
- The CoPHI group is a proven leader in renewable clean energy and conservation.
- Although the landscape has shifted dramatically in recent years, opportunities for further investment in the sustainable energy sector still exist.
- An investment in CoPHI or its subsidiaries is not as liquid as an investment contemplated by recommendation a) as liquidity is dependent on whether and when the assets could be sold and their net value at that time should Council choose to get the principal back.

The investment would be made under the **Electricity Act, 1998 s. 142 (1)** and would be restricted to the activities permitted under the **Electricity Act, 1998 s. 142 (1)** and the purposes for which COPHI was established which are the generation, transmitting, distribution and retailing of electricity.

### **Other Options Considered but not Recommended**

While the City appreciates the other options, the Working Group is not recommending that the funds be invested with them. The following sections explain why.

#### **A Proposal for more home energy retrofits in Peterborough City - Alan Slavin**

This investment would significantly increase the rate of retrofits being done by using interest from money from the PDI sale. The proposal discusses the need for home energy retrofits to meet Peterborough City's greenhouse gas (GHG) reduction targets, and the progress on retrofits to date. The proposal leverages off incentives provided from the existing Enbridge retrofit program. The program would not only cut the City's GHG emissions significantly, it would also benefit the homeowner from savings on fuel costs and increased property value, increase the tax base for the city, and provide substantial local employment all while returning the loans over time to maintain the City's capital. Several recent studies have recommended that retrofits be funded as an

important way to help reboot the post-COVID19 economy, because of the many jobs this would generate.

The proposal seeks to direct any PDI sale funds into a capital fund to be used to provide loans to homeowners to fund the retrofits. Other details would have to be worked out by City staff.

Summary Feedback from the Working Group:

- There is no denying that retrofitting homes is critical in reducing GHG and addresses the sector that is the largest source of community emissions. As such, the proposal would have an increasing impact in fighting Climate Change as retrofits are completed and address a key priority of Council – the declaration of a climate change emergency and addressing Strategy H1 of the community Climate Change Action Plan (CCAP) that recommends developing a deep energy retrofit program to lower household energy use by 40 percent.
- The same goal can be achieved through the directing of investment returns through the recommended options, with the added benefit of allowing greater flexibility to address other priorities of Council.

Staff have made application through the Federation of Canadian Municipalities – Green Municipal Fund that could assist with the administration of a similar program and that has the potential to leverage capital subsidy dollars. Staff presented Report IPSIM20-028 to Council in December of 2020, which outlined the funding and program opportunity. The Federation of Canadian Municipalities offered municipalities the opportunity to access funding to improve residential energy-use through home renovations. The City made application for the first stage of the program.

The program offers funding of up to 80% of eligible costs to a maximum of \$175,000 towards designing a Home Energy Efficiency Program (HEEP). Through the Community Efficiency Financing (CEF) program, municipalities can design a home retrofit incentive program that meets the local community needs. The CEF allows participants to develop the framework for a program and determine how it will be administered, financed, and monitored. The City can design a program that fits the Peterborough context. This initiative would meet the intention of Mr. Slavin's proposal and provide the framework to administer and sustain the program.

- The investment requires additional staff resources to administer.
- The financial loans, once fully invested in home energy retrofits, are not easily liquidated.

**Transition Town Peterborough Concept Proposal to build Community Resilience in Peterborough through the creation of a Renewable Power Generation Investment Trust Fund - from Fred Irwin Founding Director Transition Town Peterborough Inc.**

The objectives of the Trust Fund would be to:

- maximize the local renewable power generation of the City and County of Peterborough.
- maximize the number of local sustainable jobs created.
- support projects that encourage local investment both large and small such as both Energy Co Ops and Farmers and Food Co Ops with Energy Co Op components.
- support projects that maximize the local Economic Multiplier effect such as those that make use of the Kawartha Loon Local Currency and other local supplier inputs and services.
- support the prioritization of projects that integrate renewable power generation with other life essentials including food, water, wellness and culture.
- integrate with projects that also lead to and support Energy Descent required to make the community even more resilient.

The Trust Fund proposal champions the view that this is the way to move the community into a robust leadership position with respect to its Climate Crisis Emergency Response.

The Trust Fund Option, as proposed, is for a minimum of \$50 Million into the Trust and the balance of proceeds from the sale of PDI to be held in a short term investment reserve to firstly set up the Trust Operation and Executive and operating staffing to launch within a year.

The Trust Fund Option would be formed at arm's length from the City of Peterborough with likely two City Councillors on the Board of Directors serving in an oversight capacity while productively removing politics from the investment decision making process for greater local energy security.

This proposal constitutes Transition Town Peterborough's contribution to put the Trust Fund Option in the most favorable position to help create a more Resilient Community in the context of the Climate Crisis Emergency as declared by the City of Peterborough

Summary Feedback from the Working Group:

- The investment proposal is a bold vision that has the potential to make a long-term difference to the future resilience of the local Peterborough community and economy.



- The proposal seeks to move the monies out of political process and although Council would have representation on the Board of Director's of the Trust, could result in a loss of control of the funds.
- In promoting a local renewable energy model to increase resilience of the local community both now and into the future, the proposal resembles somewhat the work the CoPHI Group of companies are already doing. The proposal did not include tangible projects the funds could be funneled toward.
- The investment would require the creation of an administrative framework.
- Council could consider funding a renewal energy project, presented as an individual proposal, without creating a separate framework.
- With a management team that lacks experience, risk is elevated, and financial investment returns are uncertain.

**Option: BMO Wealth Management – from George Ripoll, Investment Advisor, BMO Nesbitt Burns**

The proposal provides an alternative to the ONE Investment proposal. The investment platform would follow the same rules and regulations as ONE Investment under the Municipal Act 418 (1) with the advantage of a strong global brand, a local Investment Advisor, a higher degree of customizable investment choices (green bonds, geographical allocation, etc.) and a local presence to talk at functions/ meetings about the progress of the funds.

**Summary Feedback from the Working Group:**

- Investments are fully liquid – the entire portfolio can be liquidated in a matter of days if required;
- Portfolio valuations would be 100% transparent and current.
- Investments would be diversified across different sectors to reduce risk.
- The proposal is similar to ONE, albeit ONE has more extensive experience working with municipal clients and as such, guarantees that all investments are compliant with the restrictions of the Municipal Act.
- Although all investments would follow the same rules and regulations as ONE Investment under the Municipal Act 418 (1), ONE offers a broader range of investment opportunities as it is afforded unique status under the legislation.

**Option: Investing in Community Wellbeing - John Good on behalf of the Community Foundation of Greater Peterborough** The proposal supports the concept of a Legacy Fund that the City is already considering, and proposes that it be

established in collaboration with the Community Foundation, with the income generated by the fund directed annually, in consultation with the City, to charitable initiatives to support community wellbeing.

The Community Foundation is proposing that a minimum of 20% of the net proceeds of sale of PDI be invested in perpetuity with the Community Foundation to create the Legacy Fund. While past performance is no indication of future results, modelling based on the Foundation's experience, shows that over 10 years (assuming an average gross investment return of 7%, annual grant disbursements of 5% and 1.5% in fees), a \$10 million Legacy Fund, will have disbursed \$5.1 million in grants and fund capital will have grown to \$10.5 million.

Advisors, appointed by the City of Peterborough, would recommend the grants to be made from the Legacy Fund. In any given year, allocations could be channeled through the City's Community Grants program; combined with the Community Foundation's Vital Community Grants; or granted directly to the City (CRA recognizes municipal governments as qualified donees) to fund priorities identified in guiding documents such as Community Wellbeing, Housing and Homelessness, Climate Change Action and, Municipal Cultural plans.

Details of the Legacy Fund's administration including the relationship between the City, its appointed representatives (Advisors) and the Community Foundation would be governed by a Trust Agreement developed in consultation with the City.

#### Summary Feedback from the Working Group:

- The investment proposal focuses on the social infrastructure of the community.
- The CFGP is capable and experienced with a proven track record. They have been able to leverage funds through external funding.
- To legally move the funds to the Trust, the funds would have to be provided by way of a grant. Doing so represents a loss of control over the funds.
- Depending on how the program is structured, there is a duplication of efforts to administer community grants. To avoid duplication, it would be beneficial to explore how the City's community grants program could be combined with that of the CFGP. However, doing so may preclude organizations that receive funding today, from receiving funds going forward.
- It was not apparent that the financial returns could be used for built infrastructure.

#### **Community consultation**

The Working Group also considered the results of the City's consultation with residents and interested groups on how to invest the proceeds from the sale of PDI.

The consultation was included as part of the City's annual budget consultation, with separate information and specific questions related to the proceeds from the sale of PDI. A community survey generated 519 responses.

When asked how to invest the proceeds from the sale of PDI:

- 42.7% of respondents were in favour of investing the proceeds with both Peterborough Utilities for renewable power generation and with ONE Investment Group to create a Legacy Fund to generate revenue for investments in infrastructure and priorities;
- 30.1% of respondents were in favour of investing all the money into Peterborough Utilities;
- 21.6% of respondents were in favour of investing all the money in the creation of a Legacy Fund;
- 5.6% of respondents were in favour of the City investing in a different investment fund or portfolio (as permitted under the **Municipal Act, 2001**).

It was through the consultation, which included public meetings, that the four alternative proposals also emerged that were included in the Working Group's review of options, as outlined in this report.

## Next Steps

If Council is supportive of the recommendations, the next steps would be as follows:

- Staff, in consultation with ONE Investment, will prepare an investment policy for the City of Peterborough Legacy Fund for Council's consideration.
- Staff, in consultation with representatives of CoPHI, will work towards recommendations with respect to updating the July 30, 2012 Shareholder Direction and Unanimous Shareholder Declaration.

## Summary

This report provides recommendations regarding the investment of the proceeds from the sale of assets of PDI to Hydro One. Investing the funds with the ONE fund and with CoPHI meet Council's direction of investing 100% of the proceeds to generate revenue and have the potential to benefit the Peterborough community for generations to come.

Submitted by,

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