

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

Item 3, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2017.

3 RESOLUTION OF THE DIRECTORS AND SHAREHOLDERS OF VAUGHAN HOLDINGS INC. REGARDING BOARD COMPENSATION

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Deputy City Manager, Legal and Human Resources, Chief Financial Officer and City Treasurer and City Clerk, dated June 19, 2017:

Recommendation

The Deputy City Manager, Legal and Human Resources, Chief Financial Officer and City Treasurer and City Clerk recommend:

1. That the City of Vaughan as the 100 per cent shareholder of Vaughan Holdings Inc. endorse the following remuneration to the nine directors sitting on the Board as follows:
 - a. Chair \$16,750
 - b. Vice Chair \$15,250
 - c. Director \$13,500
 - d. Per meeting fee \$ 600 (for each member including the Chair/Vice Chair)
 - e. Reimbursement of reasonable out-of-pocket expenses as approved from time-to-time in policy.
2. That the new remuneration be effective as of the date of the Alectra merger, being January 31, 2017;

Contribution to Sustainability

Vaughan Holdings Inc. (VHI) shares, and in turn VHI's shares in the newly merged Alectra Inc., help to diversify and increase the yield of the City of Vaughan's investment portfolio. This relatively stable revenue stream contributes to increased financial sustainability over a long term horizon.

Economic Impact

Board members are remunerated through the dividends received on VHI's investment in Alectra Inc. The compensation increase proposed is immaterial in the context of the annual dividends received from Alectra Inc. As such, there is no material economic impact from endorsing the recommendations above to the City as shareholder.

Communication Plan

Communication of this item will occur through the regular meeting agenda process and is available on www.vaughan.ca.

Purpose

The purpose of this report is to obtain Council approval, as the 100 per cent shareholder of VHI, of the appropriate remuneration paid to VHI Board Directors, who will be providing oversight of the holding company post-merger (January 31, 2017).

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

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Background

On January 31, 2017 three leading Ontario electrical utilities merged to become Alectra Inc. Enersource, Horizon Utilities and Powestream announced their intention to merge and acquire Hydro One Brampton. This merger created one of the largest municipally-owned utility company in Canada serving approximately one million homes and businesses in the Greater Golden Horseshoe Area. The merger is expected to achieve efficiencies over time such as lower costs to customers, improved customer service, better system reliability and more robust emergency response capabilities in storms and inclement weather.

The City of Vaughan, through VHI, is one of the major shareholders of Alectra Inc. As a result, the Directors of VHI will be expected to provide active strategic oversight of Vaughan's investments in Alectra. The scale and complexity of the holding in Alectra has significantly increased over the previous holding in Powerstream.

In order to review and determine the appropriate Board compensation levels, VHI retained the services of Brown Governance who conducted targeted research on Board compensation practices at public sector utility holding companies in Ontario municipalities.

Brown Governance presented its findings in the attached report (Attachment 2) at the March 6, 2017 VHI Board meeting. This report provides the detailed research, analysis and recommendations for setting the Board compensation levels post-merger.

Staff have reviewed the consultant's report and agree with the recommendations noting the review is consistent with best practices in reviewing compensation, such as comparing the role and compensation of the Board to other similar comparators within the same geographic region.

The consultant's review results in the following recommended adjustments to Board compensation levels, based on the assumption that there are 8 meetings per year:

Position	Previous Compensation (Prior to January 31, 2017)			Proposed Compensation (January 31, 2017 onwards)		
	Annual	Per Meeting	Total	Annual	Per Meeting	Total
Board Chair	\$18,000	\$125	\$19,000	\$16,750	\$600	\$21,550
Board Vice Chair	\$15,000	\$125	\$16,000	\$15,250	\$600	\$20,050
Board Member	\$9,000	\$125	\$10,000	\$13,500	\$600	\$18,300
Total Board Compensation			\$45,000			\$59,900

Per the consultant's report, the narrowing of the gap between Board members and the Chair / Vice Chair positions is reflective of the fact that unlike similar private sector Chair / Vice Chair positions there is no greater expectation of expertise or knowledge of the subject matter on the part of the Chair / Vice Chair.

The VHI Board, at its March 6, 2017 Board meeting, approved a resolution (Attachment 1) to modify the remuneration of its directors in accordance with the recommendations in the attached report from Brown Governance.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

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Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report is consistent with the Term of Council Service Excellence Strategic Initiatives of improving Operational Performance and Staff Engagement.

Regional Implications

Not applicable

Conclusion

The objective of this report is to align Director remuneration with the work effort and decision making responsibilities under VHI's increased responsibilities. It is recommended that the compensation structure of the new Board post-merger as identified in this report and approved by the VHI Board be approved by City Council and that the effective date be January 31, 2017.

Attachments

1. Resolution of VHI Board – May 1, 2017
2. Board Compensation Report by Brown Governance dated February 2017

Report prepared by:

Demetre Rigakos, Chief Human Resources Officer
Lloyd Noronha, Director, Financial Planning and Development Finance, Deputy City Treasurer

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

**RESOLUTION OF THE DIRECTORS AND SHAREHOLDERS OF VAUGHAN HOLDINGS INC.
REGARDING BOARD COMPENSATION**

Recommendation

The Deputy City Manager, Legal and Human Resources, Chief Financial Officer and City Treasurer and City Clerk recommend:

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Contribution to Sustainability

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Economic Impact

Board members are remunerated through the dividends received on VHI's investment in Alectra Inc. The compensation increase proposed is immaterial in the context of the annual dividends received from Alectra Inc. As such, there is no material economic impact from endorsing the recommendations above to the City as shareholder.

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Brown Governance presented its findings in the attached report (Attachment 2) at the March 6, 2017 VHI Board meeting. This report provides the detailed research, analysis and recommendations for setting the Board compensation levels post-merger.

Staff have reviewed the consultant's report and agree with the recommendations noting the review is consistent with best practices in reviewing compensation, such as comparing the role and compensation of the Board to other similar comparators within the same geographic region.

The consultant's review results in the following recommended adjustments to Board compensation levels, based on the assumption that there are 8 meetings per year:

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The VHI Board, at its March 6, 2017 Board meeting, approved a resolution (Attachment 1) to modify the remuneration of its directors in accordance with the recommendations in the attached report from Brown Governance.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report is consistent with the Term of Council Service Excellence Strategic Initiatives of improving Operational Performance and Staff Engagement.

Regional Implications

Not applicable

Conclusion

The objective of this report is to align Director remuneration with the work effort and decision making responsibilities under VHI's increased responsibilities. It is recommended that the compensation structure of the new Board post-merger as identified in this report and approved by the VHI Board be approved by City Council and that the effective date be January 31, 2017.

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2. Board Compensation Report by Brown Governance dated February 2017

Report prepared by:

Demetre Rigakos, Chief Human Resources Officer
Lloyd Noronha, Director, Financial Planning and Development Finance, Deputy City Treasurer

Respectfully submitted,

Claudia Storto
Deputy City Manager, Legal and Human Resources

Laura Mirabella-Siddall
Chief Financial Officer and City Treasurer

Barbara A. McEwan
City Clerk

EXTRACT FROM VAUGHAN HOLDINGS INC. MINUTES OF MAY 1, 2017

Minute No.16 of the Board of Directors of Vaughan Holdings Inc. which was adopted on May 1, 2017.

16. DIRECTOR REMUNERATION FOR VAUGHAN HOLDINGS INC. (Referred)

ON A MOTION DULY MADE BY Director DeFrancesca SECONDED BY Director Bevilacqua, AND CARRIED, the following resolution was passed:

Resolved that the recommendation contained in the report of the Deputy City Manager, Legal and Human Resources (VHI Legal Counsel) and the Chief Financial Officer and City Treasurer (VHI VP, Finance and Treasurer), the Chief Human Resources Officer and the Director of Financial Planning and Development, dated March 6, 2017 be approved as follows:

1. That the Board Compensation Report dated February 2017 by Brown Governance be received.
2. That the remuneration paid by Vaughan Holdings Inc, to the nine directors sitting on the Board be endorsed as follows:
 - a. Chair \$16,750
 - b. Vice Chair \$15,250
 - c. Director \$13,500
 - d. Per meeting fee \$ 600 (for each member including the Chair/Vice Chair)
 - e. Reimbursement of reasonable out-of-pocket expenses as approved from time-to-time in policy.
3. That the new remuneration be effective as of the date of the Alectra merger (January 31, 2017); and
4. That a report be submitted to a future City Finance, Administration and Audit Committee for approval of the remuneration by City Council, as shareholder, pursuant to Section 3,17 of Vaughan Holding Inc. By-law 1.

Solutions For Trusted Leadership

Vaughan Holdings Inc.

*Board Compensation Report
Draft
February 2017*

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Executive Summary

Brown Governance Inc. (BGI) was retained by Vaughan Holdings Inc. to conduct targeted research on board compensation practices at public sector utility holding companies, in particular municipal holding companies. Vaughan Holdings requires this analysis to confidently set board compensation levels for the new board that will provide oversight of the holding company post-merger.

Board compensation research data was obtained from and for eight comparator municipal holding companies in suburban areas and large cities in southern Ontario, which own utilities.

The comparator data is summarized in the first section of our report, the highlights are:

- Most of the comparators – and the closest to Vaughan’s – fall within a narrow band between \$13,500 and \$14,000 for annual board retainers.
- The average chair retainer for all comparators is \$18,757.
- Average meeting fees for the comparator group are \$560.

Board compensation is driven by a number of factors at any organization, including philosophy, external factors and individual considerations. These are summarized in the second section of our main report, both broadly and for public sector boards.

No two municipal holding companies and their boards are exactly the same, so for Vaughan Holdings Inc., beyond the main generic drivers, these factors should be taken into consideration:

- The VHI Board will be expected to provide active strategic oversight of Vaughan’s investment in Alectra, the merged electric distributor resulting from the combination of Powerstream, Enersource, Horizon and Hydro One Brampton. The scale and complexity of Alectra is significantly more than Powerstream: this consolidation creates the second largest municipally-owned electric utility by customer base in North America, second only to the Los Angeles Department of Water and Power. Alectra will operate within a 1,800 square kilometre service territory comprising 15 communities including Alliston, Aurora, Barrie, Beeton, Brampton, Bradford, Hamilton, Markham, Mississauga, Penetanguishene, Richmond Hill, St. Catharines, Thornton, Tottenham and Vaughan.
- This responsibility as shareholder of Alectra will include reviewing, approving and monitoring the effectiveness of Alectra’s strategic plan, performance metrics, any new mergers, acquisitions or major business transactions. The VHI Board will need to set and maintain a sustainable dividend policy from VHI to the City. During the merger negotiations and transition, VHI’s Board played a more active role in protecting the interests of Vaughan, such as retaining independent legal and energy advisors – depending on the complexity and shifting risks and opportunities facing Alectra, VHI may need to engage independent advisors in the future – and the Board will need to be in a position to make that call.

- With the merger, Powerstream and its board will disappear, and Vaughan Holdings Inc.'s Board will now be directly overseeing the Alectra investment, including conducting due diligence to gain reasonable assurance in Alectra's strategy and financial performance, dividends, community footprint and involvement. The extent to which Vaughan can rely on the Alectra Board is different than the experience with Powerstream's Board, because the shareholding moves from effective control to approximately 21%. VHI's Board will be more actively engaged and directly hold greater responsibility.
- The Vaughan Holdings Board comprises the entirety of City Council, which means that substantive due diligence and strategic oversight has been effectively delegated by Council to the Board. While Council retains the power to make these decisions, practically it would not be expected to re-deliberate the considered recommendations of the VHI Board, including the review of Alectra's strategy, performance and financial risks and returns. This is different than a lot of municipal holding company boards with only one or two Councillors (or a minority) on the Board, where City Council would fully expect to substantially deliberate matters concerning the operating subsidiary (utility).
- Vaughan Holdings, post-Powerstream, is also responsible to oversee the investment in Powerstream's Solar Asset Management, which will now be a direct investment of VHI (and Markham and Barrie), managed by Alectra. VHI will be the largest shareholder in Solar Asset Management, and therefore its Board will bear more responsibility for due diligence and strategic oversight of this too.

The net effect of these individual factors would be to increase the compensation of individual board members for Vaughan over the comparator benchmark, but to reduce the gap between the board members and the chair (since often the chair would be an outside independent board member expected to provide more active leadership and organizing to the governance).

As with everything in governance and compensation, this is about achieving an equitable balance.

Recommendations

Our recommendations for Vaughan Holdings Inc. for board compensation are:

1. Annual retainer to board members of \$13,500.
2. Annual retainer to the board Chair of \$16,750. (inclusive of board retainer)
3. Annual retainer to the Vice Chair of \$15,250. (inclusive of board retainer)
4. Per meeting fee of \$600 for each board member (including chair) attending each board meeting or other meeting where attendance is expected.
5. Reimbursement of reasonable out-of-pocket expenses as approved from time-to-time in policy.

Board Compensation Comparator Research

We undertook specific targeted research on behalf of Vaughan Holdings, to compare board compensation with similar boards.

Board compensation data was obtained from eight selected comparators, all of which are municipal holding companies in suburban or medium-sized cities in southern Ontario, with utilities within their portfolio, specifically power distribution:

Table One: Comparator Research Data: Municipal Holding Companies

	1	2	3	4	5	6	7	8
Annual Retainer	\$ 13,500	\$ 8,468	\$ 5,000	\$ 6,302	\$ 13,500	\$ 25,000	\$ 14,000	\$ 13,500
Chair Retainer	\$ 29,000	\$ 8,468	\$ 7,500	\$ 8,591	\$ 24,500	\$ 25,000	\$ 18,000	\$ 29,000
Per Meeting Fees	\$ 600	\$ 550	\$ 325	\$ 204	\$ 650	\$ 900	\$ 650	\$ 600

At the high end of the spectrum, there is one out-lier (Comparator #6): its board compensation is driven more by private sector and profit considerations than the others.

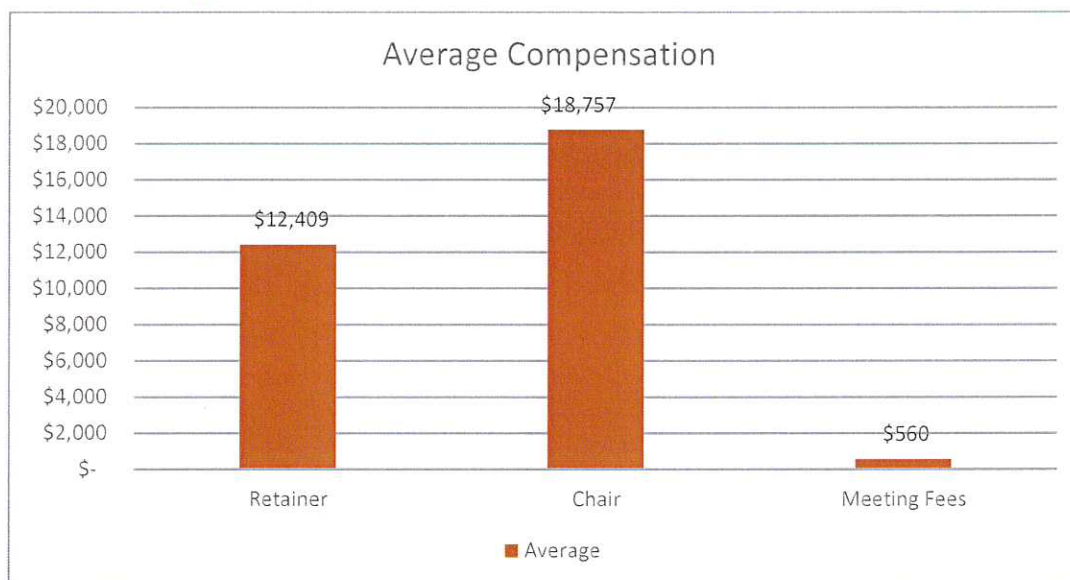
At the lower end of the spectrum, Comparator #3 historically has been relying on its operating subsidiary board for much of its strategic and performance oversight, as does Comparator #4 to some extent. Comparator #2 is from a smaller, less suburban community.

The remainder of the comparators are the closest fits with Vaughan Holdings Inc. post-merger.

Additionally, two municipalities that we contacted do not pay additional compensation for serving on their municipal holding companies. One relies largely on its operating subsidiary board for strategic and performance oversight, and the other has recently undergone a governance restructure with City Council directly providing governance and strategic oversight to the operating utility.

Staffing support provided to these holding companies is generally undertaken by city or municipal employees with no additional compensation – meaning that the holding company boards are not responsible for hiring, monitoring, evaluating and compensating executives. Holding company auditors are also typically the City's auditors, engaged by and working directly with the City. These are also the case with Vaughan Holdings Inc.: the President is the City Manager, the Treasurer the City CFO, the Secretary the City Clerk, the Auditor the City's Auditor (KPMG).

Chart One: Average Compensation



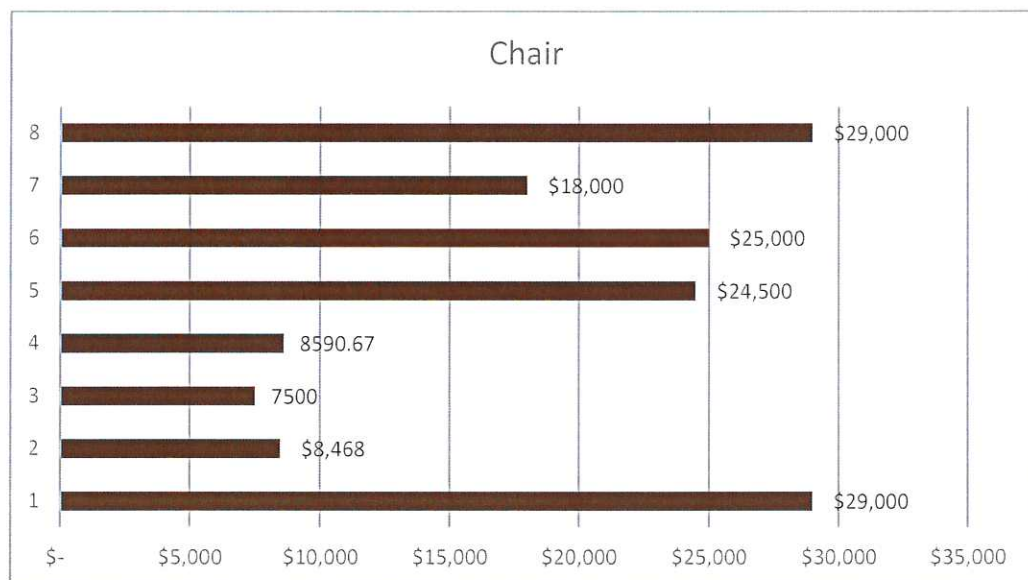
The average retainer paid by the comparator municipal holding companies is \$12,409 for board members and \$18,757 for board chairs, plus meeting fees of \$560 per meeting.

Chart Two: Board Retainer



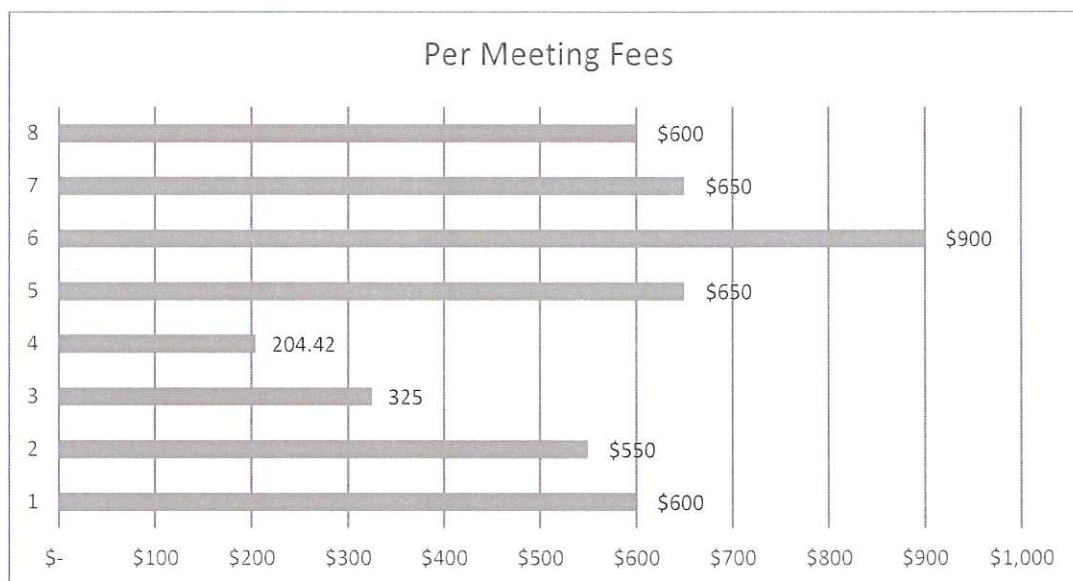
Annual retainers paid to board members range from a low of \$5,000 to a high of \$25,000 – although Comparator #6 is more private sector profit driven. Most of the comparators fall within a narrow band between \$13,500 and \$14,000 for board retainers.

Chart Three: Chair Retainer



Chair compensation varies the most widely. Two of the eight comparators have no additional compensation for the chair position. Of the remaining six comparators the range of chair compensation is between \$7,500 and \$29,000. The average chair retainer for all comparators is \$18,757.

Chart Four: Meeting Fees



Meeting fees range from \$204 per meeting up to \$900 per meeting with most meeting fees falling within a narrow range between \$550 and \$650. Average meeting fees for the comparator group are \$560.

Board Compensation Philosophy and Drivers

Board and director compensation is a sensitive issue, whether in the private, public, not-for-profit or any other sector.

Any compensation package should recognize and consider:

- The company's overriding philosophy and values – how it balances the need for bottom line profitability and shareholder value with its values of fairly compensating for service;
- The desire to bring an external perspective and objectivity to the company; and,
- The need to attract value-added directors and/or advisors with appropriate business skills and experience, and to compensate them for their time and effort.

External Drivers

External and environmental drivers are trends that are out of the control of the organization. However, they cannot be ignored as their overwhelming tendency is to increase director compensation. They include:

- **Supply and Demand.** Due to increased demands on and for independent directors, people serve on fewer boards. If you want to get good people, you have to be prepared to compensate them fairly.
- **Competition.** Increasing competition, mergers, acquisitions, etc., put a lot of pressure on the bottom line and performance. Upward pressure is put on compensating independent directors because they are responsible for performance. An organization cannot continue to serve its communities without profitability. Organizations in every sector are experiencing tremendous pressure to achieve tangible, bottom line results.
- **Governance Reform.** New regulations, standards, and guidelines affect boards and directors in every sector. These expectations also serve to drive compensation upward. As more is expected in accountability, more compensation is expected.
- **Cultural Norms.** Our culture is one of low trust and instant communication. People want and expect more information, and they want it now; they expect organizations to prove the validity of the information and the decisions behind them. The implication is one of disclosure and the perceived risk in rapid, full disclosure drives compensation expectations upward.
- **Professional Directors.** Directorship is now being thought of as a profession, particularly in the private sector. Professional colleges (e.g. ICD, Professional Director™, and The Directors College) and a myriad of governance courses and seminars are expanding. Director training budgets are increasing. With professional training and experience, comes the expectation of compensation.
- **Performance Expectations.** More directors are being asked to resign their positions for lack of participation and poor performance. Directors are clearly expected to perform. With performance expectations, come compensation expectations.

- Management Performance. Directors are choosing to resign when they lose confidence in management. They are taking their liability risks seriously. With liability risk, comes the expectation of compensation.
- Board Evaluation. More and more boards are evaluating their performance and the evaluation results are affecting director renewal.

These drivers can be depicted as a scorecard (see below.) On balance, the upward drivers of compensation generally outweigh the downward ones:

Upward Drivers of Compensation	Downward Drivers of Compensation
↑ Level of skills and experience	↓ Owners, shareholders, employees, public and other stakeholders want to keep compensation down
↑ Scarcity of skills and experience required	↓ Measure of value added and value linkage that compensation represents (it is hard to directly measure the value boards add)
↑ Attracting most capable leaders	↓ Affordability and corporate expense control
↑ Increased time commitments	
↑ New regulations raising the bar: certifications and accountability	
↑ Legal liability: shareholder litigation; court precedents; D&O liability insurance costs	

Individual Drivers

Given the above, why do people agree to directorships? In recent years, the benefits of board service have decreased while the costs have increased and the result is that directors are looking for compensation to offset the loss of benefits, increased time commitment and risks of the directorship.

The following table illustrates:

Benefits	Value Now Versus Before	Costs	Value Now Versus Before
Contacts (Importance)	↓		

Business Development	↓	Risk to Reputation	↑
Prestige/Affiliation	↓	Legal Risks	↑
Learning/Experience	= or ↓	Time and Effort	↑
Self-fulfillment	=	Expertise and Experience	=
Indirect Rewards	?	Additional Time/Effort	↑
Financial Rewards	?	Required Investment	↑
Source: <i>20 Questions the Board Should Ask About Director Compensation</i> , Canadian Institute of Chartered Accountants			

The drivers of board compensation include all the above three elements – philosophy, external environment and personal – but the emphasis on each change according to circumstances such as ownership structure, shareholder(s) expectations and values, challenges facing the organization, etc.

Boards are facing increased scrutiny about due diligence, fiduciary responsibility, director independence and accountability. Directors are spending more time on board matters and feeling the pressure of this increased workload and exposure to financial, reputational and personal risks. These factors along with a perception that the talent pool of qualified directors is shrinking are putting upward pressure on director compensation.

In the public sector, boards and senior management balance profitability and public policy objectives. Compensation practices and levels of remuneration for commercial public sector corporations are significantly lower than those in the private sector.

Public sector corporations face similar challenges in determining the appropriate compensation for their directors. Specifically, they wrestle with:

- the concept that their work is a public service and their appointments are political patronage, both of which may be perceived as mitigating the amount of compensation that should be paid; and,
- the notion that resources for compensating directors are better directed to other initiatives considered more in the public interest.

About Brown Governance

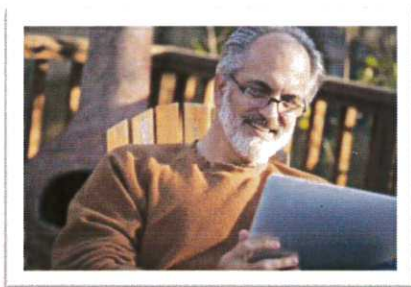
Brown Governance has been trusted for over 25 years by organizations seeking to strengthen their governance practices. Our integrated portfolio of products and services delivers knowledge and advice based on a unique blend of experience and research. Our expertise spans the globe and sectors. You can count on Brown Governance to provide independent professional governance services like board evaluation, director education and certification, governance best practices research, and consulting.

Brown Governance is a Canadian corporation dedicated to making the world a better place by creating, redeeming, and transforming governance and leadership around the globe through contributing to the world's senior leaders and boards. Our hope is that these efforts result in no bad governance headlines, local good governance stories, no director litigation, fewer labour disputes, with principle-based governance approaches leading the world in governance. We believe that leadership matters, leadership can be enhanced, and the tensions between power, authority and accountability can be balanced!

We work side-by-side with clients through providing governance [software solutions](#), [director education and certification](#), [board](#) and [CEO evaluation](#) and customized board consulting.

Contact us at: 1-888-698-3971 or info@browngovernance.com.

About The Professional Director Certification Program™



The Professional Director Certification Program™ is designed to ensure directors have the skills, knowledge, attitude and capabilities to fully contribute to the pursuit of excellence in corporate governance. This online, comprehensive governance education program more than compares in quality and stature with other director education programs. Because it is delivered in a state of the art, online environment, you can receive your certification at a fraction of the cost of those other programs! **Find out more at www.professionaldirector.com or contact us directly at Brown Governance.**

About BoardConnex™ - Your SMART Board Portal

BoardConnex is the next generation of meeting management and board communication software that includes governance resources and tools.

BoardConnex marries software development expertise with corporate governance knowhow to create a board portal solution that is more than a document library. This director engagement tool moves beyond first generation portals to provide users with a truly “Smart” board portal. Users gain access to the latest in governance resources and best practices, all from within their board portal.



BoardConnex is the result of the collaboration between two organizations that are experts in their fields: Brown Governance Inc., and Sandbox Software Solutions. Find out more at www.boardconnex.com or contact us directly at Brown Governance.