



Minutes

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Finance Committee March 3, 2016

Minutes of a meeting of the Finance Committee (FIC) held in the offices of the association, 40 Sheppard Avenue West, North York, Ontario, on March 3, 2016 commencing at 5:00 pm.

In attendance:

Finance Committee Members:

Roger Jones, P. Eng., (Chair)
Nick Colucci, P.Eng., (Vice Chair)
David Brown, P.Eng., BDS, C.E.T. (via conference)
Charles Kidd, P.Eng.
Ken McMartin, P;Eng.
Dr. Ravi Gupta, P.Eng.

Staff: Gerard McDonald, P.Eng., MBA, Registrar
Maria Cellucci, CPA, CA, Controller
Chetan Mehta, MS, MBA, Manager – Financial Services
Lucy Capriotti, Administrative Assistant

Regrets: Jason Green, CPA, CMA, MBA, P.Eng.

Guests: Marilyn Spink, P.Eng, Councillor (arrived at 6:00 pm)

1. Approval of Agenda

R. Jones called the meeting to order and asked the members if they wished to have changes to the agenda as presented.

C. Kidd requested that under item 7. Other Business, an item is added to consider the hiring of external expert help the Finance Committee in the area of remuneration to assist the Finance Committee during its budget deliberations.

MOTION

That the revised agenda be accepted.

Moved by K. McMartin and seconded by C. Kidd.

MOTION CARRIED

2. OSPE Membership Fee Reimbursement for Eligible PEO Councillors and Staff Peer Review

This item was deferred until the arrival of M. Spink at 6.00 pm.

M. Spink advised the Finance Committee that the JRC (OSPE PEO Joint Relations Committee) had met to discuss they would like all P.Eng's to voluntarily become members of OSPE since at the moment there are less than 8 percent of PEO members are members of OSPE.

The OSPE PEO Joint Relations Committee suggested we should reimburse the OSPE membership fees for all current PEO P.Eng. councillors and for all PEO P.Eng. staff while they are employed by PEO.

The cost for this is a little over \$8,000 and the JRC wanted to bring this to the Finance Committee for their consideration before bringing it to Council.

M. Spink advised that as a disclosure, her husband is an OSPE employee and that she had made him apply for the job since she is so passionate about OSPE. She also clarified that she does not influence his salary and that he is several levels down.

R. Gupta suggested there should be a criterion for reimbursement which should be that a member should be contributing to OSPE.

K. McMartin opined that an individual should pay for their membership in a Professional, Technical or Advocacy association.

R. Gupta made an observation that OSPE directors were compensated but PEO Councilors were not given any compensation.

R. Jones inquired why PEO should help OSPE's revenues when OSPE was paying such large dues to its Chair and Board in such a cavalier manner.

M. Spink responded that she was not on the OSPE Board but on Council and this was a peer review and that she was seeking the Finance Committee's inputs.

R. Jones clarified that he wished to disclose that he has always been a very strong supporter of OSPE so his remarks were not intended to be cynical.

C. Kidd and N. Collucci felt that PEO should not be paying for OSPE fees for PEO Councilors and staff.

N. Collucci asked if OSPE had considered giving free membership to PEO Councilors and PEO staff.

The Finance Committee clarified that it was merely approving the disbursement of the funds requested by the JRC but it was not pontificating on the moral hazards of this decision.

MOTION

That the Finance Committee has no problem with the expenditure of \$8,100 for the OSPE membership from the surplus, subject to Council approval.

Three in favor, one against and one abstained; this was not a recorded vote.

Moved by K. McMartin and seconded by N. Colucci.

MOTION CARRIED

3. Approval of Minutes from October 26, 2015

R. Gupta requested to have more detailed Minutes. C. Kidd said that he agreed with R. Gupta but was not expecting an actual transcription. R. Jones concurred and said that adequate detail was necessary to help understand where the decisions came from but an actual transcription was not required. C. Kidd said that to make things easier it may be a good idea for committee members to clearly indicate the points they wish to have Minuted. Ken McMartin concurred with the observations made by C. Kidd and R. Jones.

M. Cellucci added that Lucy had included more detail in the Minutes but she (i.e. M. Cellucci) had cut out a lot of that information to focus on the motions but going forward she would make sure that more detail is provided.

K. McMartin asked what happened to the audio recording of the meetings. L. Capriotti advised that the recordings were retained.

R. Jones asked G. McDonald that based on his experience in the federal government, was there a rationale for deleting meeting recordings after one year or two. G. McDonald indicated that this was simply good records management and that there should be a time limit for retaining the recordings and that the recordings could be deleted once minutes were approved.

R. Jones asked if there was a record retention policy to which staff indicated that it was 7 years. R. Jones advised that the committee was satisfied with PEO's record retention policy.

After additional discussion, the committee members suggested that the Minutes strike a balance between detail and brevity. It was agreed that the committee members will advise the secretary when they want the Minutes to show detail on certain items. The Minutes as presented were reviewed and subsequently approved.

MOTION

That the Minutes of the October 26, 2015 meeting as presented be approved.

Moved by K. McMartin and seconded by C. Kidd.

MOTION CARRIED

4. Matters Arising from the Minutes

The committee agreed that no discussion on matters arising from the Minutes was necessary.

5. Review of 2015 Financial Highlights (actual vs Budget) and 2015 Audited Financials

R. Gupta requested that the Finance Committee meeting package be sent at least ten days prior to the meeting as this would allow the committee members to review the information in the package in depth. R. Gupta commended staff for an almost million dollar surplus and inquired why was there a loss in revenue arising from the fourth floor vacancy and lower investment income. R. Gupta also suggested that PEO's marketing strategies needed to be reviewed to ensure that such vacancy losses could be avoided. R. Gupta also inquired about the lower amortization costs in relation to the Aptify project.

R. Gupta then asked that we should look at planning for future projects with a view to minimize risks of using lesser known technologies since such an approach was likely to lead to more defined expenses where items such as amortization would not become a victim of unforeseen delays.

Regarding building operations, R. Gupta indicated that he was pleased to see a better format of presenting revenue and expenses. The removal of CAM (common area maintenance) costs is a welcome change and so is accounting with simpler PEO share of the revenue and expenses. R. Gupta advised that the committee needed to understand this document and utilize it for harnessing the building for a better return on investment.

R. Gupta then discussed the Capital Budget and requested that he would like to know projects that were completed/transferred/dropped could be delineated as this would help the committee understand better the capital budget format.

R. Gupta also advised that information on the expenses for the Aptify project needed to be discussed to help the committee understand how PEO was tracking the completion of Aptify.

D. Brown asked about the cost for the backflow preventer and inquired whether PEO had to buy a new one or a double one. M. Cellucci stated that it wasn't budgeted but there was some money left over to cover this cost and that she would be getting the details from J. Cookson and S. Clark and circulate a response to the Finance Committee.

D. Brown inquired about the high cost for Security on page 4 and asked what was included in this line item. M. Cellucci advised that this item includes the costs for security monitoring by Tyco. The reason this cost was high (vs budget) was because this cost was not budgeted properly for in 2015 but this has been rectified for the 2016 budget.

N. Cellucci inquired about the expenses for salaries and asked if the variance was because of vacancies or due to new positions with staff getting lower salaries.

M. Cellucci advised that the variance was due to 105 budgeted positions in 2015 but the actual employee count was 99 which led to 6 vacancies. In addition, there were maternity leaves, medical leaves and as a result the salaries and benefits expenses were low but the spend on contract staff is much higher than budgeted. This higher spend for contract spend partially offsets our savings in salaries and staff.

R. Jones asked shouldn't staff have foreseen the unfilled vacancies and hence budgeted a lower amount for staff salaries and whether a budget should always be higher than what you need or whether it should be what you think you will spend.

M. Cellucci stated that budgeted amount should reflect what you think you would spend and clarified that the budgeted amount is what we expect to incur if we had a full complement of staff.

R. Jones stated that this was the second year where vacancies were carried across.

G. McDonald commented that in any year vacancies could occur for various reasons and as this could not be avoided it is prudent to budget salaries based on the expectation that all of the vacancies will be filled.

R. Jones asked G. McDonald if he had any updates on unrented status for the 4th floor vacancy.

G. McDonald stated that it was a soft real estate market as within 100 yards of our current premises the availability of a high volume of Class A space was making it difficult to get tenants since our current premises are Class B space.

G. McDonald assured the committee that PEO's real estate team was marketing the vacant space as best as they can and were actively looking for tenants. If a potential tenant were to express interest and if lowering the rent or offering any other inducements might lead to a tenancy then we definitely would consider that.

R. Gupta asked about the reason behind the low amortization costs leading to a negative variance (Act Vs Budget) of over twenty three per cent. M. Cellucci advised that this was largely due to the non-completion of the Aptify project which was originally scheduled to be completed in 2015.

R. Gupta then inquired why was there a negative actual \$317k excess of revenue over expenses for the building vs a budgeted positive of \$60k.

M. Cellucci advised that this was primarily on account of the vacant space on the 4th floor since PEO did not recoup any base rent or recoverable expenses but the budget was prepared with the assumption that this space would be leased at some point during the year.

R. Jones commented that the Finance Committee appeared to be reasonably satisfied with the financial results.

6. Investment Subcommittee Update

a. Terms of Reference:

R. Jones requested M. Cellucci for an update on this item.

M. Cellucci advised that the Investment Sub-Committee met on February 4th and had recommended a change to the quorum for the sub-committee. Originally, the quorum was 3 out of 4 voting members. The sub-committee members recommended that the quorum be changed to 2 out of 4.

If this change was approved by the committee then the revised terms of reference would be included in the Council package which was to be sent tomorrow and presented to Council for approval.

The committee members unanimously agreed to approve the changes recommended to the Terms of Reference of the Investment Sub-Committee.

MOTION

That Terms of Reference of the Investment Sub-Committee be modified to change the quorum to two (2) out of four (4) voting members.

Moved by N. Colucci and seconded by K. McMartin.

MOTION CARRIED

b. Review and approve the asset mix changes recommended by Scotia Institutional Asset Management (SIAM) for PEO's corporate funds (cash reserve fund).

The committee had a discussion and agreed with the recommendations on the asset allocation changes made by Scotia Institutional Asset Management (SIAM).

R. Jones asked if the motion was needed to approve these recommendations by the Finance Committee and then take it to Council.

M. Cellucci stated that before this could happen, a peer review was first needed by the HRC and the Audit Committee as well.

R. Jones inquired as to what were the next steps to be followed.

M. Cellucci advised that the next steps would be to incorporate the asset- mix changes recommended by SIAM into the Investment Policy. For this, the Investment Sub-Committee needs to update/revise and approve the Investment Policy and then bring this revised Investment Policy back to the Finance Committee for approval. After approval by the Finance Committee, the Investment Policy would need to go to the HRC and Audit Committee for peer review.

R. Jones asked why was there a need to talk to the Investment Sub-Committee again since the sub-committee had already approved the asset-mix recommendations made by SIAM.

M. Cellucci advised that this was needed because these asset-mix recommendations were only a part of the Investment Policy and the other parts of Investment Policy needed to be updated as well since the policy has to be viewed in its entirety. Furthermore, there were other recommendations made by SIAM as well which it was her understanding that the sub-committee did not have a chance to look into.

D. Brown stated that he agreed with this approach since the sub-committee had made a specific request to both SIAM and Mackenzie for the Investment Policy in a markup form for both the reserve fund and pension fund, respectively but these were not provided in the meeting of the sub-committee.

As a result, the Investment Sub-Committee could not review the investment policies for the corporate and pension funds and present these to the Finance Committee for approval.

As the result, the best the Finance Committee could do today was to approve the changes to the asset allocation changes recommended by SIAM.

MOTION

To approve the Investment Sub-Committee's recommendations to the Finance Committee for asset allocation recommendations to the Investment Policy for PEO's reserve fund.

Moved by N. Colucci and seconded by K. McMartin

Staff will proceed with appropriate protocol between the Investment Sub-Committee and the Finance Committee.

MOTION CARRIED

c. Review and approve the asset mix changes recommended by Mackenzie for PEO's pension fund.

The committee had a discussion and agreed with the recommendations on the asset allocation changes made by Mackenzie for the pension plan investments.

C. Kidd stated that it was important to have a periodic review of both the investments for the reserve and pension funds.

D. Brown discussed that every year Council should ensure that an Investment Sub-Committee exists and every year they should be reviewing portfolios from both Scotia and Mackenzie and if need be make mixed allocation changes based on their recommendations and bring these to the attention of Council.

MOTION

To approve the Investment Sub-Committee's recommendations for the asset mix changes to the SIPP (Statement of Investment Policy and Procedure) for PEO's Pension Plans.

Moved by N. Collucci and seconded by C. Kidd

MOTION CARRIED

D. Brown asked that red-line mark up copies of the reserve fund investment policy from SIAM and pension plan SIPP from Mackenzie are made available at the next Investment Sub-Committee meeting.

M. Cellucci advised that F. Goncalves has already approached both SIAM and Mackenzie and an update is awaited.

7. Other Business

Budget for outside help – C. Kidd proposed that an outside consultant be hired for assessing staff salary increases for the upcoming budget since staff had an inherent conflict of interest if management were to do the assessment on their own.

R. Jones stated that it is typically the job of management to review salaries.

G. McDonald advised that we didn't have a budget for this exercise at this point but we could do some ground work to determine the cost for a consultant and present it to this committee. If the committee agrees to hire the consultant then the committee could present this recommendation to Council for approving the budget for the consultant. Alternatively, the cost for hiring the consultant could be included in the 2017 budget.

G. McDonald made a suggestion to put the following action item in the Minutes.

ACTION ITEM: The committee asks the Registrar to investigate the scope and cost of getting an independent salary increase assessment.

8. Date of Next Meeting

A Doodle will be sent out to schedule a meeting some time in May.

9. Adjournment

Meeting adjourned at 7:30 p.m.