Agenda – Executive Policy Committee – October 20, 2021

REPORTS

Item No. 16 Endowment Fund Policy

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the attached Endowment Fund Policy be approved.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

ADMINISTRATIVE REPORT

Title: **Endowment Fund Policy**

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
C. Kloepfer	C. Kloepfer	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The City has been approached by organizations requesting to establish endowment funds. An Endowment Fund Policy will formalize the framework for the creation of Endowment Funds for the City of Winnipeg and other entities associated with municipal activities.

There is no impact to existing donation procedures.

All Endowment Funds will be established through The Winnipeg Foundation under the proposed Endowment Fund Policy.

RECOMMENDATIONS

1. That the attached Endowment Fund Policy be approved.

2. That the proper Officers of the City be authorized to do all things necessary to implement the foregoing.

REASON FOR THE REPORT

The proposed Endowment Fund Policy requires Council approval.

There are seven (7) Endowment Funds established at The Winnipeg Foundation for the benefit of other organizations associated with municipal activities prior to this Policy being drafted.

This report covers two separate concepts:
1. City of Winnipeg Establishment of Endowment Funds; and
2. Third party Establishment of Endowment Funds to benefit the City of Winnipeg.

IMPLICATIONS OF THE RECOMMENDATIONS

Endowment Funds established by the City or for the benefit of the City must follow this Endowment Fund Policy.

Endowment Funds that are managed by a third-party public foundation are generally owned by the public foundation and are therefore not included on the consolidated financial statements of the City.

Minimum Endowment Fund amounts for initial establishment by the City of Winnipeg or a third party for the benefit of the City of Winnipeg are:

- $200,000 for Endowment Funds to supplement improvements to City assets
- $20,000 for Endowment Funds to supplement operations
- $2,500 for Endowment Funds that are specifically related to Museums receiving funding from the City of Winnipeg

Amounts below these thresholds would flow through the existing donation process.

HISTORY/DISCUSSION

Definitions and general observations

Endowment Funds are a type of restricted fund. Donors create Endowment Funds when the donor(s) stipulate that the registered charity must maintain the principal amount and only use the income earned for the specified purposes.

Typically, Endowment Funds are most notably associated with organizations such as hospitals, universities, churches and scholarship funds. While specific rules and obligations apply, the most common trait of an Endowment Fund is its inability to use the principal balance for operations. Only the income generated by the Endowment Fund assets is available for use, and only for specified purposes. The intention is to preserve the long-term value of the Endowment Fund. Endowment Funds are often organized via a specified trust, a private foundation or a public charity.

Endowment Funds can be established directly by the City of Winnipeg or can be established by third parties for the benefit of the City of Winnipeg.

Administrative and Establishment

There is complexity and administrative management associated with Endowment Funds including:

- Generally, the principal value of contributions to Endowment Funds must remain in perpetuity. The implied goal of donors is to help their favorite organizations be sustainable in the future.
- Depending on their structure, donations to Endowment Funds are tax deductible.
- Endowment Funds, when of significant size, are often established as separate organizations with charity numbers and a board of directors providing oversight.
- Operations are usually audited and managed by professionals who also possess investment backgrounds capable of managing risk and maximizing returns on investment.
- Most Endowment Funds begin with significant donations to provide capacity to absorb the costs of administration.

- Depending on the nature of investments in the Endowment Fund, adverse events in public investment markets may significantly impact available revenue which in turn could result in financial hardship to those organizations relying on revenue from the fund.

Other municipalities

Municipalities are not typically involved in establishing and/or maintaining Endowment Funds. However, there are some notable exceptions:

- City of Vancouver
    - The City created the Property Endowment Fund in 1975 to maintain or increase the City's ownership of strategic land in the City of Vancouver; to support the City's planning and development objectives; and to produce a reasonable return on the City's investment in properties consistent with the City's planning and development objectives. The fund is managed by a five-member committee consisting of the Mayor, elected officials and senior members of the Public Service. By the end of 2010, the Fund had grown to $3 billion and a news article in 2018 notes the fund value at $5.7 billion with over 700 properties in its portfolio.
    - In September, 2018, the City approved the Vancouver Affordable Housing Endowment Fund (VAHEF) which is dedicated to meeting the housing and affordability needs of Vancouver residents and to create inclusive communities across the City. All non-market housing assets currently owned or administered by the City are to be managed as a single portfolio with an approximate contributed value of approximately $2 billion. The Public Service is developing an implementation strategy. In 2006, the Vancouver Board of Parks and Recreation created an Endowment Fund providing individuals and organizations with the opportunity to contribute to the long term, sustainable funding of city parks and recreation activities.
- City of Edmonton
    - In 1995, the City created the Ed Tel Endowment fund after selling the Edmonton Telephones Corporation for $470 million. The fund has since grown to $864 million. The Fund is managed through a by-law. The fund occasionally receives donations from citizens but only on the proviso that the funds will only be used at the City's discretion. It would appear that the fund disburses an annual dividend used as general revenue for City use.
- City of Hamilton
    - The City's Municipal Endowment Fund is invested in commercial properties and income from the fund is used to reduce the rates requirement of the City.

As noted above a majority of the Endowment Funds are sizeable and generally include investment in property development.

The following additional comments were obtained from discussions with other municipal financial professionals:

- The process of managing Endowment Funds requires considerable administration and therefore benefits should outweigh costs.

- Sometimes Endowment Funds have limited spending opportunities that may no longer be a city priority and therefore there must be careful consideration of any limitations proposed on specific funds. The City must agree to the Establishment of any Endowment Fund disbursement criteria.
- Depending on the Endowment Fund structure, the City may be required to work with partners who have differing priorities and may not be efficient and effective in working for the best interests of the City.
- The size of an Endowment Fund may not be sufficient to offset costs of administration.

Canada Revenue Agency (CRA) tax requirements

The City of Winnipeg, as a listed Canadian municipality, is a qualified donee under Sections 149.1(1) and 118.1(1) of the Income Tax Act. Qualified donees are eligible to issue official donation receipts for income tax purposes. Some areas of the City's operations such as community centres and libraries actively solicit donations.

The City must use donated funds for municipal purposes. It is the general view of the Canadian Tax Foundation that donations can be receipted by a municipality in Canada on behalf of an organization which operates under the authority of the municipality provided the municipality retains discretion as to how the donated funds are to be spent. Under CRA rules a non-profit organization recipient of such funds must operate "under the authority" of the City of Winnipeg or fulfill a municipal objective. A non-profit organization recipient cannot have a legal entitlement to the gifted funds and the City of Winnipeg must have the legal authority and discretion to disburse the funds as it sees fit. As such, the City of Winnipeg cannot be a mere "conduit". The City of Winnipeg must retain responsibility and discretion over how the income of an Endowment Fund is spent.

All Endowment Fund agreements with third-party public foundations must be approved by the City of Winnipeg to ensure compliance with the taxation requirements and to ensure the purposes and disbursements are aligned with city objectives.

To maintain "qualified donee" status, The City of Winnipeg must keep adequate books and records related to donations received by the City of Winnipeg including:

- information to allow CRA to verify revenues for which donors can claim tax credits or deductions;
- information to allow the CRA to confirm that Winnipeg meets the requirements for qualified donee status under the *Income Tax Act*; and
- retain a duplicate of each receipt containing prescribed information for each donation received.

There are three distinct ways the City issues receipts for donations including:

- From time to time, the City is approached by potential donors to help improve City owned assets. For example, residents may donate to the City to aid in ongoing maintenance of a city-owned park (the 'asset"). The City will provide tax donation receipts to the donors and use the accumulated capital to make improvements to the asset.
- Various organizations that operate under the authority of the City of Winnipeg or fulfill a municipal objective have expressed interest in establishing Endowment Funds under the

purview of a third-party public foundation (The Winnipeg Foundation). In these cases, the third-party public foundation will receive the funding and establish an Endowment Fund generating income which is distributed to the City for the intended purpose and use of the Endowment Fund.
- The City could establish its own Endowment Fund for contributions made directly to the City which remain in the Endowment Fund and generate income to be used by the City for a defined purpose.

The Winnipeg Foundation (Foundation)

The Foundation has entered into several agreements directly with non-profit organizations affiliated with the City of Winnipeg. These agreements require the approval of the City of Winnipeg for use of the City's qualified donee status. This Endowment Fund Policy will establish the requirements for use of the City's qualified donee status.

The following is a list of other entities associated with municipal activities that have Endowment Funds established at the Foundation:

- Not for Profit Entities:
    a. Assiniboine Park Conservancy
    b. Exchange District Business Improvement Zone BIZ
    c. Friends of Peanut Park
    d. Provencher Boulevard BIZ
    e. Winnipeg Police Service
- Registered Charities (CRA)
    a. Friends of/Amis du Museé du Saint-Boniface Museum
    b. Transcona Historical Museum

Only the Winnipeg Police Service Endowment Fund received Council approval. The other arrangements noted above date back many years but were not documented with the City. In this regard, they are exempt from the minimum funding thresholds included in the policy.

At this time the City has not established an Endowment Fund for its own purposes. The Public Service will continue to evaluate whether such a course of action would be in the best interest of the City's finances for long-term sustainability.

The Foundation has a program where a charitable organization may establish an Endowment Fund that would provide the charitable organization with an annual source of income. These are set up as "Agency Endowment Funds" where the Foundation provides investment management and administration.

The key features of Agency Endowment Funds include:

- A formal agreement is created between the Foundation and the entity establishing the Endowment Fund;
- The initial contribution and all other subsequent contributions are irrevocable and are held and invested by the Foundation in perpetuity;
- Disbursements from the Foundation currently approximate between 3.5% to 5% of the value of the fund in accordance with its Spending Policy which can change from time to time;

- The Foundation subsequently contributes matching grants up to a maximum of $15,000 per year to the Endowment Fund:
    - Initial Gift Matching**:** Start the fund with an initial gift of $20,000 and the Foundation will add $15,000 to the main fund.
    - Phase I Matching Grant: The next $75,000 in gifts added to the fund will be matched on a $1 for $5 basis for a total match of $15,000.
    - Phase II Matching Grant: The next $270,000 in gifts added to the fund will be matched on a $1 for $9 basis to a total match of $30,000.
    - Phase III Matching Grant: Additional $1 for $9 matching formula provided for larger endowment building campaigns. The next $2,700,000 in gifts added to the fund will be matched on a $1 for $9 basis to a total match of $300,000.
- The Foundation is responsible for issuing official donation receipts for donations made to the Endowment Fund.

Note that a separate program exists for Museums with a minimum starting contribution of $2,500.

Specific programs for Endowment Funds can change from time to time as Provincial or Federal government policy initiative cycles end and new programs are created, or at the discretion of The Winnipeg Foundation.

Generally the organizations requesting to establish an Endowment Fund with the Foundation for the benefit of the City do not have charitable status. The Foundation creates the Endowment Fund and uses the City of Winnipeg's qualified donee status on the basis that these entities are affiliated with municipal activities of the City of Winnipeg.

Under the current process, all disbursements from the Foundation must be made payable directly to the qualified donee. Subject to Council approval the Foundation directs all funds generated from the Endowment Funds through the City of Winnipeg. It is the responsibility of the City of Winnipeg to direct these funds to the entities and ensure the funds are spent in accordance with the endowment fund's terms of reference and are for municipal purposes.

If the proposed Endowment Policy is approved, then the process would be altered such that contributions to Endowment Funds would go directly to The Winnipeg Foundation. As such, The Winnipeg Foundation would then be using its charitable foundation status with CRA to provide tax receipts and reporting to CRA. The Winnipeg Foundation would also maintain the donor data base and conduct correspondence with the donors. The role of the City would be reduced to monitoring the expenditure policies for each Endowment Fund with funds being disbursed by The Winnipeg Foundation.

As each existing endowment was set up under differing circumstances, the Public Service will work with the Foundation to determine whether they should or could be brought under the umbrella of the proposed Endowment Policy.

Financial Analysis

The Public Service completed a financial analysis of the estimated costs required to administer funds disbursed by the Foundation relating to improvements to City property. The analysis estimated initial costs totaling $28,000 (2021 dollars) relating to administration required from various city departments including Treasury, Materials Management, Legal and related departments.

To establish Endowment Funds at the Winnipeg Foundation where the City is the beneficiary, the Foundation will prepare the necessary agreements. The Foundation has flexibility to accumulate funding to a certain level over a multi-year period permitting distribution once this threshold is achieved.

Where the expenditure relates to flow-through of funds to other entities associated with municipal activities for operating purposes, the minimum threshold of contributions has been set at $20,000 (or $2,500 for Museums) reflecting the nominal effort required for the City to manage these arrangements.

Arrangements already in place as of the effective date of the proposed Endowment Policy, will be documented and exempt from the application of the financial thresholds in the proposed Endowment Policy.

The City will continue to provide direct donation receipts for contributions made relating to municipal activities involving lesser amounts of contributions without reference to thresholds.

FINANCIAL IMPACT

Financial Impact Statement

Date: September 17, 2021

Project Name:

Endowment Fund Policy

COMMENTS:

There is no financial impact associated with the recommendations of this report as it is approval of a policy document.

The Endowment Fund Policy will formalize the framework for the creation of Endowment Funds for the City of Winnipeg and other entities associated with municipal activities. Any costs required to administer funds disbursed by The Winnipeg Foundation will be absorbed within existing operating budgets.

"electronically approved by J. Peters"
Jocelyn Peters CPA, CGA
Manager of Finance & Administration (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

N/A

OURWINNIPEG POLICY ALIGNMENT

Section 02 of *OurWinnipeg (A Sustainable City)* provides policy guidance and states social, environmental and economic sustainability are essential to Winnipeg's long-term well-being. The Endowment Policy aligns with economic sustainability goals to ensure the long-term economic well-being of the City.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance Department
Division: CFO
Prepared by: Catherine Kloepfer, Chief Financial Officer
Date: September 17, 2021
File No: n/a

Attachments:

Appendix 1 – Endowment Fund Policy

Appendix 1

Winnipeg

CITY OF WINNIPEG POLICY NO. XXX-XXX

POLICY TITLE *Endowment Fund Policy*	**ADOPTED BY** *City Council*	**EFFECTIVE DATE** *XXXXXXXX*
ORIGIN / AUTHORITY *Executive Policy Committee*	**CITY POLICY NO.**	**MOST RECENT CONSOLIDATION** *N/A*

1. Purpose

The purpose of the Endowment Fund Policy is to outline the objectives and principles by which The City of Winnipeg establishes, maintains and administers Endowment Funds.

The objective of this policy is to ensure that Endowment Funds are created and managed in accordance with Canada Revenue Agency (CRA) guidelines and City Council's guidance pertaining to this policy.

This policy is applicable to all Endowment Funds administered by The Winnipeg Foundation either for the direct benefit of The City of Winnipeg or Other Entities associated with municipal activities.

2. Definitions

2.1 "Endowment Fund" Endowments are one type of restricted fund. Donors create them when they stipulate that the registered charity must maintain the principal amount and only use the income earned.

An Endowment Fund consists of an established investment fund in which annual disbursements from the invested capital and/or income are distributed to a beneficiary for capital, ongoing operations or other specified purposes.

2.2 "Investment Management Expenses" These are direct expenses incurred to manage, control and report on the investment activities of the Endowment Fund. This includes custodial expense, investment management fees, performance measurement fees and auditing or other specifically related fees.

2.3 "Other Entities" The City issues official receipts for tax purposes to other entities that raise funds for programs, equipment, facility upgrades, etc. that benefit the general public. Some examples include Residents Associations, Business Improvement Zones, Economic Development Winnipeg and The Granite Curling Club which is a City-owned facility. These other entities are affiliated with municipal activities.

2.4 **"Public Foundation"** A public foundation is established as a corporation or a trust and has exclusively charitable purposes. A public foundation would carry on its own charitable activities and/or fund other qualified donees. For purposes of this policy, The Winnipeg Foundation will be the public foundation for Endowment Funds.

2.5 **"Qualified Donee"** A qualified donee is an organization that can issue official donation receipts for gifts it receives from individuals and corporations. It can also receive gifts from registered charities.

Registered municipalities are qualified donees and can issue official donation receipts for income tax purposes. The City of Winnipeg, as a registered Canadian municipality, is a qualified donee.

2.6 **"Registered Charity"** A registered charity refers to a charitable organization, public foundation, or private foundation registered with the Canada Revenue Agency. A registered charity is issued a Registration Number once approved. It is exempt from paying income tax, and can issue tax receipts for donations it receives. It must be established and resident in Canada, operate for charitable purposes, and devote its resources to charitable activities.

2.7 **"Restricted Funds"** Restricted funds are funds tied to a specific use and not available for the general purposes of the organization (for example, a fund consisting of contributions which donors specifically direct the registered charity to use for a specific purpose).

2.8 **"Terms of Reference"** The management and administration procedures of each Endowment Fund are set out in a legally binding document.

3. Endowment Fund Policy

3.1 **Design:** Endowment Funds must be designed for the collection of assets held in perpetuity to support the activities of The City of Winnipeg and its Other Entities.

3.2 **Agency Endowment Agreement:** An Agency Endowment Agreement setting out the terms and conditions of Endowment Fund donations and distribution is required to be entered into by The City of Winnipeg and the Public Foundation to establish the Endowment Funds.

3.3 **Establishment:** An Endowment fund may be established when a donor(s) makes a minimum contribution of:

- $200,000 for Endowment Funds to supplement improvements to City owned assets;

- $20,000 for Endowment Funds to supplement operations of Other Entities, except for Museums receiving funding from the City of Winnipeg; and
- $2,500 for Museums receiving funding from the City of Winnipeg.

A written agreement with the donor(s) and the Public Foundation will stipulate the purpose and terms of the donation(s). Endowment Fund donations may be made in cash or other eligible form and official donation receipts will be issued for all eligible donations in accordance with the Income Tax Act (Canada). The Establishment of an Endowment Fund under the Agency Endowment Agreement requires the approval of the Chief Financial Officer.

3.4 Non-Cash Donations: Where practical, and where it is in the long-term financial sustainability interest of the Endowment Fund, non-cash donations such as securities and real property will be converted to cash for investment purposes.

3.5 Eligibility Requirements: The entity for which an Endowment Fund is being established must:

a) Provide benefit to The City of Winnipeg and include:
   i. Civic partners – examples are community centres and recreational organizations that provide services from City-owned facilities or facilities situated on City-owned land.
   ii. Consolidated entities – examples are CentreVenture Development Corporation, The Convention Centre Corporation, and Assiniboine Park Conservancy.

b) Provide or support a service or assets, which, in whole or in part, falls within the mandate of The City of Winnipeg;

c) Provide or support a service or assets that are available to the community at large without restrictions based upon ethnicity, religion, race, or sexual orientation and without unreasonably restrictive membership or user fees; and

d) Be not-for-profit.

3.6 Pooling: Donations are normally pooled together in order to optimize net return and the diversification of risk. Every entity or person providing a donation would be issued a tax receipt.

3.7 Asset Management: Endowment Fund assets are managed by a third-party Public Foundation and as such the City of Winnipeg is required to enter into a **Management Agreement** with the third-party Public Foundation. The Management Agreement will set out the terms and conditions of how the Endowment Funds' assets shall be managed

3.7 Interest Distribution: Investment earnings, net of Investment Management Expenses, not retained by the Endowment Fund are distributed annually to the designated beneficiary.

3.8 Spending: The objective of Endowment Fund spending is to satisfy the charitable purposes and administrative requirements associated with the Endowment and to meet The City of Winnipeg's disbursement requirements under the Income Tax Act.

- Endowment expenditures shall be limited and governed in accordance with the Endowment Agreement.
- Any unspent funds shall be returned, reinvested and applied to the Endowment Fund capital.

3.9 Adding to an existing Endowment Fund: Donations may be contributed towards a previously established Endowment Fund subject to the ability of The City of Winnipeg to cease accepting contributions for any Endowment Fund at its full discretion.

4. Responsibilities

4.1 City of Winnipeg Legal Department

- Review the terms of reference and Endowment Agreement and provide recommendations on execution thereof.
- Develop the Beneficiary Agreement for execution.

4.2 City of Winnipeg Office of the Chief Financial Officer

- Approval of the establishment of each Endowment Fund under the Agency Endowment Agreement.

4.3 The Winnipeg Foundation

- Create written agreements with each beneficiary under the Agency Endowment Agreement.
- Confirm that accepted donations to existing Endowment Funds are in compliance with the existing terms and conditions.
- Communicate with donors to ensure the donation is of an appropriate size to generate sufficient investment income to meet the Endowment Fund objectives.
- Issue charitable tax receipts in accordance with Canada Revenue Agency policy and guidelines.
- Maintain the donor database.
- Disburse annual Endowment Fund receipts from The Winnipeg Foundation to the beneficiaries.

4.4 City of Winnipeg Department, Community Centre, or Other Entities

- Monitoring endowment spending in accordance with the Endowment Agreement.
- Control over expenditure of Endowment Funds.
- Submit annual reporting on use of the Endowment Funds as specified from time to time by Corporate Finance.