

City of Mississauga  
**Additional Agenda**



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**Council**

**Date**

November 23, 2016

**Time**

9:00 a.m.

**Location**

Council Chamber, 2<sup>nd</sup> Floor Civic Centre  
300 City Centre Drive, Mississauga, ON L5B3C1

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6. **DEPUTATIONS**

6.4 **Impact of Airbnb On The Community**

William Chudiak, Board Member of MIRANET will speak to the regulations and impact of Airbnb on the community.

8. **INTRODUCTION AND CONSIDERATION OF CORPORATE REPORTS**

8.1 Report dated November 18, 2016, from the Commissioner of Corporate Services and Chief Financial Officer re: **Compensation for Enersource Corporation, Board of Directors Post Merger.**

**Recommendation**

That Council approve the compensation levels outlined in the report "Compensation for Enersource Corporation Board of Directors Post-Merger" dated November 18, 2016, from the Commissioner of Corporate Services and Chief Financial Officer.

**Motion**

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14. **MOTIONS**

- 14.3 To approve the compensation levels outlined in the report "Compensation for Enersource Corporation Board of Directors Post-Merger" dated November 18, 2016, from the Commissioner of Corporate Services and Chief Financial Officer.

Corporate Report 8.1

15. **INTRODUCTION AND CONSIDERATION OF BY-LAWS**

- 15.14 A by-law to establish certain lands as part of the municipal highway system Registered Plan 43R-29272 (in the vicinity of Dundas Street East and Mattawa Avenue) (Ward 1).

GC-0705-2016/November 16, 2016

19. **CLOSED SESSION**

Pursuant to the *Municipal Act*, Section 239(2)

- 19.3 Advice that is subject to Solicitor-client privilege re: **Update on Merger and related Powerstream transactions.**
- 19.4 Personal matters about an identifiable individual, including municipal or local board employees re: **Enersource Corporation – City Nominees to Board of Directors.**

City of Mississauga  
**Corporate Report**



Date: 2016/11/18

To: Chair and Members of Council

From: Gary Kent, Commissioner of Corporate Services and  
 Chief Financial Officer

Originator's files:

Meeting date:  
 2016/11/23

## Subject

**Compensation for Enersource Corporation, Board of Directors Post-Merger**

## Recommendation

That Council approve the compensation levels outlined in the report "Compensation for Enersource Corporation Board of Directors Post-Merger" dated November 18<sup>th</sup>, 2016 from the Commissioner of Corporate Services and Chief Financial Officer.

## Background

As part of the approved merger of Enersource with Powerstream and Horizon, Council approved a new Shareholders Agreement for Enersource Corporation, being the Corporation owned 90% by the City of Mississauga and 10% Borealis. This corporation exists primarily to receive the dividends from "MergeCo" and manage the debt which remains in the corporation post-merger.

The Shareholders Agreement sets out the composition of the new Board (three Directors appointed by the City and one by Borealis). This report addresses appropriate compensation for the board members.

## Comments

Brown Governance Inc. (BGI) was retained by Enersource Inc. to conduct targeted research on board compensation practices at public sector utility holding companies, in particular municipal hold companies. This information is required 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 seven comparator Ontario utility holding companies, three specifically targeted by research and the four legacy hold companies of MergeCo.

The comparator data is summarized in the report (Appendix 1), the highlights are:

- Most of the comparators fall within a narrow band between \$13,500 and \$14,000 for annual board retainers.
- The average chair retainer for all comparators is \$24,487. The average chair retainer for the three outside holding companies is \$18,489.
- Average meeting fees for the comparator group are \$650.

Board compensation is driven by a number of factors at any organization, including philosophy, external factors and individual considerations.

For Enersource Inc., beyond the main generic drivers, there are these key considerations:

- The ability to attract individuals with the right level of experience and skills to serve and fit Enersource Inc. Independent board members who will bring previous board experience, financial expertise and a capacity to effectively fulfill their fiduciary duties to the corporation, its shareholders and other stakeholders.
- Commensurate with the level of effort required to provide oversight of the organization on behalf of the shareholders. Most of the board's strategic, governance and CEO employment responsibilities will be fulfilled by the shareholders directly under the Enersource Shareholders' Agreement. The Enersource Inc. board will primarily superintend the flow-through of dividends from MergeCo to the shareholders, and the servicing of debt financing in Enersource.

The recommendations for Enersource Inc. for board compensation are:

1. Annual retainer to board members of \$13,500.
2. Annual retainer to the board chair of \$24,500 (inclusive of board retainer), and
3. Per meeting fee of \$650 for each board member (including chair) attending each board meeting or other meeting where attendance is expected, and
4. Reimbursement of reasonable out-of-pocket expenses as approved from time-to-time in policy.

It is likely that the Board will have an Audit Committee; however, given the scale of the Corporation, it is not recommended that there be separate compensation for this or any other committee formed.

The compensation levels for the existing Pre-Merger Board are set out in Appendix 2 for information only, as the duties of the existing Board far exceed the duties of the new Board and therefore compensation levels are not comparable.

The report has been shared with Borealis for their concurrence which has been received in writing.

### **Financial Impact**

The total cost will depend on the number of Board meetings required in the first year. The annual budget for the post-merger Enersource will be adopted by the new Board and include their compensation costs.

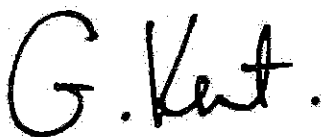
### **Conclusion**

An independent review was conducted by Brown Governance and recommended appropriate compensation for the new post-merger Board of Enersource which is before Council for approval.

### **Attachments**

Appendix 1: Enersource Board Compensation Report, Brown Governance

Appendix 2: Compensation levels for the existing pre-merger Enersource Board.



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Gary Kent, Commissioner of Corporate Services and Chief Financial Officer

Prepared by: Gary Kent, Commissioner Corporate Services and Chief Financial Officer

Solutions For Trusted Leadership

# Enersource Inc.

## *Board Compensation Report*

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## Executive Summary

Brown Governance Inc. (BGI) was retained by Enersource Inc. to conduct targeted research on board compensation practices at public sector utility holding companies, in particular municipal hold companies. Enersource 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 seven comparator Ontario utility holding companies – three specifically targeted by our research and the four legacy hold companies of MergeCo.

The comparator data is summarized in Appendix 1, the highlights are:

- Most of the comparators fall within a narrow band between \$13,500 and \$14,000 for annual board retainers.
- The average chair retainer for all comparators is \$24,487. The average chair retainer for the three outside holding companies is \$18,489.
- Average meeting fees for the comparator group are \$650.

Board compensation is driven by a number of factors at any organization, including philosophy, external factors and individual considerations. These are summarized in Appendix 2, both broadly and for public sector boards.

For Enersource Inc., beyond the main generic drivers, there are these key considerations:

- The ability to attract individuals with the right level of experience and skills to serve and fit Enersource Inc. Independent board members who will bring previous board experience, financial expertise and a capacity to effectively fulfill their fiduciary duties to the corporation, its shareholders and other stakeholders.
- Commensurate with the level of effort required to provide oversight of the organization on behalf of the shareholders. Most of the board's strategic, governance and CEO employment responsibilities will be fulfilled by the shareholders directly under the Enersource Shareholders' Agreement. The Enersource Inc. board will primarily superintend the flow-through of dividends from MergeCo to the shareholders, and the servicing of debt financing in Enersource.

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

Our recommendations for Enersource Inc. for board compensation are:

1. Annual retainer to board members of \$13,500.
2. Annual retainer to the board chair of \$24,500. (inclusive of board retainer)
3. Per meeting fee of \$650 for each board member (including chair) attending each board meeting or other meeting where attendance is expected.
4. Reimbursement of reasonable out-of-pocket expenses as approved from time-to-time in policy.



## Appendix 1: Board Compensation Comparator Research

Since there is (perhaps surprisingly) little publicly available reliable data on board compensation in utility holding companies, we undertook specific targeted research on behalf of Enersource.

Board compensation data was obtained from seven comparators – three municipal public sector utility holding companies and the holding company boards of the four legacy holding companies of MergeCo.

All of these are municipal holding companies in Ontario, with utilities within their portfolio, specifically power distribution. None of the three outside comparators have employees.

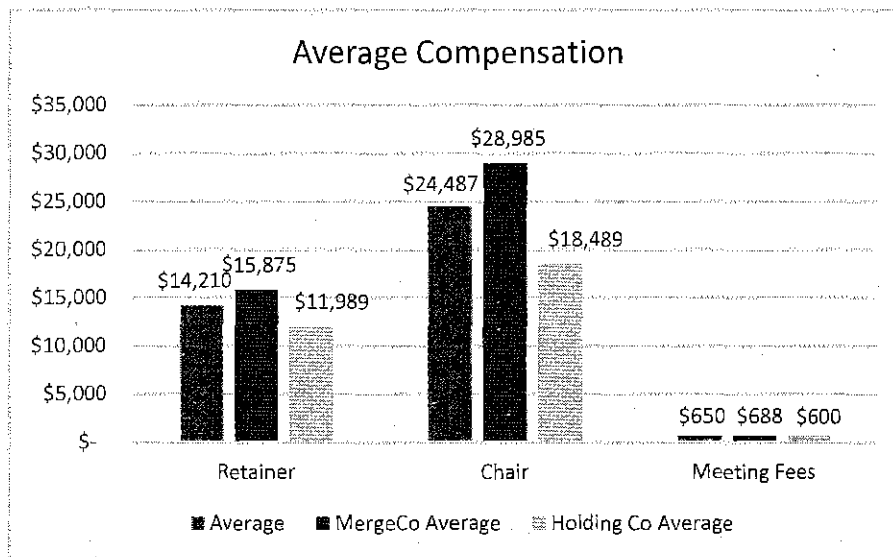
All three pay annual retainers as well as per meeting fees. Staffing provided to these holding companies is undertaken by city or municipal employees with no additional compensation.

**Table One: Comparator Research Data**

	1	2	3	4	5	6	7
	Municipal Holding Companies			MergeCo Founding Hold Cos			
# of Paid Employees	0	0	0				
# of Committees	1	2	1				
# of Meetings per year	5	4	4				
Duration of Meetings (hours)	3	2	2				
Annual Retainer	\$ 14,000	\$ 13,500	\$ 8,468	\$ 11,000	\$ 25,000	\$ 14,000	\$ 13,500
Chair Retainer	\$ 18,000	\$ 29,000	\$ 8,468	\$ 43,940	\$ 25,000	\$ 18,000	\$ 29,000
Per Meeting Fees	\$ 650	\$ 600	\$ 550	\$ 600	\$ 900	\$ 650	\$ 600

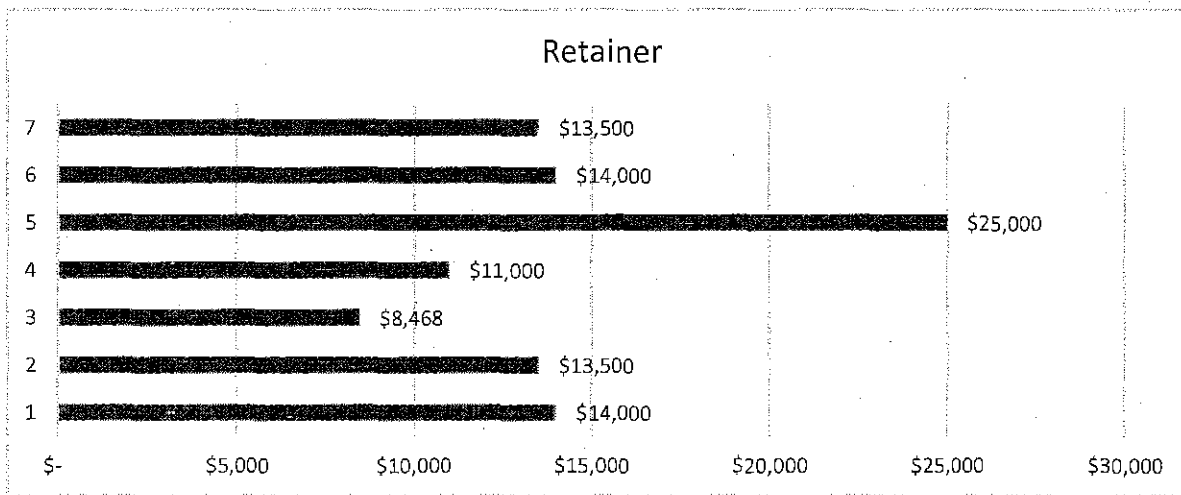
There is one out-lier here (fifth column), its board compensation being driven more by private sector and profit considerations than the others. The remainder of the comparators are reasonable fits with Enersource Inc. post-merger.

**Chart One: Average Compensation**



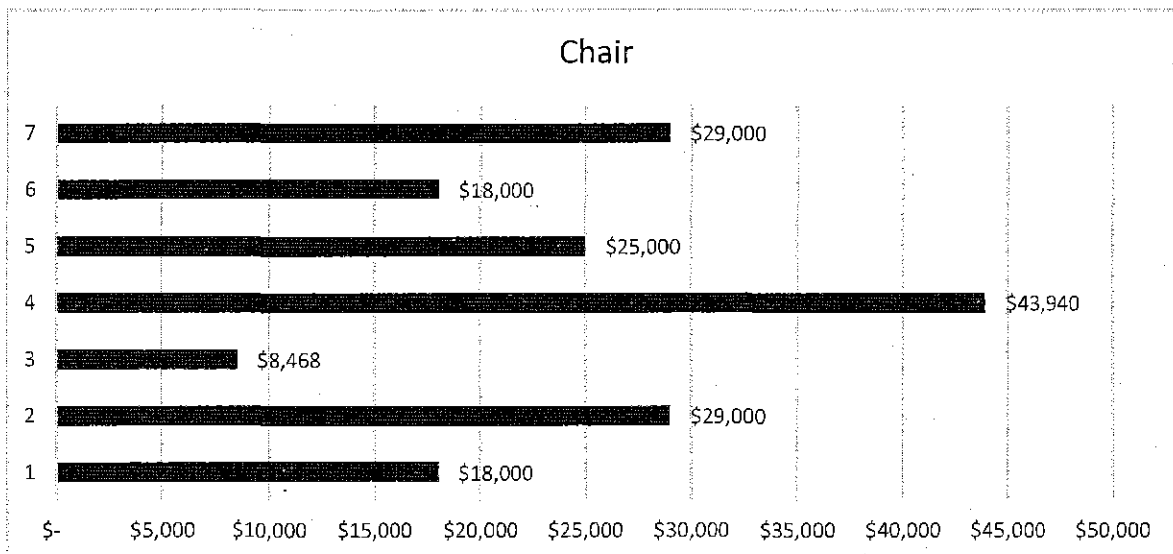
The average retainer for the three outside holding companies is \$11,989 for board members and \$18,489 for board chairs. This amount is slightly below MergeCo legacy hold companies, for board retainers and significantly below for board chairs. Meeting fees are not significantly different.

**Chart Two: Board Retainer**



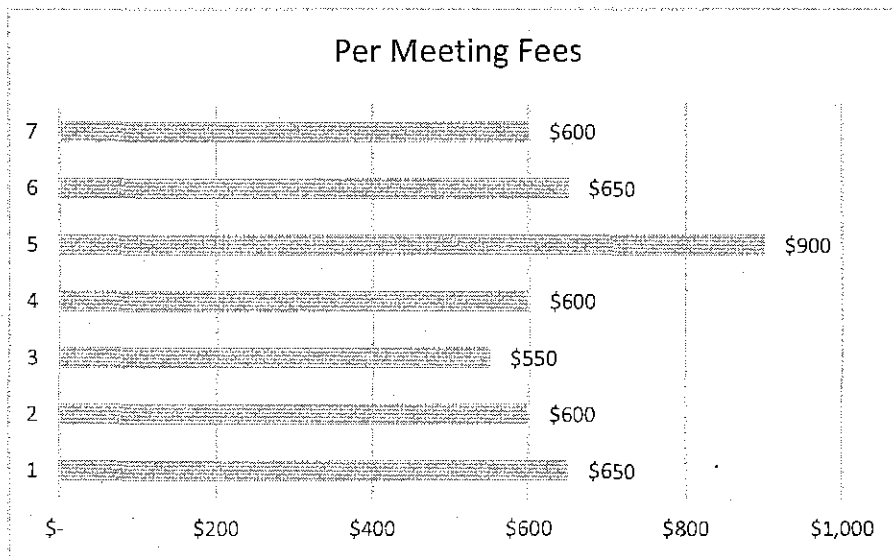
Retainers range in value from a low of \$8,468 for a holding company with minimal oversight responsibilities to a high of \$25,000 for a utility company director. Most of the comparators fall within a narrow band between \$13,500 and \$14,000 for board retainers.

**Chart Three: Chair Retainer**



Two of the seven comparators have no additional compensation for the chair position. Of the remaining five comparators the range of chair compensation is between \$18,000 and \$43,940. The average chair retainer for all comparators is \$24,487. The average chair retainer for the three outside holding companies is \$18,489.

**Chart Four: Meeting Fees**



Meeting fees range from \$550 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 \$650.

## Appendix 2: 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: *20 Questions the Board Should Ask About Director Compensation*, Canadian Institute of Chartered Accountants, 2004

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 deliver 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, **governance software tools**, and **consulting**.

**Enersource Corporation  
Board Compensation  
as at November 17, 2016**

**Appendix 2**

<b>Position</b>	<b>Base Honorarium</b>	<b>Chair Honorarium</b>	<b>Total Honorarium</b>	<b>Meeting Fees</b>	
Chairperson	-	43,940	43,940	-	per meeting
Chair, Audit Committee	11,000	4,000	15,000	600	per meeting
Chair, HR&CG Committee	11,000	2,000	13,000	600	per meeting
Chair, HSS&E Committee	11,000	2,000	13,000	600	per meeting
Chair, Development Committee	11,000	2,000	13,000	600	per meeting
Chair, Nominating Committee	11,000	2,000	13,000	600	per meeting
Board Member	11,000	-	11,000	600	per meeting