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Economic Forecast Panel Presentation
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Background

I'm here in my role as CEO of the Hamilton Community Foundation. When I talk about our business - our economic forecast, investment decisions and definition of return on investment - I'm talking about the city as a whole. A successful community foundation reflects a prosperous city.

The Foundation started in 1954 during an optimistic time for Hamilton (even the Ticats were doing well). It was the vision of a group of successful business people, entrepreneurs like yourselves - names like Pigott, Sherman, Young, Goldblatt, Frid - people who drove industry and development in a thriving place.

They decided: *We've done well here, and we have an obligation to think about the challenges of future generations.*

Judge Theo McCombs, who chaired the Foundation in the early 1960s, wrote longhand annual reports to the donors. He would always close with: "Remember, our job is to be a powerful force for good in Hamilton."

Our goal at the foundation, simply, is to make Hamilton a prosperous, sustainable, equitable city. Our challenge is to overcome all the obstacles - regulatory, economic, social, and environmental - that prevent communities and people from prosperity.

Just like you, our job is to tend and grow assets. Over the years, the foundation has done an impressive job of doing that: the bequests, endowments and donations that are our lifeblood. The job of its caretakers has been to take the resources put in our trust and leverage change over the long term. Our stewardship began with a single modest bequest of $200 from a widow in north end Hamilton and today our asset base is valued at close to 120M.

More important, our business – philanthropy – is not isolated from the economy. We're affected by the upswings and downturns. And in philanthropy, just as in the private sector, there is a lot of innovation that takes place, particularly in response to the economy.

For instance, one of the unique aspects of a community foundation is that we grant across ALL sectors – from the arts, to the environment, education, to health and social services. We continue to do that. But we also made a conscious decision to focus many of our resources on reducing poverty – addressing the city's greatest needs. It was a bold and innovative decision from our board in 2004. This included an $8.5 million grants commitment and our partnership with the city in the Hamilton Roundtable for Poverty Reduction.

The nature of philanthropy is changing. Bill Gates and Warren Buffet have talked about their personal avoidance of dynastic wealth – that they want to leave their children with sufficient money to pursue their good fortune, but that, more importantly, they want to leave a legacy of giving back. Recent changes in the federal budget are also supporting flexibility, prompting more people to think about different ways of fulfilling their philanthropic goals.

All in all, we're coming off a very good year - the markets have been kind to us, assets have grown, we’re continuing to expand in innovative approaches to philanthropy to enable more and more people to make the difference they want to make in this community. We also anticipate an exciting announcement in the next few weeks.

But the general outlook for the charitable sector – the agencies that work every day on the front lines of the issues we’re grappling with – is less optimistic. Like local governments, we're going to have to learn to do more with less.

Economic Forecast

I think three key themes will shape Hamilton's economic forecast: **public funding cuts**, continued **loss of manufacturing jobs**, and a **new Council**.

The biggest impact is going to come from the closing of the public funding faucet. This will have a huge impact on Hamilton and provide our new Council with its first major challenge.

Here's what we're dealing with:

Public Funding Cuts

I became Regional Chair in 1994, just as the federal government stopped funding social housing after years of cutbacks and cut other health and social spending across the board.

I got into a certain amount of trouble in 1995 when I called on Hamiltonians to vote against the Common Sense Revolution. I knew what their plans meant for municipal operations. Mike Harris promised to get the Province "out of the housing business", and he delivered on that promise. Suddenly cities found themselves on the hook for social services and housing.

Fast forward to today. Once again we're coming out of a sharp recession. If history is any guide, that means we're going to have to learn how to do more city-building with less capital and less operating revenue.

We have maybe another year before the upper levels of government really clamp down. Anyone who doesn't believe this is kidding themselves. We need to prepare for a tough decade.

The Federal government faces a $47 billion deficit, while the Province faces a $20 billion deficit, after hitting a record-breaking $21 billion shortfall in 2009-10.

What that means for cities like Hamilton is simple: less money for operating revenues across the board, and less money for new capital projects.

We're moving into another age of austerity, a protracted period of diminished transfers. We *need* to get our heads around that reality now.

The stimulus was designed specifically as a short-term infusion of cash into the economy. A project had to be shovel-ready to be eligible for funding. That's why so much money went into road work, bridges, public facility renovations and so on.

These are all important. Canada has been under-investing in this basic public infrastructure since the early 1990s - and it shows at the municipal level, which is where the infrastructure buck always stops.

But the kinds of major capital investments that will really take cities like Hamilton to the next level - like the proposed LRT line - didn't fall into the scope of the stimulus and are now under serious threat. The window is closing rapidly.

Loss of Manufacturing Jobs

The US Steel lockout already casts a long shadow. If we're going to be honest, we have to ask whether the Hamilton Works will ever again play a major role in our economy. Then we have to ask what, if anything, will take its place.

As the Foundation's Vital Signs report tells us, our biggest increases in employment have been education and health services. Hamilton Health Sciences is the city's single biggest employer.

There are two problems with this: first, public employers don't directly enrich the municipal tax base; and second, public spending cuts will constrain further employment growth.

The solution isn't to shrink the number of teachers and health care workers, but to grow employment in industries that pay municipal tax and produce multiplier effects.

The past 30 years have taught us that young, small businesses are the biggest job creators. Tom Friedman drove this point home in a New York Times article on what cities need to become competitive:

"Between 1980 and 2005, virtually all net new jobs in the US were created by firms that were five years old or less. That is about 40 million new jobs. That means that established firms created no net new jobs during that period. Good paying jobs don't come from bailouts. They come from start-ups. And where do start ups come from? They come from smart, creative, inspired risk takers. How do we get more of those? There are only two ways: grow more by improving our schools or import more by recruiting talented immigrants."

A small percentage of new companies, particularly in emerging new markets, go on to dominate their industry and generate thousands or tens of thousands of new jobs. Could anyone have predicted that Research in Motion, a small Waterloo-area startup designing a two-way paging system, would go on to dominate the business smartphone market and employ 14,000 people?

The best way to cultivate the next big employer is to make it easy for a lot of startups to launch. The more new enterprises we have, the more likely that one or more of those companies will end up producing a large number of new jobs.

How do we create a climate that welcomes, embraces, encourages lots of ambitious startups? As Rob MacIsaac reminds us, we need to embrace a culture of learning, a culture of trying things out, taking a few chances, sharing information, supporting each other. Dare I say a culture of not making the same mistakes over and over again?

New Council

A new Mayor stands before a new Council with a fresh mandate to lead the city. This council will face some very tough choices as they struggle to deliver the services and manage the assets of a modern city through falling transfer payments.

When we can no longer count on support from the top down, we must learn to grow from the bottom up. It's time we ensure that our neighbourhoods are places of social trust, places where interpersonal relationships foster the stability, happiness, and collaboration that generates value.

Higher levels of government direct the large budgetary flows that shape the broad structure of our economy, but municipal councils reach most closely into our neighbourhoods and have the most public influence over whether our neighbourhoods foster real community.

In a March 2010 op-ed, New York Times columnist David Brooks wrote, "The overall impression [from research into happiness and well-being] is that economic and professional success exists on the surface of life, and that they emerge out of interpersonal relationships, which are deeper and more important."

The challenge for our councillors is to ask: are our decisions helping to strengthen neighbourhoods, foster relationships and ease the establishment of new enterprises, or are they getting in the way of those things?

Summary: Next Steps

There is actually something of a good news story in all this, even given the austerity we're facing in public investment. Growing a diverse, entrepreneurial economy doesn't require huge investments in public infrastructure.

It requires access to new forms of capital to get started, a regulatory structure that supports new investment, and a collaborative strategy to strengthen our neighbourhoods so they serve as fertile ground for relationship building and new enterprises.

If governments are forced to do less, we all need to do more – to use all the resources at our disposal.

At HCF we are leveraging $5 million of our assets to create the Hamilton Community Investment Fund. Instead of investing into the stock market, this fund will invest into local projects that generate social impact as well as financial return.   It lets us put more of our assets to work in Hamilton, and to recycle the capital for further good. Based on experience from other cities, we’re expecting this investment to attract additional funds from all sectors.

Part of our inspiration comes from Bill Young Jr. a leader in encouraging private and public foundations to be innovative in creating more community impact. Bill’s foundation offered loans to Active Green and Ross Tire and Auto Centre franchisees who would commit to commit to hiring people experiencing employment barriers. The rate of interest is dependent on the number they employ. The program has grown to 20 stores and counting, and each successful hire improves the terms of repayment.

That’s the magic we’re trying to create here.   Community investment will allow us greater flexibility in pursuing social good, and a quicker impact for both the community and the donor. That sense of urgency, coupled with an entrepreneurial spirit and a philanthropic heart, will ensure our continued success at being “a powerful force for good in Hamilton.”

Working with each of you and your organizations to co-operatively lever all of our combined assets and I am confident that we can overcome these short term challenges and realize Hamilton’s vast potential. Thank you.