

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF MARCH 19, 2013

Item 3, Report No. 5, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on March 19, 2013.

3 RESTRUCTURING OF CITY OF VAUGHAN SUBSIDIARIES

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the City Manager, the Commissioner of Finance & City Treasurer, and the Commissioner of Legal & Administrative Services & City Solicitor, dated March 18, 2013:

Recommendation

The City Manager, the Commissioner of Finance & City Treasurer, the Commissioner of Legal & Administrative Services & City Solicitor, in consultation with external legal counsel recommend:

1. That the attached Shareholder Resolution of Vaughan Holdings Inc. be approved in substantially in the form attached;
2. That the attached Shareholder Resolution of Hydro Vaughan Energy Corporation be approved in substantially the form attached;
3. That the Shareholder approve the execution of the transfer documents for Vaughan Holdings Inc. and Hydro Vaughan Energy Corp;
4. That upon completion of the dissolution of Vaughan Holdings Inc. staff be authorized to take the necessary steps to rename the new holding company as Vaughan Holdings Inc.;
5. That the Board of Directors remuneration for the new holding company (new VHI) be set at the current level of remuneration for the current VHI board utilizing the established methodology;
6. That the Shareholders' Declarations of HVEC and HVHI be amended to include the authority to conduct a district energy business;
7. That the consent of each of the Board of Directors of HVEC and VHI be obtained to transfer shares as outlined in this report; and
8. That the consent of the Board of Directors of VHI be obtained to dissolve the Corporation.

Contribution to Sustainability

Not applicable

Economic Impact

There are no financial impacts to the City as a result of the proposed restructuring of the City's subsidiary companies; however professional fees between \$5,000 to \$10,000 associated with the implementation of the restructuring.

Communications Plan

The City is required to provide the Ministry of Finance with written notice of the proposed transfer and provide prescribed information with respect to the transfer prior to the actual transfer. Staff will complete this communication following Council, as shareholder, approval.

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Purpose

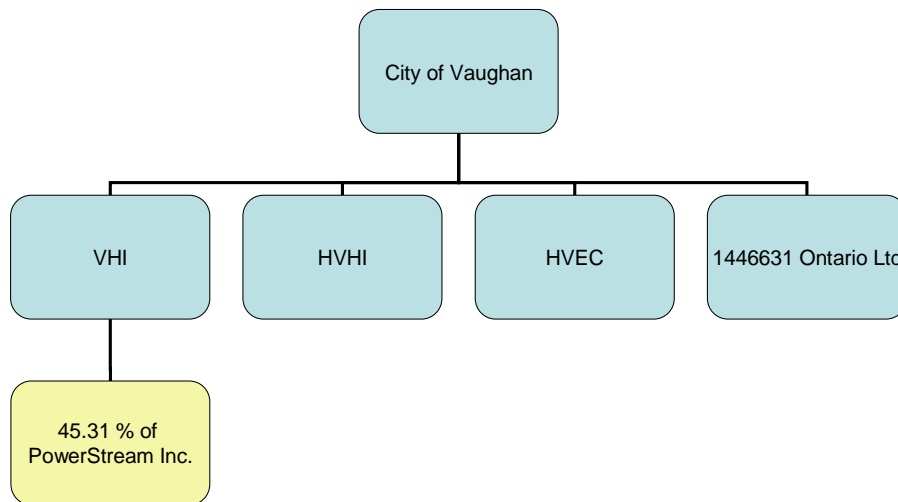
As the electricity business diversifies and other lines of business are explored by the City, this restructuring is proposed to streamline the corporate structure and ensure that the new holding company has the benefit of broader powers as a corporation incorporated under Section 142 of the *Electricity Act*.

Background - Analysis and Options

The City of Vaughan is currently the sole shareholder for four (4) corporations. Three are referred to collectively as the hydro Vaughan companies. Hydro Vaughan Holdings Inc. (HVHI), Hydro Vaughan Energy Corp. (HVEC), and 1446631 Ontario Inc. were incorporated October 24, 2000 pursuant to section 142 of the *Electricity Act*, 1998. A fourth, Vaughan Holdings Inc. (VHI) was incorporated in 2004 to act as a holding company for the City's interest in the newly created PowerStream Corp. VHI is not clearly a corporation incorporated pursuant to section 142 of the *Electricity Act*.

The current structure of the City of Vaughan's subsidiary companies is as follows:

Current Structure



HVHI and VHI both operate as holding companies. VHI operates as the holding company for 45.31% of the shares of PowerStream. HVHI, which was incorporated earlier than VHI operates as a holding company, but does not currently hold shares to any subsidiary corporation.

It is proposed that the assets of VHI be transferred from the City of Vaughan to HVHI and that VHI be subsequently dissolved, resulting in one holding company, new VHI, which would hold the shares in PowerStream. In accordance with Section 3.01 of the new VHI, Shareholders Declaration dated November 23, 2010, a consent from each of Markham Enterprises Corporation and Barrie Hydro Holdings Inc. to the restructuring will be required due to the transfer of PowerStream shares from VHI to HVHI. Both Barrie and Markham are aware that Vaughan is restructuring its subsidiaries and we do not anticipate any issues.

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Only the members of the existing VHI board who are not also on the board of PowerStream receive remuneration for sitting as board members. Currently there are three (3) board members who do not sit on the PowerStream board. Their remuneration as existing VHI Directors is as follows:

Chair	\$14,000
Vice-Chair	\$12,500
Director	\$10,750

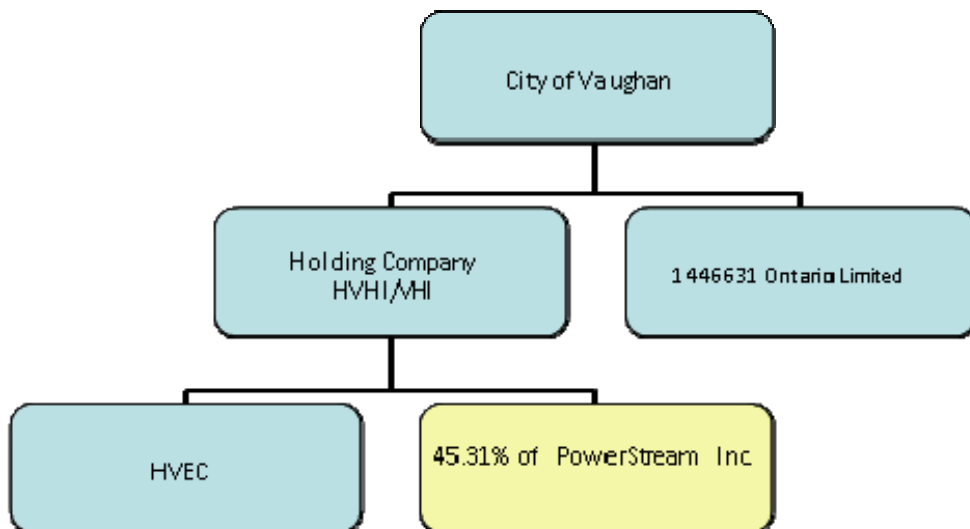
The above remuneration for these positions would not increase in the consolidated holding company, new VHI, as a result of the consolidation of subsidiaries.

In addition, it is proposed that the shares of HVEC also be transferred from the City of Vaughan to HVHI, and that HVEC operate as subsidiary of HVHI, to be utilized for potential energy business, such as district energy.

The remaining company, 1446631 Ontario Limited is inactive and without a Board of Directors, but may have future value to the City as it was incorporated under Section 142 of the Electricity Act. Therefore it is proposed that this corporate entity remain as is, a subsidiary of the City of Vaughan.

The resulting corporate structure would be as follows:

Proposed Structure



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Next steps:

- Meetings will be held for Vaughan Holdings Inc., Hydro Vaughan Holdings Inc., and Hydro Vaughan Energy Corporation to complete any required documentation.
- Staff will be advising the Ministry of Finance of the proposed transfer and requesting the consent of Markham Enterprises Inc. and Barrie Hydro Holdings Inc. for the transfer of PowerStream shareholdings from VHI to HVHI.
- Following the execution date of the transfers, a stub financial year end will occur, which will result in the need for additional audited financial statements for the affected hydro companies. This is not expected to be a complicated process, as there will be limited financial activity in the hydro companies between December 31, 2012 year end and the anticipated date of final share transfers (month end April or May).
- Shareholder Declarations for the City of Vaughan hydro companies will be amended to reflect the new structure

Relationship to Vaughan Vision 2020/Strategic Plan

Not applicable

Regional Implications

Not Applicable

Conclusion

It is recommended that Council, being one of the Shareholders of PowerStream, approve the proposed corporate restructuring of the Shareholder's subsidiary companies in order to streamline the corporate structure to obtain efficiencies and reduce the risk/uncertainty in respect of its powers as a section 142 *Electricity Act* corporation.

Attachments

- Attachment 1 – Shareholder Resolution of Vaughan Holdings Inc.
- Attachment 2 – Shareholder Resolution of Hydro Vaughan Energy Corporation
- Attachment 3 – Transfer of Vaughan Holdings Inc. to Hydro Vaughan Holdings Inc.
- Attachment 4 – Transfer of Hydro Vaughan Energy Corp. to Hydro Vaughan Holdings Inc.

(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.)

RESTRUCTURING OF CITY OF VAUGHAN SUBSIDIARIES**Recommendation**

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Contribution to Sustainability

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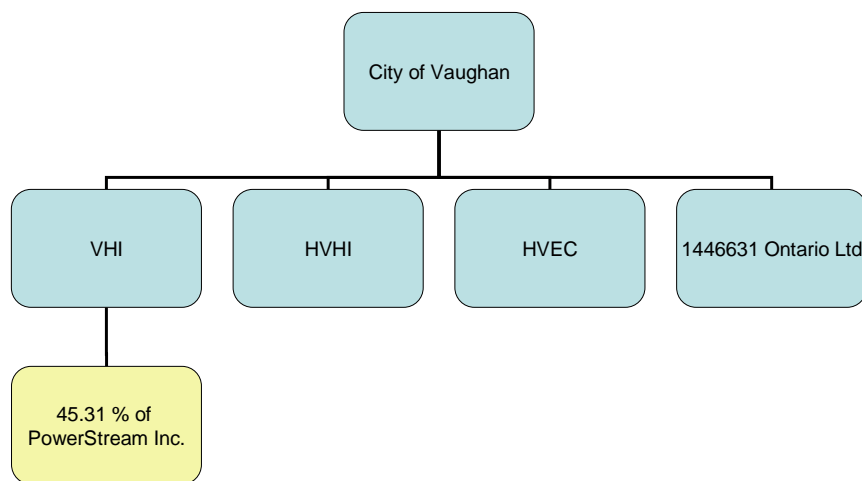
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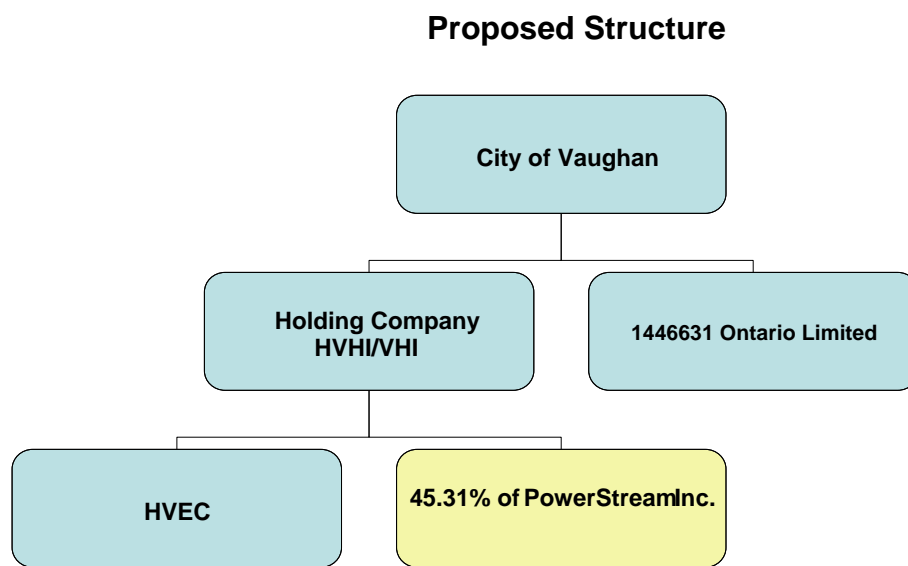
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The resulting corporate structure would be as follows:



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Attachment 4 – Transfer of Hydro Vaughan Energy Corp. to Hydro Vaughan Holdings Inc.

Respectfully submitted,

Clayton D. Harris, CA
City Manager

Barbara Cribbitt, CMA
Commissioner of Finance & City Treasurer

MaryLee Farrugia
Commissioner of Legal & Administrative Services & City Solicitor

SHAREHOLDER RESOLUTION

OF

VAUGHAN HOLDINGS INC.
(the “Corporation”)

Transfers of Shares

RESOLVED THAT:

1. The transfer of all of the 100 issued and outstanding Common Shares in the capital of the Corporation from the Corporation of the City of Vaughan to Hydro Vaughan Holdings Inc. be and is hereby approved;
2. Following the transfer described in item 1 above, the dissolution of the Corporation and the transfer to its sole shareholder, Hydro Vaughan Holdings Inc., of all of the Corporation’s assets and liabilities concurrent with such dissolution, be and is hereby approved; and
3. Any officer or director of the Corporation be and is hereby authorized to execute and deliver all such documentation as may be necessary or desirable in connection with the foregoing, including without limitation a Dissolution Agreement with the Corporation’s sole shareholder and Articles of Dissolution.

The foregoing resolution is hereby consented to by the sole shareholder of the Corporation, pursuant to the *Business Corporations Act* (Ontario), as evidenced by its signature below.

DATED as of the _____ day of _____, 2013.

CORPORATION OF THE CITY OF VAUGHAN

Per: _____
Name:
Authorized Signing Authority

SHAREHOLDER RESOLUTION
OF
HYDRO VAUGHAN ENERGY CORPORATION
(the “Corporation”)

Transfers of Shares

RESOLVED THAT:

1. The transfer of all of the 1,000 issued and outstanding Common Shares in the capital of the Corporation from the Corporation of the City of Vaughan to Hydro Vaughan Holdings Inc. be and is hereby approved; and
2. Any officer or director of the Corporation be and is hereby authorized to execute and deliver all such documentation as may be necessary or desirable in connection with the foregoing.

The foregoing resolution is hereby consented to by the sole shareholder of the Corporation, pursuant to the *Business Corporations Act* (Ontario), as evidenced by its signature below.

DATED as of the ____ day of _____, 2013.

CORPORATION OF THE CITY OF VAUGHAN

Per: _____
Name:
Authorized Signing Authority

TRANSFER

TO: HYDRO VAUGHAN HOLDINGS INC.

The undersigned hereby transfers all 100 issued and outstanding Common Shares in the capital of Vaughan Holdings Inc. to Hydro Vaughan Holdings Inc. effective _____.

DATED as of the _____ day of _____.

CORPORATION OF THE CITY OF VAUGHAN

Per: _____
Name:
Authorized Signing Authority

TRANSFER

TO: HYDRO VAUGHAN HOLDINGS INC.

The undersigned hereby transfers all 1,000 issued and outstanding Common Shares in the capital of Hydro Vaughan Energy Corporation to Hydro Vaughan Holdings Inc. effective

_____.

DATED as of the __ day of _____, 2013.

CORPORATION OF THE CITY OF VAUGHAN

Per: _____

Name:

Authorized Signing Authority