

## CITY OF VAUGHAN

### **EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 29, 2013**

Item 1, Report No. 12, of the Finance and Administration Committee, which was adopted, as amended, by the Council of the City of Vaughan on October 29, 2013, as follows:

***By approving the following:***

***That the recommendation set out in Communication C12 from the Interim City Manager, dated October 22, 2013, be approved, as follows:***

- 1. That the City of Vaughan agrees, in principle, to subscribe for equity common shares in Vaughan Holdings Inc. in the maximum amount of \$22,657,500; and***
- 2. That the City of Vaughan's investment in such common shares may be made in tranches, with amounts and timing determined consistent with the dates and amounts of the additional common shares to be issued from PowerStream to Vaughan Holdings Inc. for PowerStream's core distribution business; and***
- 3. That the Mayor, together with the City Clerk are hereby authorized to execute all documents and that staff are authorized take such steps as may be necessary or desirable in connection with the foregoing.***

#### **1 EQUITY INVESTMENT IN POWERSTREAM INC. CORE DISTRIBUTION**

The Finance and Administration Committee recommends:

- 1) That the recommendation contained in the following report of the Interim City Manager, dated October 21, 2013, be approved; and**
- 2) That the Commissioner of Legal and Administrative Services & City Solicitor provide a legal opinion on the potential for conflict pertaining to Members of Council involvement with the PowerStream Board.**

#### **Recommendation**

The Interim City Manager recommends:

- 1. That the Interim City Manager be directed to report back to the October 29, 2013 Council meeting with the Vaughan Holdings Inc. decision on an equity investment in PowerStream's core local distribution business.**

#### **Contribution to Sustainability**

Additional revenue opportunities provide support to the City's budget and the long term financial sustainability of the City, therefore investment opportunities must be considered and evaluated to determine if they present long term financial benefits to the City.

#### **Economic Impact**

The City of Vaughan, through its wholly owned subsidiary Vaughan Holdings Inc. receives dividends from PowerStream Inc. as a result of equity investment and net profit sharing in PowerStream Inc. The dividends received support the City's operating budget, and mitigate tax increases to residents and businesses. The financial impact of an additional equity investment into PowerStream's core distribution business will first be considered by the Vaughan Holdings Inc. Board of Directors, and subject to Vaughan Holdings Inc.'s decision, final approval will be required from the City of Vaughan. It is anticipated that the equity investment, if approved, will be implemented by the City of Vaughan purchasing additional shares of Vaughan Holdings Inc., followed by an equivalent purchase by Vaughan Holdings Inc. of PowerStream shares.

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 29, 2013**

Item 1, Finance Report No. 12 – Page 2

#### **Communications Plan**

Staff will communicate Council's decision to PowerStream Inc. following the October 29, 2013 Council Meeting.

#### **Purpose**

The purpose of this report is to provide notice to Council that a decision on the matter of additional equity investment into PowerStream's core distribution business will be made by Vaughan Holdings Inc. and forwarded to the Council meeting of October 29, 2013, for Council's final decision.

#### **Background - Analysis and Options**

The City of Vaughan, through its wholly owned subsidiary Vaughan Holdings Inc.(VHI), owns 45.315% of PowerStream Inc. The balance of the shares in PowerStream Inc. are owned by the cities of Markham and Barrie, through their respective holding companies.

In early 2013, PowerStream Inc. advised the shareholders of the forecasted equity requirements over the next four years for the core local distribution business, and offered an opportunity to the shareholders to consider investing additional equity into the core business.

The approval for Vaughan to invest additional equity must be made at two levels, firstly through VHI, and secondly, subject to VHI's decision, the City of Vaughan Council makes the final decision. The VHI Board of Directors will be dealing with this matter at the Vaughan Holdings Inc. meeting on October 21, 2013.

#### **Regional Implications**

Not applicable

#### **Conclusion**

Following the Vaughan Holdings Inc. meeting on October 21, 2013, the Interim City Manager will provide additional information and a recommendation based on the Vaughan Holdings Inc.'s decision regarding an additional equity investment to the Council meeting of October 29, 2013.

#### **Attachments**

Not applicable

#### **Report prepared by:**

Barbara Cribbett

## memorandum

**DATE:** October 22, 2013

**TO:** Hon. Mayor and Members of Council

**FROM:** Barbara Cribbett  
Interim City Manager

**RE:** **COUNCIL MEETING – OCTOBER 29, 2013**  
**FINANCE & ADMINISTRATION COMMITTEE OCTOBER 10, 2013**  
**REPORT 12, ITEM 1**  
**EQUITY INVESTMENT IN POWERSTREAM CORE DISTRIBUTION**

C	12
Item #	1
Report No.	12 (F+A)
Council - October 29/13	

### Recommendation

The Interim City Manager recommends:

1. That the City of Vaughan agrees, in principle, to subscribe for equity common shares in Vaughan Holdings Inc. in the maximum amount of \$22,657,500; and
2. That the City of Vaughan's investment in such common shares may be made in tranches, with amounts and timing determined consistent with the dates and amounts of the additional common shares to be issued from PowerStream to Vaughan Holdings Inc. for PowerStream's core distribution business; and
3. That the Mayor, together with the City Clerk are hereby authorized to execute all documents and that staff are authorized take such steps as may be necessary or desirable in connection with the foregoing.

### Economic Impact

An equity investment of up to \$22.7M in PowerStream's core distribution company is expected to provide a slightly better financial return to the City and Vaughan Holdings Inc. and will result in increase in the City's and VHI's equity value in PowerStream through the re-investment of retained earning into PowerStream's core distribution business.

### Purpose

The purpose of this memorandum is to provide final recommendations for Item 1, Report 12- Finance & Administration Meeting held on October 21, 2013.

### Background – Analysis and Options

The City of Vaughan is the sole shareholder of Vaughan Holdings Inc. (VHI), which in turn owns 45.315% of PowerStream Inc. The balance of shares in PowerStream Inc. are owned by the cities of Markham and Barrie, through their respective holding companies.

In early 2013, PowerStream Inc. advised the shareholders that for projected capital expenditures from 2013 to 2017, PowerStream will require new debt and equity to fund the capital program. To maintain a 60/40 debt to equity ratio, PowerStream will require a \$50 million equity investment. As a result, PowerStream has offered an opportunity to the shareholders to consider investing additional equity into the core business.

At the Vaughan Holdings Inc. Board of Directors Meeting on October 21, 2013, the Board approved the following resolution:

That Vaughan Holdings Inc. (VHI) agrees to provide its share of an additional equity investment in PowerStreams' core distribution business, being a maximum of \$22,657,500 subject to the City of Vaughan approving an equivalent equity investment in Vaughan Holdings Inc.

The VHI Board considered two options for the core distribution business equity investment. The first option was a conversion of a portion of the City's promissory notes into equity. The City currently earns 5.58% annually on the \$78.2M PowerStream promissory note, or \$4.4M. Converting all or a portion of the promissory note to equity will negatively impact the City's investment earnings due to the slightly higher rate of return for the promissory note compared to the expected dividend rate of return for an equity investment. This option was not recommended.

The second option discussed was an additional cash equity investment into PowerStream from VHI, with an equivalent equity investment into VHI from the City of Vaughan.

The City of Vaughan's Investment policy was amended in 2009 to permit equity investments in corporations incorporated under section 142 of the Electricity Act, therefore an equity investment in VHI is permitted. Investing \$22.7M of cash from the City's investment portfolio required a comparison between the expected dividend rate of return and normal rates of return for the City's investment portfolio, as well as a review of forecasted available cash flows for investment.

Comparing a 10 year bond rate to the expected returns received through dividend streams indicates that the dividend rate is slightly better, and additionally a portion of net revenues are also retained by PowerStream and re-invested into the business, therefore increasing the overall equity value. It should be noted that, unlike a 10 year bond which returns the original principal investment at the end of the 10 year period, an equity investment does not return the principal cash investment until the equity or business is sold.

As Vaughan Holdings Inc. does not have the funds on hand to make this investment, it is necessary for the City of Vaughan to mirror the investment made by Vaughan Holdings Inc. into PowerStream Inc. through an equivalent equity investment into Vaughan Holdings Inc. Essentially, the City of Vaughan is providing the cash for the \$22.7M investment. A ten year forecast of cash available for investment indicates that the City's cash flows are sufficient to accommodate the \$22.7M cash equity investment into PowerStream's core distribution business.

### **Conclusion**

Given the slightly more attractive rate of return for an equity investment and the availability of surplus cash for investment purposes, as well as the low risk of investing in a regulated business with a proven track record, it is recommended that the City of Vaughan agree to provide its share of an additional equity investment in PowerStream's core distribution business, being a maximum of \$22,657,500.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Barbara Cribbett', with a long horizontal flourish extending to the right.

Barbara Cribbett  
Interim City Manager

## **FINANCE AND ADMINISTRATION COMMITTEE – OCTOBER 21, 2013**

### **EQUITY INVESTMENT IN POWERSTREAM INC. CORE DISTRIBUTION**

#### **Recommendation**

The Interim City Manager recommends:

1. That the Interim City Manager be directed to report back to the October 29, 2013 Council meeting with the Vaughan Holdings Inc. decision on an equity investment in PowerStream's core local distribution business.

#### **Contribution to Sustainability**

Additional revenue opportunities provide support to the City's budget and the long term financial sustainability of the City, therefore investment opportunities must be considered and evaluated to determine if they present long term financial benefits to the City.

#### **Economic Impact**

The City of Vaughan, through its wholly owned subsidiary Vaughan Holdings Inc. receives dividends from PowerStream Inc. as a result of equity investment and net profit sharing in PowerStream Inc. The dividends received support the City's operating budget, and mitigate tax increases to residents and businesses. The financial impact of an additional equity investment into PowerStream's core distribution business will first be considered by the Vaughan Holdings Inc. Board of Directors, and subject to Vaughan Holdings Inc.'s decision, final approval will be required from the City of Vaughan. It is anticipated that the equity investment, if approved, will be implemented by the City of Vaughan purchasing additional shares of Vaughan Holdings Inc., followed by an equivalent purchase by Vaughan Holdings Inc. of PowerStream shares .

#### **Communications Plan**

Staff will communicate Council's decision to PowerStream Inc. following the October 29, 2013 Council Meeting.

#### **Purpose**

The purpose of this report is to provide notice to Council that a decision on the matter of additional equity investment into PowerStream's core distribution business will be made by Vaughan Holdings Inc. and forwarded to the Council meeting of October 29, 2013, for Council's final decision.

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In early 2013, PowerStream Inc. advised the shareholders of the forecasted equity requirements over the next four years for the core local distribution business, and offered an opportunity to the shareholders to consider investing additional equity into the core business.

The approval for Vaughan to invest additional equity must be made at two levels, firstly through VHI, and secondly, subject to VHI's decision, the City of Vaughan Council makes the final

decision. The VHI Board of Directors will be dealing with this matter at the Vaughan Holdings Inc. meeting on October 21, 2013.

**Regional Implications**

Not applicable

**Conclusion**

Following the Vaughan Holdings Inc. meeting on October 21, 2013, the Interim City Manager will provide additional information and a recommendation based on the Vaughan Holdings Inc.'s decision regarding an additional equity investment to the Council meeting of October 29, 2013.

**Attachments**

Not applicable

**Report prepared by:**

Barbara Cribbett

Respectfully submitted,

Barbara Cribbett  
Interim City Manager