

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 29, 2013

Item 2, Report No. 12, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on October 29, 2013.

2 POWERSTREAM PROMISSORY NOTE – INTEREST DEFERRAL RENEWAL

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Interim City Manager and the Acting Commissioner of Finance & City Treasurer, dated October 21, 2013:

Recommendation

The Interim City Manager and the Acting Commissioner of Finance & City Treasurer recommend:

- 1) That the City of Vaughan continue its arrangement with PowerStream to defer eight (8) quarterly interest payments on its promissory note payable for a period of five years as illustrated in Attachment 1; and
- 2) That the Mayor and City Clerk be authorized to execute the necessary documents; and
- 3) That PowerStream Inc. be advised.

Contribution to Sustainability

Investing is an important component of financial management and sustainability. By leveraging secure investment opportunities the City's funds can earn safe and reliable returns. Over time, these returns accumulate to help the community achieve goals, offset future costs, build reserve balances and reduce the pressure on taxation. This action contributes to sustainability by helping to support the City's existing and future resourcing requirements.

Economic Impact

Continuing with the proposed promissory note interest deferral arrangement will generate investment returns to the City. Based on the provided interest rate of 4.03% the annual investment return will average \$352,541 and total \$1,762,706 over the five (5) year term.

The interest rate is prescribed by the Ontario Energy Board (OEB) and lower than the original 5.58% interest rate received. This difference results in a \$135k difference per year. Although the rate is reduced, it is still attractive and will compliment the City's investment portfolio earning capability. It should be noted, this rate adjustment only applies to the interest deferral renewal balance and the promissory note will continue to earn interest at the 5.58% rate.

Communications Plan

N/A

Purpose

To report on the opportunity for the City to renew the PowerStream promissory note interest deferral arrangement and secure investment returns.

Background

The City of Vaughan currently holds \$78 million in the form of a promissory note issued by PowerStream at an annual interest rate of 5.58%. This equates to approximately \$4.3 million of annual interest to the City.

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In 2008, PowerStream located to a new corporate head office in Vaughan. Part of the project's construction financing arrangement included a negotiated deferral of 8 quarterly promissory note interest payments, approximately \$8.7 million, for a period of 5 years expiring October 31st 2013. Consistent with Section 7.2 of the current promissory note, the City received an additional annual interest compensation of 5.58% on the deferred balance, amounting to \$2.4m over the 5 year term.

As the arrangement is nearing the expiration date, PowerStream has approached the City with the opportunity to renew the arrangement for an additional five years under similar terms and conditions. However, rates of interest on promissory notes and other aspects of PowerStream's cost structure are subject to regulatory oversight. At each renewal period, the interest rate is adjusted to reflect the deemed interest rate prescribed by the Ontario Energy Board (OEB), which is currently set at 4.03%. Over a period of 5 years this arrangement will generate \$1.76 million in interest payments, less than the previous arrangement. Alternatively, the City could decide not to renew the deferral and request repayment of the outstanding \$8.7m. Depending on the application of funds and performance of the City's portfolio, this action could impact the investment income balances incorporated into the City's Budget.

It is important to note, proceeding with the renewal of the deferral would not negatively affect the City. The City has healthy reserve balances, which are invested on an ongoing basis for future purposes. Whether the City actually receives the payment each quarter or in five years, the recognition of deferred interest would continue to be accounted for as an interest receivable. Furthermore, although the OEB's deemed interest rate was reduced, it is still comparatively attractive and will compliment the City's investment portfolio earning capability. This is supported by the below comparative examples:

- Canada 5 year bond - 1.72% (*Oct. 3rd 2013*)
- TD 5 Year Bank Bond - 2.75% (*Oct. 3rd 2013*)

The 4.03% annual return is approximately 128 basis points higher than the TD five year bank bond, as at Oct. 3rd, 2013. The additional interest earned by the City vs. a 5-year Bond would be \$560k over the five year period. Based on the above analysis, it would be prudent to continue with the deferral as a viable investment opportunity.

Relationship to Vaughan Vision 2020/Strategic Plan

N/A

Regional Implications

N/A

Conclusion

PowerStream has approached the City with the opportunity to renew the proposed promissory note interest deferral arrangement for an additional five years, under similar terms and conditions. Although the OEB's deemed interest rate was reduced, it is still comparatively attractive and will compliment the City's investment portfolio earning capability.

Under the shareholder agreement this would be considered a related party transaction and requires the approval of all shareholders.

Attachments

Attachment 1 – Promissory Note

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 29, 2013

Item 2, Finance Report No. 12 – Page 3

Report prepared by:

John Henry
Acting Commissioner of Finance & City Treasurer Ext. 8348

(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.)

FINANCE & ADMINISTRATION COMMITTEE – OCTOBER 21, 2013

POWERSTREAM PROMISSORY NOTE – INTEREST DEFERRAL RENEWAL

Recommendations

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Report prepared by:

John Henry
Acting Commissioner of Finance & City Treasurer Ext. 8348

Respectfully submitted,

Barbara Cribbett, CMA
Interim City Manager

John Henry, CMA
Acting Commissioner of Finance &
City Treasurer



To: Barbara Cribbett, Interim City Manager
City of Vaughan

From: John Glicksman, Executive Vice President and Chief Financial Officer
PowerStream Inc

Date: July 30, 2013

Subject: Interest Payment on PowerStream Shareholders Note

At the request of City of Vaughan, PowerStream Inc shall continue to defer eight (8) quarterly interest payments on its Shareholder Note, payable to the City of Vaughan, for a period of five years. This amount is currently due on October 31, 2013.

Both parties agree that this debt will not be redeemable until Oct. 31, 2018. The deferred amounts shall be subject to the interest rate of 4.03%, which is the long-term deemed rate approved by Ontario Energy Board in PowerStream 2013 Rate Application. The total deferral amount of \$8,743,129.91 shall be payable in full on October 31, 2018.

The following interest payments shall be made on the specified payment dates:

Payments due	Interest payment
January-31-14	\$ 88,811.04
April-30-14	\$ 85,915.02
July-31-14	\$ 88,811.04
October-31-14	\$ 88,811.04
January-31-15	\$ 88,811.04
April-30-15	\$ 85,915.02
July-31-15	\$ 88,811.04
October-31-15	\$ 88,811.04
January-31-16	\$ 88,811.04
April-30-16	\$ 86,880.36
July-31-16	\$ 88,811.04
October-31-16	\$ 88,811.04

January-31-17	\$	88,811.04
April-30-17	\$	85,915.02
July-31-17	\$	88,811.04
October-31-17	\$	88,811.04
January-31-18	\$	88,811.04
April-30-18	\$	85,915.02
July-31-18	\$	88,811.04
October-31-18	\$	88,811.04

John Glicksman, EVP, Chief Financial Officer
PowerStream Inc

Barbara Cribbett, Interim City Manager
City of Vaughan