

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 10, 2013

Item 6, Report No. 17, of the Finance and Administration Committee, which was adopted, as amended, by the Council of the City of Vaughan on December 10, 2013, as follows:

By approving the following:

That the recommendation set out in Communication C13 from Interim City Manager, dated December 6, 2013, be approved as follows:

- 1. That the City's subscription for Vaughan Holdings Inc. shares, as set out in this report, to facilitate Vaughan Holdings Inc. equity injection into PowerStream for their Solar Photovoltaic (PV) business, be extended to December 31, 2014.***

6 GREEN ENERGY ACT/SOLAR PROJECT – EXTENSION OF INVESTMENT PERIOD TO DECEMBER 31, 2014

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Interim City Manager, dated December 2, 2013:

Recommendation

The Interim City Manager recommends:

1. That the Interim City Manager be directed to report back to the December 10, 2013 Council meeting with the Vaughan Holdings Inc. decision on extension to PowerStream's Solar Project – Extension of Investment Period.

Contribution to Sustainability

Not applicable

Economic Impact

The economic impacts related to this report will be provided at the Council meeting of December 10, 2013.

Communications Plan

Staff will communicate Council's decision to PowerStream Inc. following the December 10, 2013 Council Meeting.

Purpose

The purpose of this report is to provide notice to Council that a decision on the matter of PowerStream's Solar Project request for extension of Investment Period will be made by Vaughan Holdings Inc. and forwarded to the Council meeting of December 10, 2013, for Council's final decision.

Background - Analysis and Options

History

In 2009, PowerStream management mobilized a team to assess the opportunities offered to Local Distribution Companies (LDCs) by the Green Energy and Green Economy Act, 2009 in renewable generation and the Feed-in-Tariffs (FIT) program, and concluded that PowerStream should invest in a portfolio of solar generation projects.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 10, 2013

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In September, 2009, PowerStream indicated that it was formulating a specific “ask” to its shareholders (Vaughan Holdings Inc., Markham Enterprises Corp. and Barrie Hydro Holdings Inc.) for approval of a funding mechanism that would allow PowerStream to invest in solar generation.

The \$150 million investment by PowerStream was to be funded through external debt (\$90 million) and shareholder equity (\$60 million) in accordance with the preferred debt to equity ratio of 60-40. The shareholders contributions were to be made in proportion to their existing interest in PowerStream. VHI's share of that equity injection was approximately \$27.2 million (45.315% of the \$60 million).

The equity injections were to be linked to PowerStream's signing of Ontario Power Authority (OPA) FIT contracts in 2010 and 2011. Therefore VHI's \$27.2 million of equity would be injected in tranches over those two years as FIT contracts were approved, with the shareholder's commitment to the equity injection to be reviewed at the end of 2011 if all the funds had not been spent.

VHI's investment in the PowerStream solar project was to be funded by the City's purchase of additional VHI shares. VHI would use the proceeds of the City's share purchase to then purchase an equal dollar amount of new “Class A” non-voting shares to be issued by PowerStream.

The VHI Board of Directors approved the equity injection in December 2009. Subsequently in 2009, the City of Vaughan approved the required equity injection from the City to VHI.

In the resolution passed by the VHI Board of Directors on December 15, 2009, it states that “Vaughan's investment in Class A shares may be made in tranches ... not more frequently than quarterly, until December 31, 2011. After that date, Vaughan shall review its commitment in respect of any part of its share of the Solar Equity Financing that has not been made.”

Subsequently, in May 2012 Vaughan Council approved that the City's subscription for VHI shares, to facilitate VHI's equity injection into PowerStream for their solar business, be extended for two years to December 31, 2013, subject to the terms and conditions set out in the report approved by Council.

At this time, as the first extension to December 31, 2013 is at an end, PowerStream is seeking a further extension of the subscription agreement for Class A shares, subject to the original upset limit of \$27.2 million. This second extension is proposed to continue until December 31, 2014 for the purposes of developing its solar PV program.

Regional Implications

Not applicable

Conclusion

Following the VHI meeting on December 4, 2013, the Interim City Manager will provide additional information and a recommendation based on VHI's decision regarding an extension to PowerStream's Solar Project – Extension of Investment Period to the Council meeting of December 10, 2013.

Attachments

Not applicable

Report prepared by:

Barbara Cribbett

DATE: DECEMBER 6, 2013

TO: MAYOR AND MEMBERS OF COUNCIL
SENIOR MANAGEMENT TEAM

FROM: BARBARA CRIBBETT, INTERIM CITY MANAGER

RE: COMMUNICATION – COUNCIL MEETING – DECEMBER 10, 2013

C	13
Item #	6
Report No.	17 (F+A)
Council - December 10/13	

**FINANCE AND ADMINISTRATION COMMITTEE – REPORT NO. 17, ITEM 6
GREEN ENERGY ACT/SOLAR PROJECT – EXTENSION OF INVESTMENT PERIOD TO
DECEMBER 31, 2014**

Recommendation

The Interim City Manager, in consultation with the Acting Commissioner of Finance & Treasurer recommends:

1. That the City's subscription for Vaughan Holdings Inc. shares, as set out in this report, to facilitate Vaughan Holdings Inc. equity injection into PowerStream for their Solar Photovoltaic (PV) business, be extended to December 31, 2014.

Contribution to Sustainability

Additional revenue opportunities provide support to Vaughan Holdings Inc. and the City of Vaughan'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 and its subsidiaries.

Economic Impact

The City of Vaughan, Vaughan Holdings Inc. (VHI) and PowerStream's other shareholders approved an equity injection to a maximum of \$60M in December 2009. The City of Vaughan's and VHI's proportionate share is \$27.189M, which is based on VHI's 45.315% ownership in PowerStream. The equity injection is essentially a two-step process, with the City of Vaughan subscribing for additional shares in VHI to a maximum of \$27.189M and then VHI purchasing Class A common shares in PowerStream to a maximum of \$27.189M. Ultimately, the cash flow for the solar investment is coming from the City of Vaughan as an investment of its reserve balances. This investment is permitted under Regulation 438/97 to the Municipal Act and the City's Investment Policy.

The original forecasts for the solar investment anticipated that the City's and VHI's entire equity investment of \$27.189M would take place over the first two years (2010 and 2011), with dividend returns beginning as early as 2011 and continuing over the life of the investment (20 Years), ultimately providing the City with dividend income, and return of investment.

The dividend forecast was revised to commence in 2014, concurrently with the first solar extension agreement approved in late 2011, which extended the solar investment period to December 31, 2013. Assuming an approval of the second extension of the equity funding to December 31, 2014 by VHI, the City of Vaughan and the other shareholders, PowerStream's

projections indicate that the Solar PV business is still on target to begin delivering profit sharing dividends in 2014, in addition to the repayment of \$27.189M of invested equity over the duration of the program (20 years).

The projected total investment from the City of Vaughan and VHI into the PowerStream Solar PV project as of December 31, 2013 is \$19,886,378.

Communications Plan

Staff will communicate Vaughan Holdings Inc. and Council's decision to PowerStream Inc. following the December 10, 2013 Council Meeting.

Purpose

The purpose of this report is to obtain Council approval, as shareholder, to extend the timeframe for the City of Vaughan's investment into PowerStream's Solar PV project through the purchase of additional shares in Vaughan Holdings Inc. to December 31, 2014.

Background - Analysis and Options

At this time, as the first extension to December 31, 2013 is at an end, PowerStream is seeking a further extension of the subscription agreement for Class A shares, subject to the original upset limit of \$27.189 million. This second extension is proposed to continue until December 31, 2014 for the purposes of continuing to develop its Solar Photovoltaic program.

On December 4, 2013, the Vaughan Holdings Inc. Board of Directors authorized an extension of VHI's equity injection for PowerStream's Solar PV initiative to December 31, 2014, up to a cumulative amount of \$27.189M, conditional upon the City of Vaughan extending the equivalent equity funding to VHI for the same period.

Regional Implications

Not applicable

Conclusion

Based on the expected rate of return from PowerStream's Solar Business, staff recommends the City of Vaughan subscription for Vaughan Holdings Inc. shares, to facilitate VHI's equity injection into PowerStream's Solar PV initiative, be extended to December 31, 2014.

Attachments

Not applicable

Report prepared by:

Barbara Cribbett

Respectfully submitted,



Barbara Cribbett
Interim City Manager

FINANCE AND ADMINISTRATION COMMITTEE – DECEMBER 2, 2013

GREEN ENERGY ACT/SOLAR PROJECT – EXTENSION OF INVESTMENT PERIOD TO DECEMBER 31, 2014

Recommendation

The Interim City Manager recommends:

1. That the Interim City Manager be directed to report back to the December 10, 2013 Council meeting with the Vaughan Holdings Inc. decision on extension to PowerStream's Solar Project – Extension of Investment Period.

Contribution to Sustainability

Not applicable

Economic Impact

The economic impacts related to this report will be provided at the Council meeting of December 10, 2013.

Communications Plan

Staff will communicate Council's decision to PowerStream Inc. following the December 10, 2013 Council Meeting.

Purpose

The purpose of this report is to provide notice to Council that a decision on the matter of PowerStream's Solar Project request for extension of Investment Period will be made by Vaughan Holdings Inc. and forwarded to the Council meeting of December 10, 2013, for Council's final decision.

Background - Analysis and Options

History

In 2009, PowerStream management mobilized a team to assess the opportunities offered to Local Distribution Companies (LDCs) by the Green Energy and Green Economy Act, 2009 in renewable generation and the Feed-in-Tariffs (FIT) program, and concluded that PowerStream should invest in a portfolio of solar generation projects.

In September, 2009, PowerStream indicated that it was formulating a specific "ask" to its shareholders (Vaughan Holdings Inc., Markham Enterprises Corp. and Barrie Hydro Holdings Inc.) for approval of a funding mechanism that would allow PowerStream to invest in solar generation.

The \$150 million investment by PowerStream was to be funded through external debt (\$90 million) and shareholder equity (\$60 million) in accordance with the preferred debt to equity ratio of 60-40. The shareholders contributions were to be made in proportion to their existing interest in PowerStream. VHI's share of that equity injection was approximately \$27.2 million (45.315% of the \$60 million).

The equity injections were to be linked to PowerStream's signing of Ontario Power Authority (OPA) FIT contracts in 2010 and 2011. Therefore VHI's \$27.2 million of equity would be injected in tranches over those two years as FIT contracts were approved, with the shareholder's

commitment to the equity injection to be reviewed at the end of 2011 if all the funds had not been spent.

VHI's investment in the PowerStream solar project was to be funded by the City's purchase of additional VHI shares. VHI would use the proceeds of the City's share purchase to then purchase an equal dollar amount of new "Class A" non-voting shares to be issued by PowerStream.

The VHI Board of Directors approved the equity injection in December 2009. Subsequently in 2009, the City of Vaughan approved the required equity injection from the City to VHI.

In the resolution passed by the VHI Board of Directors on December 15, 2009, it states that "Vaughan's investment in Class A shares may be made in tranches ... not more frequently than quarterly, until December 31, 2011. After that date, Vaughan shall review its commitment in respect of any part of its share of the Solar Equity Financing that has not been made."

Subsequently, in May 2012 Vaughan Council approved that the City's subscription for VHI shares, to facilitate VHI's equity injection into PowerStream for their solar business, be extended for two years to December 31, 2013, subject to the terms and conditions set out in the report approved by Council.

At this time, as the first extension to December 31, 2013 is at an end, PowerStream is seeking a further extension of the subscription agreement for Class A shares, subject to the original upset limit of \$27.2 million. This second extension is proposed to continue until December 31, 2014 for the purposes of developing its solar PV program.

Regional Implications

Not applicable

Conclusion

Following the VHI meeting on December 4, 2013, the Interim City Manager will provide additional information and a recommendation based on VHI's decision regarding an extension to PowerStream's Solar Project – Extension of Investment Period to the Council meeting of December 10, 2013.

Attachments

Not applicable

Report prepared by:

Barbara Cribbett

Respectfully submitted,

Barbara Cribbett
Interim City Manager