
TO: GENERAL COMMITTEE

SUBJECT: REQUEST FOR BARRIE HYDRO HOLDINGS INC. LOAN GUARANTEE

WARD: ALL

PREPARED BY AND KEY CONTACT: T. RAYAISSE, SUPERVISOR OF INVESTMENT & DEBT MANAGEMENT, EXTENSION #4724
M. JERMEY, DEPUTY TREASURER, EXTENSION #4407

SUBMITTED BY: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER

GENERAL MANAGER APPROVAL: P. ELLIOTT-SPENCER, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: C. LADD, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That the City of Barrie provide a loan guarantee to Barrie Hydro Holdings Inc. (BHHI) for an amount up to \$24 Million, for a period not to exceed to ten (10) years.

PURPOSE & BACKGROUND

2. The purpose of this Staff Report is to seek approval for the City of Barrie to provide a loan guarantee to Barrie Hydro Holdings Inc. (BHHI) for the purpose of financing a portion of its equity injection requirement on closing of MergeCo.
3. On Monday, October 5, 2015 City Council adopted Motion 15-G-197 regarding the merger of Powerstream, Enersource and Horizon and acquisition of Hydro One Brampton to form a new utility Company, MergeCo.
4. The total equity injection required from BHHI is estimated between \$26 and \$28 Million, including closing costs. Based on the approved funding plan, a portion of the closing cost, estimated to be between \$7 and \$11 Million, is to be financed through a bank loan.
5. City of Barrie Finance staff was given direction to secure financing for the bank loan to BHHI, for a period not to exceed ten years, supported by a loan guarantee provided by the City of Barrie. Staff has secured financing for up to \$22 Million to account for contingencies.
6. City of Barrie Finance staff received proposals from three financial institutions for the loan to BHHI to finance the equity injection. Indicative interest rates, at the time of the proposals, based on a ten year amortization, ranged from 1.76% for an all-in fixed rate (floating rate combined with an interest rate exchange) to 2.50% for a fixed rate. The loan payments are expected to be funded by the anticipated dividends from MergeCo. Based on a ten year loan and an interest rate of 2.1%, annual payments would be \$2.1 Million.

ANALYSIS

7. Given the fact that BHHI is a holding company, the lending institutions requested a guarantee by the City of Barrie to secure the loan. Based on conversations with lending institutions, the loan would not otherwise be approved for the amount and term requested without collateral from BHHI.

ENVIRONMENTAL MATTERS

8. There are no environmental matters related to the recommendation.

ALTERNATIVES

9. The following alternative is available for consideration by General Committee:

Alternative #1 General Committee could choose not to approve the loan guarantee request.

This alternative is not recommended as the loan would not otherwise be approved for the amount requested without collateral from BHHI.

FINANCIAL

10. Staff sought the opinion of the City of Barrie's credit rating agency (Standard and Poor's) to assess the impact of the loan guarantee. Based on the current financial health of the City, and on its business and capital plan, the guarantee for the loan is not expected to negatively affect the credit rating of the City.

LINKAGE TO 2014-2018 STRATEGIC PLAN

11. The recommendation included in this Staff Report supports the following goal identified in the 2014-2018 Strategic Plan:
- Responsible Spending