

September 23, 2019
Committee of the Whole
Meeting



Making Local Government Accountable

LUI's promissory note
"Reviving The Dream"
Alternative Proposals

Background

- LUI created by Council in May 2000 from the Cobourg Public Utilities Commission (CPUC)
- In exchange for the CPUC's electrical distribution business, Cobourg received:
 - 9,999,999 common shares in Holdco (LUI's holding company)
 - \$7 Million promissory note bearing interest at 7.25%
- Township of Cramahe received one share and a seat on the Board for a total of 10,000,000 shares

Holdco's Expectation of LUI

“LUI will maintain a prudent financial structure to safeguard the Company's assets and to provide adequate returns to its shareholders and benefit to the stakeholders”

Source:

LUI's 2018 Financial Statements Note 22 Capital Disclosures

Stealth Tax

Interest paid by LUI to the Town 2002-2018	\$8,120,000
Dividends paid by Holdco to the Town 2002-2018	\$7,083,600
Total Stealth Tax 2002-2018	\$15,203,600
Plus additional unspecified "benefits"	\$4,000,000

STATED PURPOSE OF LUI PROPOSAL

- Says OEB requested that Promissory Note be reviewed with Town before next rate application (January 1, 2020)
- Improve external borrowing capacity
- Difference between OEB rate and 7.25% is not recoverable through electricity distribution rates and reduces LUI's profit

Sir Adam Beck's Dream

- Hydroelectricity advocate
- Founder of Hydro-Electric Power Commission of Ontario
- MPP (1902-1919)
- Chairman Ontario Hydro (1906-1925)
- Dream of supplying Ontario consumers with

Power at Cost

- His dream died with de-regulation of the electricity market in 2000

Debt/Equity Swap

- Swap debt (\$7 Million loan) for equivalent equity in LUI
- Issue Preferred Shares with annual dividend at a specified rate or at the discretion of LUI Board

Comparison of proposals

	Change Terms of Promissory Note		Convert Promissory Note to Equity	
	LUI Proposal	Town Proposal	Maximize Town Income	Revive Beck's Dream
Interest Rate	Reduce from 7.25% to floating initially 3.72%	Reduce from 7.25% to fixed 3.97%	No affiliate loan	No affiliate loan
Amortization period	Unknown due to floating rate with fixed payment	20 years	No affiliate loan	No affiliate loan
Annual total payment to Cobourg	<ul style="list-style-type: none"> \$507,500 Unspecified future interest payments 	<ul style="list-style-type: none"> \$507,696 Interest amount reducing to \$10,750 by 2039 	As determined by Holdco Board, possibly \$1M per year	None
Annual interest payment to Cobourg	\$232K in 2022	\$239K in 2022	None	None
Annual Dividend payment to Cobourg	As determined by Holdco Board but typically \$150K to \$445K (50% of net income)	As determined by Holdco Board but typically \$150K to \$445K (50% of net income)	As determined by Holdco Board, possibly \$1M per year (50% of net income)	None
Proceeds from sale of LUI	Little change in next few years	Little change in next few years	Proceeds maximized	Proceeds maximized and Beck's Dream dies

Who Benefits?

	Change Terms of Promissory Note		Convert Promissory Note to Equity	
	LUI Proposal	Town Proposal	Maximize Town Income	Revive Beck's Dream
LUI	Minor due to very slow reduction in debt	Minor due to very slow reduction in debt	Immediate increase in available borrowing capacity	Immediate increase in available borrowing capacity
LUI Customers (10,400)	Minor since slow impact on rates	Minor since slow impact on rates	Minor if payments to Cobourg maintained	<ul style="list-style-type: none"> Stealth tax eliminated Electricity charges reduced by ~ \$1Million per year
Town of Cobourg	Loan asset is reduced over time and in later years interest portion reduced	Loan asset is reduced over time and in later years interest portion reduced	As determined by Holdco Board but possibly little change	Source of "free" money eliminated
Cobourg Taxpayers	None in foreseeable future	None in next 20 years	Improved transparency regarding stealth tax	<ul style="list-style-type: none"> Stealth tax eliminated Loss of Holdco Dividend may increase tax levy

Choices

- Status Quo – Do Nothing
- Approve either LUI or Town proposal
- Approve Debt/Equity Swap
 - Sir Adam Beck's "at cost" model
 - Share dividend set by LUI Board annually

Public Engagement

- Establish an ad hoc committee to study ways to restructure Holdco, LUI and LUSI to maximize benefits to Cobourg residents and other stakeholders
- Ensure that Cobourg residents understand the options and their implications

OEB Allowed Rates

