Hydro Revenue Review

Presenter: Mike Mayes

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Why are we doing this?

- When NT Power does its next rate filing, possibly in 2028, the allowable interest rates could drop significantly and impact returns on our promissory note
  - Taking proactive action is recommended

Why now?

- Interest rates for borrowing are at historically low rates – there is a limited window to take advantage od this opportunity
  - Any increases to NT Power’s income are potential increases to our dividend

Annual Hydro Revenues are $2.9 million

Dividend	$ 1,336,000	Interim revenue review
Interest on promissory note	$ 1,205,600	
	$ 2,541,600	
Rent	$ 335,965	Market rate, future property review
Total	**$ 2,877,565**	

The Fiscal Strategy recommended allocating the dividend to reserve funds

60. *Over the next five years, the Hydro dividend should be transitioned to a contribution split 75:25 between the tax-supported Asset Replacement Fund and the new Contingency Reserve*

The promissory note pays maximum interest

- Hydro issued $22 million promissory note to the Town on October 1, 2001
- It pays interest rate permitted by the Ontario Energy Board (OEB), currently 5.48%
- Changes to, maturity and repayment terms require 13 months’ notice

Risks and Rewards

- When NT Power does its next rate filing, possibly in 2028, the allowable interest rates could drop
- Investing the $22 million from the promissory on our own
  - Getting an similar or better rate of return is not guaranteed
  - However, there is potential for greater returns

Re-thinking our Hydro revenues

1. Change how the Town accounts for the Hydro income
2. Demand payment on the $22 million promissory note
3. Put the $22 million into the Asset Replacement Fund
4. Invest with One Investment

1. Change how the Town accounts for the Hydro income

Shift Hydro revenue ($2.5 million) to the Asset Replacement Fund (ARF). Offset by reducing tax-supported contributions (2022 $5.5 million).

- Fluctuations in the income stream will be put in in a less sensitive area
- Could be part of the 2022 Budget process
- Council approval required
- This step can and should be taken even if done without the other 3 steps

2. Demand payment on the $22 million promissory note

Newmarket

Both parties could agree to waive the 13-month notice period.

- Town to seek clarity on the dividend policy considerations and seek to reduce risk
- NT Power borrows at a lower interest rate
- Interest rate and income would no longer be subject to OEB rulings
- Will need to replace a high return investment
- Council approval required

3. Put the $22 million into the Asset Replacement Fund

Newmarket

This would be like an “endowment” in that the principal should not be touched.

- By-law to restrict use of these funds
- The investment income generated would offset the decrease in ARF contributions
- A long-term reserve fund is better suited to handle annual income fluctuations
- Will improve our BMA reserve metrics

4. Invest with One Investment

One Investment is a non-profit origination created by LAS and MFOA to provide municipalities with a sound investment option.

- Access to equity investing
- Returns are competitive to the market and meet our requirement
- The Treasurer has authority to use this investment vehicle
- Benchmark would be prescribed OEB rate

ONE Canadian Equity Portfolio

Newmarket

- For longer-term investment horizon:
  - Five years or more
  - Long-term infrastructure funding
  - Capital asset maintenance & remediation
- Managed by Guardian Capital LP
- 5 year returns are above the TSX composite
  - Oct 2021 10.45%
  - 2020 9.0%
  - 2019 7.5%