



London Hydro

Discussion on Assets



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WHAT HAPPENS TO THE \$70 MILLION NOTE?

- The \$70 million debt must be re-negotiated this year, regardless of the disposition/merger question.
- This principal must be held intact for liability reasons
- Interest of \$4.2 million is currently income in the general fund that reduces the property levy requirement
- Reinvesting at current market rates would yield an interest income of approximately \$2.3 million
- Impact on the tax levy (rate increase) is \$1.9 million or 0.4% (\$9.06 for the average taxpayer)



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PREVIOUS COUNCIL DIRECTION WITH RESPECT TO LONDON HYDRO

...Adopted June 18th, 2008

- a) Only examine in detail proposals that would see the head/regional office located in London
- b) Report back on debt management strategy related to recapitalizing London Hydro
- c) A public meeting be held if a proposal for a merger with a head/regional office in London is developed, which can be recommended by the Board of Directors of London Hydro

**The more Council directions and restrictions...
the more the value of the asset may be affected!**



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THE BIG QUESTION...

What do you do with the proceeds?

- Some municipalities have “spent” their asset! Once it’s gone...it’s gone!!
- Council must keep the asset **intact** and make it work for the taxpayer. Resist the urge for the “short-term”, quick fix.
- Council wisely adopted guidelines on November 21st, 2011 that I recommend you follow, should you decide to move ahead on this issue.
 - This may provide an on-going, non-tax source of income for economic development



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COUNCIL GUIDELINES FOR ASSET SALE PROCEEDS...Adopted November 21, 2011

- A long-term view should be considered when contemplating an asset sale.
- The proceeds from the sale of an asset should **not** be used:
 - to reduce tax rate/budget pressure;
 - to provide a source of funding for a new asset that does not produce a return on investment; or,
 - to fund on-going/permanent expenditures.



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COUNCIL GUIDELINES FOR ASSET SALE PROCEEDS...Adopted November 21, 2011

- The proceeds from the sale of asset **should be used** in the following priority order:
 - reduce debt, it being noted that reducing debt reduces current and future tax increases due to reduced interest costs;
 - invest in assets that produce a return on the investment that considers both the financial and non financial (service value adds); or,
 - invest the proceeds and use the interest to provide on-going contributions to economic development initiatives.



What might happen if the proceeds are protected?

- If a premium is realized (assumed 1.3 x rate base)
- Interest from the principal can replace the tax contribution to the economic development reserve fund

	Status Quo	100% Sale Protect asset & use interest	49% Sale Protect asset & use interest*
Potential Impact on Taxes in first year			
Annual change in %	0.0%	-0.3%	-0.3%
Investment in Economic Development 2014-2024			
Total 2014-2023 ten years	\$ 45.7	\$ 96.9	\$ 63.3



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COUNCIL GUIDELINES FOR ASSET SALE PROCEEDS...Adopted November 21, 2011

- Keep these guidelines front and centre in discussions on revenue opportunities.
- Allow sufficient time for Civic Administration to adequately review revenue opportunities and invest in consultants where necessary to provide specific expertise.
- Public engagement and consultation with appropriate community partners should be considered a best practice when considering the sale of any City asset.



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RECAP

- Keep the asset intact and working for London
 - “The gift that keeps on giving”
- Invest and grow the asset
- Use the interest to provide on-going contributions to economic development initiatives
- The goal to is maximize or increase long-term corporate value, to the benefit of the City of London



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RECOMMENDATION

That should the Municipal Council wish to pursue the sale or partial sale of London Hydro Inc., given current favourable market conditions:

- the Board of Directors of London Hydro Inc. BE DIRECTED, by the Shareholder, to issue a competitive proposal process for the sale or partial sale of London Hydro Inc.; and
- the Board of Directors of London Hydro Inc. BE DIRECTED to report back in October 2013 with the results and recommendations arising from the competitive proposal process, for the consideration of the Shareholder.