



CITY OF KINGSTON
REPORT TO COUNCIL

Report No.: 10-219

TO: Mayor and Members of Council
FROM: Stephen Dickey, Deputy Treasurer
RESOURCE STAFF:
DATE OF MEETING: 2010-07-20
SUBJECT: Investment in Utility Companies

EXECUTIVE SUMMARY:

As part of a corporate restructuring that took place on December 31, 2004, The City of Kingston currently owns \$3,000,000 of Class D preferred shares in 1425447 Ontario Limited, a holding company. 1425447 Ontario Limited in turn, has a \$3,000,000 investment in Utilities Kingston. In addition, there are accrued and unpaid dividends in the amount of \$600,000 which are due to the City of Kingston from 1425447 Ontario Limited. It is now in the best interest of the utility companies that the City of Kingston exchange these two investments in 1425447 Ontario Limited for promissory notes from 1425445 Ontario Limited (operating as Utilities Kingston).

This will ensure that 1425445 Ontario Limited (operating as Utilities Kingston) will obtain the benefit of an interest expense deduction from its taxable income. The City of Kingston is indifferent as to whether it has an investment in preferred shares in 1425447 Ontario Limited or an investment in a note receivable from 1425445 Ontario Limited (operating as Utilities Kingston).

RECOMMENDATION:

That Council authorize the Mayor and Clerk to sign all documents necessary to effect the exchange of the City of Kingston's investment of \$3,000,000 in Class D shares of 1425447 Ontario Limited for a \$3,000,000 note receivable from 1425445 Ontario Limited (operating as Utilities Kingston)

And Further

That Council authorize the Mayor and Clerk to sign all documents necessary to effect the exchange of the City of Kingston's dividend receivable from 1425447 Ontario Limited for a \$600,000 note receivable from 1425445 Ontario Limited (operating as Utilities Kingston).

AUTHORIZING SIGNATURES:

ORIGINAL SIGNED BY DIRECTOR OF FINANCIAL SERVICES Stephen Dickey, Deputy Treasurer
ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER Gerard Hunt, Chief Administrative Officer

CONSULTATION WITH THE FOLLOWING COMMISSIONERS:

Cynthia Beach, <i>Sustainability & Growth</i>	N/R
Terry Willing, <i>Community Services</i>	N/R
Denis Leger, <i>Transportation, Properties & Emergency Services</i>	N/R
Jim Keech, <i>President and CEO, Utilities Kingston</i>	√

(N/R indicates consultation not required)

July 20, 2010

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OPTIONS/DISCUSSION:

The City of Kingston currently has a \$3,000,000 investment in Class D preferred shares of 1425447 Ontario Limited and a \$600,000 dividend receivable from 1425447 Ontario Limited. These investments yield a dividend return to the City of Kingston in the amount of \$150,000 per annum. This restructuring will effectively convert the investments to notes receivable from 1425445 Ontario Limited (operating as Utilities Kingston) totalling \$3,600,000. These notes receivable will yield an interest income return of \$150,000 per annum. Both types of investment income are received tax free to the City of Kingston. It is expected that the notes receivable will be reduced to \$3,000,000 by December 31, 2013.

A restructuring of the City of Kingston's investment is a prudent and advisable undertaking as it helps the Corporate group of companies retain the most after tax cash available for use within the City of Kingston. By converting the \$3,600,000 investment in 1425447 Ontario Limited to a \$3,600,000 loan receivable from 1425445 Ontario Limited (operating as Utilities Kingston) the City of Kingston is assisting the utility group of companies to retain approximately \$50,000 per year as the interest payment from 1425445 Ontario Limited (operating as Utilities Kingston) will be tax deductible whereas dividend payments are not deductible for tax purposes.

EXISTING POLICY/BY LAW:

Not applicable.

NOTICE PROVISIONS:

Not applicable.

ACCESSIBILITY CONSIDERATIONS:

Not applicable.

FINANCIAL CONSIDERATIONS:

The return on investment yield is consistent with other investments the city has in its portfolio. Repayment of the \$600,000 note is expected in even annual installments to 2013, at which time, the investment return rate on the remaining long term \$3,000,000 note will be 5% annually.

CONTACTS:

Randy Murphy, Treasurer, Utilities Kingston

613-546-1181, Extension 2317

OTHER CITY OF KINGSTON STAFF CONSULTED:

Not applicable.

EXHIBITS ATTACHED:

Not applicable.