

Date: 2 October 2009

Council Report

To: Mayor Compton and Members of Council
From: Karen Brown
Re: Kenora Hydro Electric Corporation Ltd. – Priority Agreement

Background

Kenora Hydro Electric Corporation Ltd. (Hydro) requires debt financing for two major capital projects, namely smart meter implementation and transformer substation reconstruction. Hydro has arranged for financing through the Ontario Infrastructure Projects Corporation (OIPC, although also known as Infrastructure Ontario and previously OSIFA). Kenora Hydro has contracted Bruce Ormiston to review the related agreements.

As part of the financing agreement, OIPC requires a priority agreement to be signed off between the City of Kenora, Hydro and OIPC. This is required as the City currently holds long term debt financing to Hydro in the amount of \$3,069,279, with interest payments being made on a monthly basis based on bank prime.

Under the terms of the loan from OIPC, Hydro is required to maintain a current ratio of 1.3:1. The current ratio represents current assets (ie, bank, receivables, etc.) divided by current liabilities (ie, operating loans, payables, etc.) Under the priority agreement, the City is required to agree that, if Hydro is unable to maintain a current ratio of 1.3:1, the City will not receive interest payments from Hydro on our current debt. There is nothing in the agreement, however, that would prevent Hydro and the City from accruing the interest payments, and holding payment until Hydro's current ratio meets the requirements in the loan agreement.

For reference purposes, Hydro's ending current ratio, based on the audited financial statements, was 2.3:1 and 2.2:1 for 2008 and 2007 respectively. A copy of the priority agreement has been attached for your reference.

Sources of Financing

In theory, there could be a delay in cash based on Hydro's ability to maintain a current ratio of 1.3:1 or higher, which could result in some loss in related interest revenues, although based on historical current ratios over the past two years, it is anticipated that any impacts would be negligible.

Communication Plan / Notice By-law Requirements

OIPC and Hydro will be notified of Council's decision in this matter.

Recommendation

That Council hereby authorizes the execution of a priority agreement between the Ontario Infrastructure Projects Corporation, the Kenora Hydro Electric Corporation Ltd. and the Corporation of the City of Kenora; and

That the appropriate by-law be passed for this purpose.

cc: Bill Preisentanz
Dave Sinclair