



SUBJECT: Hydro Dividend Policy
TO: Mayor and Members of Council
FROM: Finance Department

Report Number: F-07-23

Wards Affected: ALL

File Numbers: provide file number, if unsure or not known see uniform file plan

Date to Committee: Select date

Date to Council: February 14, 2023

Recommendation:

That in accordance with the Shareholder Direction dated October 15, 2019, The Corporation of the City of Burlington ("City of Burlington"), in its capacity as a shareholder of the Burlington Enterprise Corporation ("BEC"), hereby authorizes and approves the amendment to the Shareholder Direction dated October 15, 2019 to establish a new Dividend Policy between BEC and the City of Burlington as set out in detail in report F-07-23;

The Mayor and Clerk are hereby authorized and directed to execute the Resolution of Sole Shareholder substantially in the form appended as Appendix A to report F-07-23, subject to the approval as to form by the Executive Director of Legal Services and Corporation Counsel and approval as to content of the Chief Financial Officer, and the Clerk be directed to consolidate the Shareholders Direction in accordance with the authorized amendments and forward a copy to the BEC.

PURPOSE:

The purpose of this report is to approve a dividend policy in order to provide certainty and consistency in dividend earnings and long-term shareholder value to the City of Burlington.

Background and Discussion:

The Burlington Hydro reserve fund is one of the city's capital reserve funds. The reserve fund is integral to the city's infrastructure renewal program and in providing funding to major capital initiatives and revitalization projects through the issuance of special circumstances debt. The reserve fund also provides dedicated funding to the city's asset management program.

The Burlington Hydro reserve fund receives annual income on behalf of the city as a sole shareholder of Burlington Enterprises Corporation ("BEC"), a parent company of Burlington Hydro Inc. ("BHI" or "Burlington Hydro") Annual income received from BEC comes in three forms: regular dividends, interest income and special dividends. Together these revenue streams provide annual income, that benefits the city's capital and operating budget.

Regular Dividends: As per Burlington Hydro's 5-year business plan the current (2021 and beyond) projection of dividend income is anticipated to be \$2.4 million annually. This is a reduction of \$200,000 from \$2.6 million in 2020.

Interest Income: The city holds a promissory note of \$47.9 million with Burlington Hydro. The current rate on the note is 2.85%, providing an annual revenue of \$1.36 million. The rate is regulated by Ontario Energy Board ("OEB") and has been steadily declining over the last number of years. The rate has decreased from 7.25% at inception to 4.88% in 2020 to the current rate of 2.85%. This latest change results in a reduction of \$970,000 per annum.

Special Dividends: The city has been fortunate to receive special dividends from time to time that have assisted towards various capital initiatives. Special dividends are not planned, but the city makes use of the financial opportunity as it arises.

Strategy/process

The City's objective in developing a dividend policy is to provide predictability and consistency in dividend performance and provide explanation for dividend performance if the agreed upon dividend performance is not met. The City in working with staff from BEC and BHI, are presenting a dividend policy that achieves those objectives, in an effort to maximize shareholder value. The dividend policy is meant to balance the financial needs of the shareholder and the financial abilities of BEC.

The Dividend Policy is currently addressed in section 7.1 of the Shareholder Direction dated October 15, 2019 that governs, among other things, the business and affairs of BEC and its subsidiaries, including BHI.

Included within Appendix A is a Resolution of the Sole Shareholder which proposes to amend the Shareholder Direction to replace section 7.1 with the new Dividend Policy drafted with input and review with staff from BCE and BHI. The policy that is set out in the attached Resolution was received by the BHI Board on October 25th, 2022.

Financial Matters:

The uncommitted balance in the Burlington Hydro reserve fund is estimated to be approximately \$4 million at year end.

Over the last number of years, the City has experienced significant adjustments to the annual revenue stream from BEC/Burlington Hydro, that has affected the city's reserve fund, and the city's ability to forecast for current and future needs. The certainty and consistency provided by the dividend policy will allow the city to better position the reserve fund to meet the needs of the capital program.

Climate Implications

Not applicable.

Engagement Matters:

Over the last year, city staff have been collaboratively working with senior staff from BEC and BHI to discuss and develop a dividend policy which meets the needs of both parties, attached as Appendix A.

The policy as attached was received by the BHI Board of Directors on October 25th, 2022.

Conclusion:

In summary, development, and approval of a dividend policy benefits the city in achieving long-term dividend performance. Staff appreciate the input and efforts of the Board and management of BEC/BHI in bringing forward a dividend policy that considers the needs of both the City and BEC/BHI.

Respectfully submitted,

Joan Ford

Chief Financial Officer

Appendices:

A. Resolution of Shareholder

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.