Policy, Priorities and Budgeting Committee
Comité des politiques, des priorités et des budgets

Agenda 15
Ordre du jour 15

Thursday, September 30, 1999 - 9:15 a.m.
Le jeudi 30 septembre 1999 - 9 h 15

Victoria Hall, First Level
Bytown Pavilion, City Hall

Salle Victoria, niveau 1
Pavillon Bytown, hôtel de ville

City of
Ville d' Ottawa

Confirmation of Minutes
Ratification des procès-verbaux

Minutes 14 (September 9, 1999)
In-Camera Minutes 12 (September 9, 1999)

Procès-verbal 14 (Le 9 septembre 1999)
Procès-verbal 12 huis clos (Le 9 septembre 1999)

Index

Information Items
Articles pour information

Action Items
Articles pour exécution

Regional Matters
Questions régionales

Regional Reform
Réforme régionale

External Relations Matters
Questions de relations extérieures

Correspondence
Correspondance

Members' Reports - Enquiries
Rapports des membres - demandes de renseignements

Councillor/Conseillère Diane Deans, Chairperson/Présidente

Councillor/Conseiller Jim Bickford, Vice-Chairperson/Vice-président

Councillor/Conseillère Inez Berg

Councillor/Conseiller Richard Cannings

Councillor/Conseiller Ron Kolbus

Councillor/Conseiller Brian Mackey

SEF

City of Ville d' Ottawa

September 20, 1999	ACS1999-CO-CMG-0017 (File: ACC1315)
Office of the Chief Administrative Officer	Ward/Quartier City Wide
• Policy, Priorities and Budgeting Committee / Comité des politiques, des priorités et des budgets • City Council / Conseil municipal	Information

1. Municipal Government Reform - Rurals Opting Out

Réforme du gouvernement municipal - Non-adhésion des municipalités rurales

Information

On September 9, 1999, a report on Governance was submitted to Policy, Priorities and Budgeting Committee for their consideration. Although Committee concurred with the recommendations which were ultimately approved by Council on September 15, 1999, they did ask that I provide them with more information about Council's position on allowing the Townships of Goulbourn, Osgoode, Rideau and West Carleton to opt out of the unified City model. Accordingly, this is the reason behind this information report.

On November 4, 1998, City Council approved a motion which addressed the issue of treatment of the rural municipalities in any Ottawa Carleton restructuring. Elements two(2) and nine(9) of the motion read as follows:

2. " The Townships of Goulbourn, Osgoode, Rideau and West Carleton together may choose, on fair and equitable terms, to opt out of the unified City."

9. In the event that the four rural municipalities choose to opt out of the new unified city, there shall be:
   a) an agreement for the purchase of services from the unified city at a fair and equitable cost;
   b) an agreed upon mechanism to address common planning issues; and
   c) where agreement cannot be reached, recourse to a binding dispute resolution process to resolve these matters."

Clearly, the intent of the motion was to allow the rurals, as a group, to be the sole decision-maker on whether or not to opt out of any restructuring in Ottawa Carleton. They solely control the decision as to whether they will stay or leave. Unless Council decides to change its mind and alter those elements, it represents an essential part of our Governance model and all implementation plans will reflect that position accordingly.

Having said that, element nine(9) appears to make it quite clear that the decision to opt out will carry certain conditions. Items a) and b) obligates the parties to come to agreement on the issue of cost of service which would continue to be required by the rurals from the new unified city and a mechanism to address planning matters to their mutual satisfaction. Should the parties not come to terms on these matters, they would be submitted to a third party for arbitration, whose decision would be binding. I read this to mean that the rurals would have no choice but to obtain their required services form the unified city. In addition, both the rurals and the unified city would be obligated to address common planning issues to ensure that proper planning was not ignored or thwarted by either party.

Because of the implication of the "opting out provision", I have directed the Project Team doing the implementation report to pay particular attention to the specific conditions we would be seeking to satisfy regarding purchase of service as well as a mechanism to address common planning issues. For example, regarding cost of service, it may be as simple as recovering a "full cost price" for services rendered or the current cost for services provided today, subject only to normal annual adjustments. In the case of planning issues, it may be as simple as keeping intact, the current planning constraints in the Regional Official Plan and the rurals Official Plans, allowing changes only with the consent of the unified City Council in the future.

Unless we are given an alternate direction, we will be following all elements in the Council approved motion in preparing the final implementation report.

September 20, 1999 (2:27p)

John Burke
Chief Administrative Officer

JB:ds

Contact: John Burke - 244-5402

City of
Ville d' Ottawa

September 21, 1999

ACS1999-CO-CMG-0018
(File: ACS1300)

Office of the Chief Administrative Officer

Ward/Quartier
City Wide

- Policy, Priorities and Budgeting Committee / Comité des politiques, des priorités et des budgets
- City Council / Conseil municipal

Action/Exécution

2. Ottawa Hydro Recapitalization

Restructuration du capital d'Hydro-Ottawa

Recommendations

1. That the City's ownership of the newly incorporated Ottawa Hydro Utility Services Inc., which is effective December 31, 1999, be undertaken initially through two internal notes receivable/payable in the amounts of $10 million and $105 million respectively, between the City and Ottawa Hydro Utility Services Inc. (the Company), and that subsequently the Company repay this indebtedness to the City as follows:

   a. $10 million payable to the City without interest, paid in two installments of $5 million each on June 1, 2000 and December 1, 2000;

   b. $105 million payable to the City with interest at 7% per annum on March 31, 2000.

2. That the $10 million payment on the note receivable due in June and December 2000 be incorporated in the Year 2000 capital and operating budgets as follows:

   a. $4 million to the operating budget to reflect the long term minimum dividend earning potential;

   b. the balance of $6 million to the capital budget as it is a one-time revenue source.

3. That the $105 million received as payment on the note receivable due in March 2000 be reinvested by the City in its entirety, and that the annual interest income earned from these investments, be incorporated as a revenue source in the preparation of the Year 2000 operating budget and in future years' operating budgets.

September 22, 1999 (8:58a)

John Burke
Chief Administrative Officer

JB:tsc

Contact: John Burke - 244-5402

Financial Comment

Subject to City Council approval of the recommendations included in this report, the directions contained herein will be incorporated in the preparation of the Year 2000 capital and operating budgets.

September 22, 1999 (10:24a)

Mona Monkman
City Treasurer

MM:cds

Executive Report

Reasons Behind Recommendations

Background

This report is a follow up report to recommendations approved by Council on May 19, 1999 regarding the transition of Ottawa Hydro as contained in the report dated April 13, 1999 "Ottawa Hydro Task Force - Task Force Recommendations".

On May 19, 1999, City Council had approved that Ottawa Hydro be retained in City ownership and that staff continue the process to establish new corporations to govern Ottawa Hydro.

On December 31, 1999, all of the assets and employees of Ottawa Hydro will be transferred to the newly incorporated OBCA corporations called “Ottawa Hydro Utility Services Inc” and “Ottawa Hydro Energy Services Inc.” In return for this transfer, the City will realize its existing investment in Ottawa Hydro through the recording of both an equity interest and an investment interest (note receivable/debt) in the new entity.

The Ottawa Hydro Task Force/Transition Board of directors, through previous Council approval, has been given the authority to coordinate the details of transferring assets and liabilities to the new corporations, for approval by Council, including:

a. drafting the transfer by-laws,

b. recommending the price and form of consideration to the City which will include proceeds from about $100 million of debt financing, and,

c. drafting the shareholder agreement, including a dividend policy.

The Task Force/Transition Board is now in the process of completing its review of these documents and policies. Council is being asked at this time to specifically approve a requirement that $105 million in cash proceeds be made available to the City in the Year 2000. This will require the new Ottawa Hydro (Ottawa Hydro Utility Services Inc.) to proceed with the issuance of external debt for the company. Secondly, Council is being asked to turn its mind to the use of proceeds from the transfer of Ottawa Hydro assets to the new Corporation. These decisions will allow the Transition Board to complete its work on the transfer documents.

Specifically, in May, Council had approved the following motions and recommendations which are the subject of this report:

(Dealt through recommendation 1 to this report):

> *“That City Council authorize the transition board of directors to consider the source of debt financing and commence the process of securing the debt financing of approximately $100 Million from an external lender.”* (Approved by Council May/99)

(Dealt through Recommendations 2, 3 to this report):

> *“Whereas the City of Ottawa has become the sole shareholder of the assets of Ottawa Hydro;*
>
> *And Whereas the City may be eligible for cash proceeds of approximately $100 Million from Ottawa Hydro;*
>
> *Be It Therefore Resolved that the Chief Administrative Officer be directed to report back to the Policy, Priorities and Budgeting Committee by September with options on*

how the City may best utilize those funds in the best interest of the taxpayers of Ottawa." (Approved by Council May/99)

<u>Transfer of Assets of Ottawa Hydro from the City to Ottawa Hydro Utility Services Inc.</u>

In May 1999, Council approved that Ottawa Hydro be retained in City ownership for the time being.

Given approval of the retention option, the next steps in the process for setting up new companies are to decide on the following two questions:

1. How is the company recapitalized? (the recapitalization)

2. How is the company financed? (The refinancing decision)

The Canadian Bond Rating Service has published a paper which discusses the Council decisions regarding the sale and retention options. This document is attached as Document 1 to this report. It provides an overview of the recapitalization and subsequent refinancing decisions that Council needs to make.

<u>Step #1 (Recapitalization):</u>

Consistent with the May 19th Council decisions, the City will transfer its ownership of Ottawa Hydro assets and employees to new companies effective December 31, 1999. The existing regulatory environment and the May 1999 Council approvals, suggest that this transfer of assets should be effected by Council taking back a combination of debt and equity as consideration for the transfer of this asset which currently has a net book value of $212 million (end of 1998 NBV of $212 million, includes $20 million in contributed capital). The suggested transfer price agreed to by the transition board is as follows:

> $115 million in notes receivable by the City from the new Ottawa Hydro Services Inc. (60% of $192 NBV excluding contributed capital).
>
> $9 million possible additional note receivable (to be adjusted to 55-60% of NBV based on 1999 year-end balances). The Transfer By-Law will allow for adjustment of the debt capitalization component to be adjusted based on year-end figures. Any additional debt beyond the $115 million in notes will remain a debt in perpetuity.
>
> $88 million in equity (to be adjusted based on 1999 year-end balances).

Effectively, the asset will be recapitalized with an approximate 60/40 debt to equity ratio. This will take advantage of the proposed regulatory environment. The proposed recapitalization is supported by all of the members of the Hydro Task Force.

Step #2 (Refinancing):

Once the existing assets of Ottawa Hydro have been transferred to Ottawa Hydro Utility Services Inc. and recapitalized, Council needs to decide how the company will be financed.

On day one, the debt financing transaction is a note receivable/payable between the City and the new Hydro company. Council then needs to decide as sole shareholder whether this note will continue to be a debt between the City and Hydro, or whether the debt owed to the City ("note receivable") will be turned into cash.

Recommendation 1 to this report investigates this question and results in a recommendation that the refinancing option be pursued. In other words, the new Hydro company will be asked to pursue the issuance of external debt, with the objective that the City's note receivable be paid off by March 31, 2000. The funds needed to repay the City will be obtained by Ottawa Hydro Utility Services through a capital market refinancing via a debt issue in the utility's own name and under its own credit rating.

Proceeds from Transfer of Ottawa Hydro, available for City budgets

The Recommendations in this report envision additional revenue sources being made available for City services through the restructuring of hydro-electric utilities in Ontario. The justification for the City's accessing permanent revenue sources from this Hydro restructuring can be summarized as follows. Council should note that the May 1999 report dealt with several of these matters:

- **The new regulatory framework in Ontario allows municipal Hydro clients/taxpayers to earn a return on their past and future investment**. All municipalities in Ontario are presently determining how best to take advantage of this new framework. The sale option would capitalize on the value of this municipal asset on a one-time basis. Council has agreed that for Ottawa, this is not the best course of action. Rather, it determined that the value of the asset should be used in future years to keep rates low and to grow the investment.

- **Other municipalities who have decided to keep their Hydro assets are making the same decisions to receive dividends from their Hydro utilities, to the benefit of the general resident and business population through the tax base.** Toronto is an example. The Canadian Bond Rating Service discussion paper on this item (Document 1), shows the choices to be made by municipal taxpayers and their Councils around Hydro restructuring. In Western Canada, the City of Edmonton receives significant dividends on an annual basis from its Hydro utility. These dividends support the property tax base.

- **Ottawa Hydro assets have been paid for by City residents and businesses.** These stakeholders are also taxpayers. The value of Ottawa Hydro belongs to them in both capacities. Whether they receive these benefits of past investment in the form of municipal services and/or tax or hydro rate reductions, the key is that these benefits remain with them.

- **Hydro is a municipal service**. Even though it has long held an arms length relationship from other City services, this service has been paid for by Ottawa residents and businesses through a separate rate, like sewer services are paid through a separate rate.

- **The capitalization of Ottawa Hydro by using debt is the most cost efficient way of setting up the new companies in the new regulatory environment.** It is consistent with the private sector. It minimizes the amount of income taxes that would be paid by Hydro. The end result is that these lower costs generate a return which is available to the taxpayer/hydro ratepayer.

- **Ottawa Hydro's rates will not escalate as a result of earning a return on this investment.** The May 19th report to Council stated that the Ottawa Hydro cost component used in establishing rates in the new system will only be about 13%. Hydro rates in the future will be more highly influenced by the cost of energy. The May 19th report estimated that if Council were to require the full return on its investment, monthly Hydro rates would go up no more than 94 cents per month. The recommendations in this report envision that the City would not require the full return, but rather would leave some funds with Hydro so that it could manage its rates and costs.

Table 1 which follows, summarizes the revenue streams available in the City's budgets for the years 2000 to 2002 and onward.

Table 1
Summary Potential Revenue Streams to the City from Hydro Restructuring

Description of Revenue Source	Year 2000 (Millions)	Year 2001 (Millions)	Year 2002 onward (Millions)
Note receivable $10 million- payable to City on March 31, 2000 • assumes proceeds will be spent by City in 2000.	10		

Earnings on $105 million in debt capitalization: • interest paid by Hydro at 7% for 3 months to March 31, 2000. • investment income earned on cash payment due March 31, 2000 of $105 million at City's investment rate of 5.5% per annum (9 mos. in 2000, full year thereafter). • assumes proceeds will be reinvested by City to earn income.	1.8 4.4 6.2	5.8	5.8
Dividends • assumes market opens in fall of 2000, allowing for partial dividend on Year 2000 performance in 2001, and first full year dividend of $4 million by 2002. • dividend may exceed $4 million based on Hydro performance.		1	4
Total Revenues for City Budget	**16.2**	**6.8**	**9.8**

Recommendation 1
Refinancing of $115 million Notes Receivable

Recommendation 1 requires that the new Ottawa Hydro Utility Inc. will repay the $115 in notes receivable to the City as follows:

> $10 million payable in 2000, with $5 million due on June 1 and $5 million due on December 1, 2000. No interest is payable on this debt
>
> $105 million payable on March 31, 2000, with interest.

The Task Force has reviewed the financial situation of Ottawa Hydro and has determined that based on the existing cash reserves of Ottawa Hydro, there will be sufficient funds on hand to pay off the $10 million portion of the capitalized debt in the year 2000. These balances are presently on hand and invested by Ottawa Hydro. Based on Ottawa Hydro's forecast cash requirements in the Year 2000, Ottawa Hydro will require the cash for its own operations during the first part of the year but will be in a position to transfer the funds to the City later in the year. Thus the recommendations for equal $5 million payments in June and December, with no requirement for interest on the note.

At this time, the Task Force/Transition Board is of the opinion that the new Hydro Electric regime and markets will not be in place until at least the latter part of the year 2000. This means that since the new Corporation (Ottawa Hydro Utility Services Inc.) will begin operation on January 1, 2000, the first year interest payments on the $105 million in debt owed will also have to be funded from Ottawa Hydro's existing cash balances. The estimated $7 million annual interest charge that Ottawa Hydro will have to pay to either the City or an external lender in the year 2000, can be afforded from Ottawa Hydro's existing cash balances.

<u>Cash or paper debt?</u>

On day one, the new Hydro will be capitalized with $115 million in debt. Of that amount, $10 million will be paid to the City from existing Ottawa Hydro cash balances. The remaining $105 million can remain in perpetuity as a debt owed by Ottawa Hydro Utility Services Inc. to the City or can be paid off. The City would then either use the $105 million in cash proceeds for its own purposes or reinvest the $105 million to earn an annual investment income stream. Under both scenarios, Ottawa Hydro will have to pay approximately $7 million in interest on the $105 million in debt, be it to the City, if the debt continues in perpetuity, or to an external lender, if the debt is refinanced.

In May, Council expressed its intention that the debt be refinanced to allow for approximately $100 million in proceeds to the City. The Council motion stated the following:

> *"That City Council authorize the transition board of directors to consider the source of debt financing and commence the process of securing the debt financing of approximately $100 Million from an external lender."* (Approved by Council May/99)

Since May, members of the Hydro Task Force have met with various members of the lending community to obtain a better understanding of the issues at hand. As Council was advised in May, the Task Force/Transition Board has a high level of comfort that Ottawa Hydro Services Inc. will be able to access the $105 million on the external markets, with its own credit rating and in its own name.

Given this, Council is now being asked to confirm that it does want to refinance Ottawa Hydro Services Inc. so that the refinancing process can begin immediately. The utility will have to obtain its own credit rating and prepare various documents to enter in to the capital markets. There is a estimated 3 to 4 month time period required to effect this transaction.

Recommendation 1b that states that Ottawa Hydro Utility Services Inc. must repay the City on March 31, 2000, will be the catalyst to requiring Hydro to pursue the issuance of external debt. If Council approves this direction, the Transition Board will also approve a motion to proceed with the refinancing work.

It should be noted that in drafting the incorporating documents, the Transition Board will ensure that the mechanisms are in place to allow the City and Hydro to agree to a renewal of the paper debt instrument (note receivable/payable) beyond March 31, 2000, should the need arise.

In arriving at the recommendation to issue external debt, several criteria have been reviewed. These are outlined in Table 2 which follows.

While there are several criteria, they are likely not all of equal value.

The recommendation to refinance externally will mean that the Ottawa taxpayer/ratepayer will see the immediate result of his past investment in Ottawa Hydro. The cash paid to the City is far more liquid than a note receivable. It is a payment today, instead of a promise of a payment in the future. This security in payment has influenced the recommendation. While this report envisions that the City will not spend these cash balances, the fact that these funds are invested solely in the interest of Ottawa taxpayers will be of some security in ensuring that the asset value remains with the Ottawa taxpayer/ratepayer.

Recommendation 3 to this report envisions that the $105 million in proceeds will remain as a cash balance on the City’s balance sheet. This cash balance will be almost equal to the City’s own debt for municipal purposes which is forecast to be $106 million at the end of the year 2000. This is discussed further under “Reasons for Recommendation 3". The maintenance of this cash balance will allow for an annual investment income return to the City which can be incorporated in the City’s budgets.

Council should note that this requirement to refinance immediately would produce a lower ongoing annual return to the City than if the City were to keep the hydro debt as a note receivable from Hydro in perpetuity. If the debt remains “paper debt”, the City would earn from Hydro, the external lending rate of some 6.75% to 7%. If the City instead takes a cash payment from Hydro and reinvests the proceeds, it can earn a return in the range of 5.5% to 5.8%. The difference in rates between the external lending rate and the investing rate means that on an annual return basis, the City is better off by about $1 to $1.5 million per year through the internal debt instrument. The external lending rate is higher due to the different risk profile and cost of debt issuance for underwriters, rating agencies and lawyers. Investment earnings by the City are generally lower because municipalities can only invest in very safe securities which earn a lower rate.

In forming the recommendation, staff see the security offered by the immediate cash payment, coupled with the ability to match the City’s debt, to be of greater weight than the possibility of earning a higher annual return on an ongoing basis.

Table 2
Evaluation of comparative criteria for internal vs. external debt issuance

Criteria	Best Under:	SCENARIO A City retains note receivable from Hydro in perpetuity	SCENARIO B City requires Hydro to refinance note receivable through external capital markets (Recommended)
Initial lump sum payment	B	$10 million • from Hydro excess cash .	$10 million • from Hydro excess cash. $105 million • from external markets.
Annual return to City	A	$7 million • payment made by Hydro to City. • calculated at assumed external market rate on 105 million.	$6 million • calculated at City's investment rate on $105 million.
Costs to issue debt (one-time costs borne by Hydro)	A	Nil	$1.0 to $ 1.5 million
Governance considerations	B		• available for increasing services to Ottawa ratepayers/reducing taxes for those who previously contributed to the asset.

Criteria	Best Under:	SCENARIO A City retains note receivable from Hydro in perpetuity	SCENARIO B City requires Hydro to refinance note receivable through external capital markets (Recommended)
Volatility of revenue sources to City	B	• possibility that Hydro may ask the City to reduce or suspend interest payments. • within City's control to accept.	• immediate influx of large revenue source is guaranteed. • City may choose to erode $105 million by spending over time on one-time items, causing problems if operating expenditures dependent on annual investment return.
Ability to reduce the City's debt	B	NIL	• $105M could be invested in strip bonds dedicated and appropriately timed to meet debt maturities; alternately, the amount could be reinvested by the City in reserves and remain on the B/S dedicated towards offsetting municipal debt. • matching City's debt is positive from a credit rating perspective for the Region and its municipalities (see CBRS - Document 1)
Accounting and reporting implications to Hydro	A		• fairly rigorous process for preparing prospectuses and meeting ongoing reporting requirements if in external markets.

Criteria	Best Under:	SCENARIO A City retains note receivable from Hydro in perpetuity	SCENARIO B City requires Hydro to refinance note receivable through external capital markets (Recommended)
Hydro's ability to seek future cash for expansion by Hydro	B		• would already have experience in external debt markets.
Hydro operating restrictions and governance	A/B		• restrictive covenants on expansion etc. By third party could be more onerous than City's. • External lending could bring rigor in a positive sense to the business and decision making processes at Hydro.

Recommendation 2
Use of $10 Million Cash Proceeds on Note Receivable from Hydro

Recommendation 2 states the following:

That the $10.0 million payment on the note receivable due in the June and December 2000 be incorporated in the Year 2000 capital and operating budgets as follows:

a. $4 million to the operating budget to reflect the long term minimum dividend earning potential;

b. the balance of $6 million to the capital budget as it is a one-time revenue source.

Hydro restructuring will result in a one-time revenue of $10 million in the Year 2000 from proceeds on the $10 million note receivable on the transfer of Ottawa Hydro's assets by the City to Ottawa Hydro Services Inc.

In addition, starting in the year 2001 it is anticipated that the City will begin to receive annual dividends from its equity interest in Ottawa Hydro Services Inc. The Task Force/Transition Board has agreed that as a minimum, the dividend that can be earned by the City from Hydro is $4 million per year starting in 2002. The dividend will be the City's return on equity. The return allowed by the rate structure will likely be on only the $68 million in equity, excluding the present $20 million in contributed capital. The proposed regulatory rate structure would allow for returns on equity which would generate approximately $6 million maximum per year in dividends (9% on $68 million). Allowing for some flexibility remaining with the new board to declare dividends, the Transfer By-Law will only state a minimum requirement of $4 million per year in dividends. Because the first full year of operation is anticipated to be 2001, the dividend estimated to be received in 2001 is approximately $1 million.

Given the annual $4 million future dividend, this recommendation anticipates that up to $4 million of the $10 million in cash proceeds from the note receivable can be incorporated in the operating budget for the Year 2000.

The balance of $6 million from the cash proceeds should be used on one-time expenditure items, such as the capital budget, as it is a one-time revenue source.

In terms of operating budget expenditure requirements, Council has previously been advised that the Year 2000 operating budget will require additional funding to accommodate increased labour costs associated with arbitrated labour settlements and Council's own labour settlements pertaining to the years 1996 through to 2000. Given this funding pressure in the Year 2000 operating budget, staff are recommending that $4 million of the anticipated $10 million cash payment be directed to the operating budget for the Year 2000.

The recommended $6 million to be directed to the capital budget will allow the City to fund its capital maintenance program for existing infrastructure such as roads and buildings. In turn, this new revenue source would allow funds previously required to fund the maintenance program to be available to advance capital projects previously deferred due to lack of funding. Staff are cautioning that as in past capital budget recommendations, no new projects be undertaken until all required capital maintenance projects are funded to the level needed to ensure the City's existing infrastructure is maintained. Preliminary capital budget projections indicate that through a combination of the City's aggressive debt retirement strategy, and with the added benefit of realizing on a small portion of the City's investment in Hydro, the capital program may be accelerated to incorporate some new spending.

Council will confirm its allocation of these funds to specific capital projects and operating budget expenditures during its deliberations on the Year 2000 budget.

Recommendation 3
Use of Funds from $105 Cash Proceeds on Payment of Note Receivable by Hydro

Recommendation 3 states that the $105 million received as payment on the note receivable due in March 2000 be reinvested by the City in its entirety, and that the annual interest income earned from these investments, be incorporated as a revenue source in the preparation of the Year 2000 operating budget and in future years' operating budgets.

The $105 million in cash will become available if Council approves recommendation 1 to this report which states that the note receivable will be repaid to the City in March 2000. It should be noted that if Recommendation 1(b) is not approved, there will still be an ongoing income stream available to the City in the form of interest payments directly from Ottawa Hydro on the note receivable.

Approval of Recommendation 3 will see the use of $6.2 million in increased investment income being available to offset expenditure pressures in the Year 2000 operating budget. Similarly, if the $105 million in funds received upon payment of the note is reinvested in its entirety and remains on the balance sheet to offset the City's debt, the interest earned on this investment will be available as an income source in future operating budgets. In future years, the estimated interest earned will be slightly lower, at $5.8 million, than the Year 2000 amount due to the higher first quarter interest payment due on March 31, 2000 (Refer to Table 1).

In preparing Recommendation 3, staff reviewed the 4 choices that Council has when determining what to do with the $105 million in cash proceeds received through the external refinancing:

- Invest the $105 and earn an annual income stream. The principal amount of $105 million would remain on the City's balance sheet in investments and would offset the existing $106 million in City debt forecast for year end 2000. This is the staff recommendation.

- Spend the $105 million on new projects.

- Approve a one-time tax reduction or Hydro rate reduction. Effectively, this amount of funds would grant a full one year tax holiday on the City's share of the annual property tax bill.

- A combination of the above three options.

Staff are recommending the matching of the City's debt on the balance sheet, with the annual earnings from the investment being directed to offset operating budget expenditures (choice #1).
As these investment earnings will be ongoing, it is appropriate to incorporate some or all of this revenue item in the city's annual operating budget. It should be noted that should Council wish to spend a portion of the $105 million, the annual income generating potential will be depleted accordingly.

Operating budget expenditures include debt payments, and additional pressures starting in the Year 2000 for labour issues. In addition, Hydro Electric Restructuring in Ontario will see the loss of some $1.9 million per year in payments in lieu of property taxes from Ontario Hydro to other municipalities in Eastern Ontario. These funds will help absorb these losses.

Consultation

The Ottawa Hydro Task Force agreed with the recommendations of this report.

Disposition

Ottawa Hydro Task Force.

List of Supporting Documentation

Document 1 Canadian Bond Rating Service: Rating Implications for Municipal Credit Profiles (August 1999)

Part II - Supporting Documentation

Canadian Bond Rating Service

Canada's National Rating Agency - Serving Investors Since 1972

220 Bay Street, Suite 901, Toronto, Ontario M5J 2W4

Telephone (416) 956-4870, Facsimile (416) 956-4902

August 1999 Filing Instructions: File along with all prior CBRS Municipal reports Volume I – Ontario

CBRS Case Study: Rating Implications for Municipal Credit Profiles

EXECUTIVE SUMMARY AND INTRODUCTION

Canadian Bond Rating Service (CBRS) has prepared its third policy paper in its series of research documents respecting Ontario municipal electric utilities (MEU's) and the credit implications for their municipal owners under the provisions of Bill 35, and its relevant schedules, including the Electricity Act, 1998. Our first paper (April 1999) broadly introduced the strategic options available to municipalities as well as the credit rating ramifications in that decision making process. The second paper (June 1999) outlined CBRS's credit rating methodology respecting ownership of electric utilities for municipalities to consider as they proceed to incorporate their MEU's into separate corporations pursuant to the provisions of the Ontario Business Corporations Act (OBCA), before the November 7, 2000 deadline imposed by the Province. As noted in prior reports, open access of the electricity market is to be established no later than December 31, 2000 and municipalities must create stand-alone companies to clearly separate the regulated distribution business from the competitive energy retailing business so that cross-subsidization does not occur. This report will focus on the disposition of the regulated distribution company since it represents the most significant and valuable component of this new municipal asset.

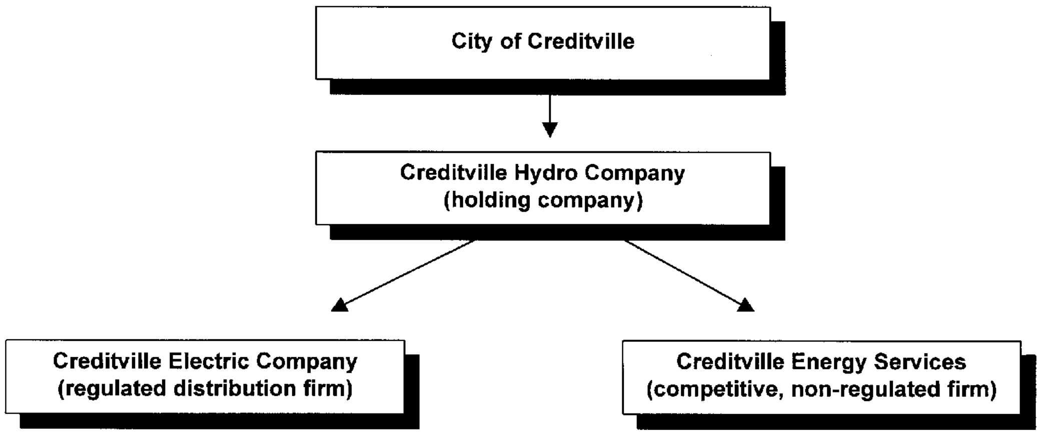
The strategic options available to municipalities are somewhat more complex, but for our analytical debt rating perspective, CBRS broadly notes that a municipality may choose to: a) sell its ownership interest; or, b) retain the asset, in whole or in part, and participate in a changing electricity market environment. This case study of a hypothetical municipality is intended to demonstrate that either the sell or retention strategy should enhance a municipality's credit position. Furthermore, it will provide quantitative comparisons to illustrate the positive financial effects of these options on a municipality's capital structure. Our analysis is more of a quantitative exercise with a clear credit focus; however, CBRS recognizes that qualitative factors may influence the municipal decision to sell or retain its electric utility. For example, a municipal Council may elect to retain the electric utility to maintain control over the delivery of an essential service to its tax base and also in recognition of its strategic importance as a tool for economic development. The Province of Ontario's 33% tax levy, which applies to the sale of MEU's to private interests and expires in November 2000, will also play a role in the municipal decision making process.

CBRS has begun 1999 rating reviews respecting its portfolio of municipal credits and we note many capital funding challenges that may exacerbate medium term borrowing requirements. The Province of Ontario has downloaded many capital-intensive services, including transit, roadway maintenance, homes for the aged rehabilitation and social housing, as well as responsibility for up to one third of the cost of hospital renovations. In addition, the general ageing of infrastructure, at a time when senior government capital grants are diminishing, is a cause for concern and municipal debt profiles may deteriorate in funding this growing infrastructure deficiency. While the Province may have imposed a capital funding burden on municipalities via its Local Services Re-alignment, the transfer of electric utilities to municipalities represents a tangible asset that may provide value in excess of those capital obligations. It is difficult to exactly quantify the Province-wide impact of future capital costs downloaded to municipalities versus the cash flow benefits that may be derived from the electric utility transfer; however, CBRS will review this relationship on a case by case basis.

Although there are many factors in determining a municipality's credit rating, there is the possibility that in some cases the financial benefits of the electric utility transfer may exceed the costs associated with provincial downloading.

RATING ANALYSIS

If the municipality's decision regarding the electric utility disposition were purely a financial matter, it would simply require determining the present value of future cash flows for both the sell and retention options discounted at an appropriate interest rate to reflect the riskiness of those cash flows. In either the sell or retention option under our case study, the hypothetical municipality, the City of Creditville, must establish OBCA companies. The following is a proposed organizational structure from which the municipality may either sell or retain its electric utility interest, although we note there are other organizational forms a municipality may choose. A holding company is not essential but it provides a common framework from which the municipality may manage the electricity assets. In addition, our analysis applies only to the distribution aspect of the utility business.



The chart below provides the assumptions for the City of Creditville and it should be noted that we have created a scenario in which the cash inflows from either option are approximately the same.

Assumptions: Creditville Electric Company Inc.

Assumed Creditville Electric Company Credit Rating	A (Low)
Cost of Debt	6.50%
Cost of Equity	10.00%
Capital Structure Ratio	60/40, Debt to Equity
Weighted Average Cost of Capital	7.90%
Book Value of Distribution Utility	$600 M
Debt Following Re-Capitalization	$360 M
Equity Following Re-Capitalization	$240 M
	$600 M
Dividend Payout Ratio	65%
Annual Net Income	$60 M
Book Value Multiple for Sale Option	1.8 X
Investment Income on Sale Proceeds	5.80%
Outstanding City of Creditville Debt	$360 M
City of Creditville Credit Rating	AA-

CBRS recognizes that the financial conditions and circumstances for MEU's are more dynamic and complex than under this scenario; however, this simplistic model serves to better demonstrate our municipal credit rating perspective.

(A) Annual Cash Flow Generated by Sale Option:

$600 M * 1.8 X multiple * 5.80% investment rate
= $62.64 M

(B) Annual Cash Flow Generated by Retention Option Following Re-Capitalization:

Interest Payment from Utility to Municipality	= $360 M * 6.50 %	= $23.4 M
Dividend Payment from Utility to Municipality	= $60 M * 65%	= $39.0 M
		$62.4 M

Both options generate similar levels of income and the municipality carries a $600 M asset on its balance sheet. In the sale option, the municipality has a $600 M endowment fund type asset from which it may generate interest income, while in the retention option, the municipality has a utility asset with a $600 M book value from which it generates dividends and interest income following re-capitalization. The sale option is fairly self-explanatory; however, before CBRS describes the more complex mechanics of the re-capitalization transaction it should be noted that the $600 M municipal asset under each scenario carries different risk characteristics.

The sale of the utility provides a cash windfall from which easily marketable and relatively risk-free investments may generate income for the municipality, although the asset value does not rise unless the income proceeds are re-invested rather than deployed to the capital or operating budget. The retention strategy establishes a long-term investment asset with a value that may rise or fall depending on asset performance and managerial stewardship of the electric utility. The distribution asset is a regulated business with monopolistic characteristics but there exist risk factors in the ownership of this municipal asset. CBRS notes, however, that over the long-term, the retention strategy could prove to be more valuable since the asset may appreciate (while providing similar income streams to the sale option) if the utility is well managed and undertakes investment decisions that enhance its value.

Re-Capitalization of Creditville Utility in Retention Strategy

(i) Why Should Creditville Consider Re-Capitalizing its Financing Structure?

As the electricity industry enters an open style marketplace, local utilities incorporated under OBCA provisions will need to adhere to commercial management principles and commercial financing strategies. A utility regulated by the Ontario Energy Board with monopolistic characteristics in the distribution of electricity to its local service area will generate relatively stable revenue levels, earnings and cash flow. Accordingly, this type of low volatility business can withstand a higher degree of financial leverage and an appropriate use of debt financing can enhance the value of the utility for the municipal shareholder.

Typically, electrical distribution utilities are rated in the high "BBB" to mid "A" category by CBRS and the following advantages may accrue to the Creditville Electric Company by shifting its capital structure from 100% equity to a 60%:40% debt to equity capital structure:

- Until capital market debt re-finances the debt obligation between the City of Creditville and the Creditville Electric Company (described in section ii below), the municipality is guaranteed an income stream from interest payments. Unlike dividend payments, those interest payment cash flows are not influenced by corporate performance or Board of Director policy decisions.
- Debt service interest expense reduces the income tax burden since it is deductible for tax purposes.
- The value of the firm and its return on equity should be enhanced by the use of debt and a reduced tax burden.
- The average cost of capital is lower with a debt component in the capital structure when compared to a pure equity financing structure.

A reasonable capital structure will also permit the utility to obtain an appropriate credit rating to procure debt financing in public capital markets should it wish to re-finance debt owed to the municipality. CBRS discusses this process as part of its discussion respecting re-capitalization below.

(ii) How does Creditville's Re-Capitalization Occur?

Regardless of the municipality's choice to sell or retain, it must execute transfer by-laws necessary to effect the transfer of distribution assets from the City of Creditville to Creditville Hydro Company. Assuming the transfer by-law is in place and the City wishes to re-capitalize the distribution company to a 60%/40% debt to equity structure, the following inter-company transactions will take place.

- City of Creditville will transfer all distribution assets and liabilities ($600 M book value per assumptions above) to Creditville Electric Company in exchange for a $360 M long-term, 6.5% note receivable and a $240 M long-term investment in the Creditville Electric Company.
- Creditville Electric Company, in exchange for all the distribution assets and liabilities ($600 M book value), issues a long-term, 6.5% note payable to the City of Creditville and records a $240 M municipal equity interest.

This transaction achieves the desired 60%/40% re-capitalization and may be observed in isolation by the following journal entries.

City of Creditville

Dr. LT Equity Investment	$0.24 B	$ 0.6 B	Cr. Transfer Distribution Assets
Dr. LT Note Receivable	$0.36 B		

Creditville Electric Company

Dr. Receipt of Distribution Assets	$0.6 B	$0.36 B	Cr. LT Note Payable
		$0.24 B	Cr. Shareholder Equity

This capital structure ties in to our earlier calculation of $62.4 M in annual cash inflows to the City of Creditville by virtue of the 6.5% receipt of interest payments on the $360 M long-term note receivable and the dividends expected to be received on a projected $60 M net income.

Treatment of Principal Outstanding and Public Market Re-Financing

The transaction between the City and the utility can be structured so that the payment of principal to the municipality:

(a) does not occur (perpetual debt on utility balance sheet);
(b) occurs in a systematic manner to slowly retire the liability; and/or,
(c) may be achieved by a capital market re-financing via a debt issue in the utility's own name and on its own credit.

CBRS will focus on the capital market re-financing option, although we note that a municipality does not have to pursue this strategy and may maintain the long-term note payable/note receivable relationship between itself and its electric utility.

In our assumptions described earlier, CBRS has determined that the Creditville Electric Company has received an "A (Low)" credit rating and will now access the debt capital markets to re-finance its long-term debt position. Public investors will now replace the City of Creditville as the utility's creditor. The $360 M public debt issue will not carry a municipal guarantee and will be based upon the utility's credit characteristics, which are summarized in it's "A (Low)" credit rating. Following this transaction, the asset-liability position of the utility and the City will differ as follows:

- The $360 M in proceeds from the public debt issue will retire the Creditville Electric Company's long-term note payable to the City of Creditville. The Creditville Electric Company will still maintain a 60% debt financing component on its balance sheet but it now has a long-term debt obligation to public investors in lieu of the municipality.
- The $360 M debt proceeds received from the Creditville Electric Company will eliminate the City of Creditville's long-term note receivable from the utility and create a liquid asset.

Regardless of the public market debt deal, the City of Creditville still carries a $240 M equity investment in its utility; however, the receipt of debt proceeds from the utility allows the City to unlock some liquidity in the re-capitalization process. The municipal asset position is unchanged at $600 M but its composition has become less risky. The cash proceeds received from the utility represent a liquid asset that must be considered less risky than a long-term note receivable asset.

When compared with the option to sell the utility, the process CBRS has described demonstrates how the retention strategy may allow a municipality to unlock value from its utility but still maintain full ownership and control. The net proceeds available to a municipality in this option are less than an outright sale but it provides the upside potential of utility value appreciation along with partial proceeds from the utility's public debt issue.

CBRS notes that this process may improve municipal credit since public capital markets have replaced the City as the utility creditor and provided the municipality with a liquid source of funds that may defease outstanding debt and/or alleviate capital or operating budget pressures. We discuss the importance of the disposition of these funds below.

Implications of Re-Capitalization from CBRS's Credit Perspective

Now that the hypothetical re-capitalization and public market re-financing has occurred, CBRS describes the impact this process may have on municipal credit profiles.

(i) Municipal Debt Perspective on a Consolidated basis.

As noted in our assumptions table on page 2, the City of Creditville carried $360 M in outstanding municipal debentures prior to this transaction. The public market re-financing provides the municipality with a $360 M cash inflow that retires the long-term note receivable from the utility and allows the City to establish an asset that may defease outstanding municipal debt. This new $360 M asset may cause net municipal debt to be zero by: a) investing a portion of the net proceeds in strip bonds dedicated and appropriately timed to meet the municipal debt maturity schedule; or, b) the asset principal remaining on the balance sheet in an amount equal to, and dedicated towards, off-setting outstanding municipal debt. In either of the scenarios described in (a) and (b) above, the net proceeds received by the municipality may also alleviate capital and operating budget challenges. The strip bond dedication will not require the allocation of operating funds to retire serial or sinking fund debt as it becomes due and the discounted purchase of strip bonds permits the remaining funds to earn an investment return that may be deployed for capital or operating purposes. Option (b) - the maintenance of a $360 M endowment fund will generate investment income on the entire proceeds that may be deployed towards operating or capital purposes, including debt servicing and debt retirement.

Looking at the re-capitalization in isolation and on a consolidated basis, the City of Creditville's net debt outstanding has not changed. The transaction has established a new $360 M asset that may off-set $360 M in municipal debt but has created a $360 M Creditville Electric Utility market debt obligation via the capital market debt offering. In our June 1999 MEU research report, CBRS concluded that utility debt issued in its own name and not guaranteed by the municipality does not carry the same negative and dilutive effect on municipal credit as debt issued in the name of a municipality on behalf of its utility. Although a municipal tax base and the local service area for electricity rate-payers are generally parallel and similar, CBRS views credit differences in debt issued by a municipality and debt issued by a utility serving that municipality.

CBRS has noted that the critical difference between utility and municipal based debt is that local government debt obligations carry an enforceable security interest in the property upon which local taxes are levied whereas stand-alone utility debt carries no such security interest. Beyond that secured asset difference, CBRS also notes that a municipality can re-capture management and expenditure variances in future tax-setting, while the regulatory approval process for utilities may exclude such a cost re-capture in its future rate structure. In short, the $360 M in Creditville Electric Utility debt is less risky to the consolidated City of Creditville credit position because the utility debt is not directly supported by the local tax base and carries no enforceable security interest in the taxable assessment base.

The defeasance of $360 M in municipal debt may eliminate the City of Creditville's net debt and provides future funding flexibility to issue municipal debt to meet capital budget challenges. Although we view the above re-capitalization process as potentially improving municipal credit and enhancing financial flexibility with additional municipal borrowing capacity, CBRS does not advocate that municipalities undertake significant borrowing activities simply because additional credit capacity exists. The fact that municipal credit profiles may benefit from debt issued by a utility in its own name to achieve public market re-capitalization does not imply that a local government can issue new municipal debt to fully replace the defeased municipal debt without consequences to its credit profile.

An example from CBRS's current municipal portfolio demonstrating a potential improvement in credit via utility debt issuance is the City of Edmonton and its wholly-owned electric utility, EPCOR Utilities Inc. Given the "A+" rating on City of Edmonton debt and the "A" rating for EPCOR, it also demonstrates the credit rating differential CBRS perceives between municipal and utility debt with essentially the same service area. The City of Edmonton's debt profile should improve over time as EPCOR issues debt in its own name to re-finance maturing City of Edmonton debt initially issued by the City on behalf of the utility.

By comparison to the Edmonton example and given the above analysis, the City of Creditville could potentially expect an improvement in its credit rating as a result of the re-capitalization (via the utility public debt issue), which has effectively defeased its municipal debt.

(ii) Disposition of proceeds

Any improvement in a municipal credit profile is not made in isolation and CBRS would review the use of the proceeds received by a municipality. For example, if Creditville spent the $360 M in net proceeds from the utility public debt issue on discretionary projects rather than establishing a liquid asset to off-set its municipal debt liabilities, an improvement in credit rating would not likely occur.

An improvement in credit profile generally implies an improvement in the forward-looking capital structure or that the asset base supporting the debt has strengthened. In this context, Creditville's elimination of its net debt by the establishment of a liquid asset to fully off-set its net debt, combined with the addition of an equal amount of debt, on a consolidated basis, via the utility debt issue (that we perceive as less risky), improves the capital structure. In addition, the investment earnings generated from the liquid fund can be directed towards operating and capital budget demands, which may also improve the forward-looking capital structure and alleviate the financial burden on the municipality's main asset – its tax base.

SUMMARY

CBRS concludes that improvements in municipal credit profile may occur from the Province of Ontario's transfer of utility assets to local governments by virtue of: a) an expanded asset base from which current debt obligations may be serviced; and, b) the ability to mitigate future debt financing needs for capital projects with incremental cash flows from that utility asset. CBRS

Paul Calder, CFA, (416) 956-4870, ext. 227
pcalder@cbrs.com
Damian Di Perna, (416)-956-4870, ext. 221
ddiperna@cbrs.com

This page intentionally left blank

City of / Ville d' Ottawa

September 21, 1999

ACS1999-CO-ECD-0001
(File: RBM 1690/36)

Office of the Chief Administrative Officer

Ward/Quartier
OT3 - Southgate

- Policy, Priorities and Budgeting Committee / Comité des politiques, des priorités et des budgets
- City Council / Conseil municipal

Action/Exécution

Interpretation/Interprétation

3. Sale of Surplus City Property - Lots 43 and 44 - Ottawa Business Park

Vente de propriétés municipales excédentaires - Lots 43 et 44 - Parc commercial d'Ottawa

Recommendation

That the sale of 3.051 hectares (7.54 acres) of land in the Ottawa Business Park to Chello Building Corporation, as detailed in the attached Agreement of Purchase and Sale (Document 1.), be APPROVED.

September 21, 1999 (4:13p)

John Burke
Chief Administrative Officer

MC:mc

Contact: Mitchell Cogan - 244-5300 ext. 1-3449

Financial Comment

Subject to City Council approval, the net proceeds of $1,508,000. will be credited to the General Capital Reserve Fund account 5332711 9931.

Bruce Helliker
September 22, 1999 (9:15a)

for Mona Monkman
City Treasurer

BH:cds

Executive Report

Reasons Behind Recommendation

In December, 1998, Chello Building Corporation entered into a conditional Agreement of Purchase and Sale to acquire City owned lands at the southwest corner of Walkley and Conroy Roads in the Ottawa Business Park. They plan to construct a multi-tenant retail and office project in various phases, which could total up to 100,000 sq. ft of new development when fully completed. They have also contemplated the addition of a new concept combination gasoline and retail sales facility on the site, which would require a re-zoning to be permitted. This use and potential re-zoning is not a condition of this sale and would be subject to the normal planning processes if the purchaser decides to submit an application in the future.

The major elements of the agreement are as follows:

- area of 3.051 hectares
- purchase price of $1,508,000.00, or $494,264 per hectare ($200,000 per acre)
- deposit of $100,000 with interest accruing to the City.
- amended closing date of October 20, 1999.
- GST payable by the Purchaser
- closing conditional upon City Council approval, with all other conditions having been waived by the Purchaser
- City preparing a registerable survey plan

- real estate brokerage fee of 5% payable to Albert Gale Real Estate and GEC Simpson Realty Inc, and to be deducted from final sale closing amount.

This sale is recommended for the following reasons:

- an independent appraisal (copy on file with the Department) has verified that the purchase price is consistent with current market values.

- the sale will allow for the planned immediate construction of 4,645 sq. m. (50,000 sq. ft) of retail space and up to 6,500 sq. m. (70,000 sq. ft.) in the future.

Economic Impact Statement

Beyond the immediate financial benefit to the City, there is no economic impact. However, when the site is developed, there should be a significant economic impact.

Environmental Impact

No environmental impact is anticipated as the recommendation falls within the MEEP Automatic Exclusion List - Section I a) Administrative and Personnel Services.

Consultation

There has been consultation with the Ottawa and Hawthorne Business Parks Association to inform them that a retail project is planned to be constructed on this site.

Disposition

Department of Corporate Services, Office of the City Solicitor, to prepare the necessary documents to complete the transaction.

List of Supporting Documentation

Document 1 Agreement of Purchase and Sale

Part II - Supporting Documentation

Agreement of Purchase and Sale — Document 1

PURCHASE AND SALE AGREEMENT

BETWEEN:

THE CORPORATION OF THE CITY OF OTTAWA

(the "**Vendor**")

AND:

CHELLO BUILDING CORPORATION

(the "**Purchaser**")

1. The Purchaser agrees to purchase from the Vendor the property, (the "Real Property"), situated in the City of Ottawa, Regional Municipality of Ottawa-Carleton, more particularly described in Schedule “A” attached hereto, hereinafter referred to as the “Real Property” on all the following terms and conditions.

2.(a) The purchase price of the Real Property shall be $1,508,000.00 in lawful money of Canada based upon an area of 7.54 acres (subject to variation upon completion of a Reference Plan) at $200,000.00 per acre payable as follows:

(i) The sum of $50,000.00 to be paid to the Vendor upon acceptance of this Agreement as an “Initial Deposit” and an additional $50,000.00 “Final Deposit” to be provided on February 16, 1999., both deposits to be held in trust pending completion or other termination of this Agreement, Interest on the Initial and Final Deposits shall accrue to the benefit of the Vendor; and

(ii) The balance of the purchase price, subject to adjustments, shall be paid to the Vendor on closing by certified cheque.

2.(b) The sum of $5,000.00 which is included in the Initial Deposit, shall be non-refundable, subject to paragraphs 5 and 20 below, if this Agreement is, for any reason, terminated or if the transaction of the purchase and sale is, for any reason, not completed.

3. The closing date for this transaction shall be June 30, 1999, (the "Closing Date") or at a mutually agreed to earlier date, should the Purchaser wish to close on such earlier date, when vacant possession of the Real Property shall be given to the Purchaser.

4. Any Goods and Services Tax (GST) applicable to this transaction shall be in addition to and not included in the purchase price. If GST is payable, and if the Purchaser is a registrant for purposes of GST, the Purchaser may choose to self-assess in respect of GST and to provide to the Vendor before the closing date evidence that the Purchaser is a registrant for purposes of GST.

5. The obligation of the parties to complete this transaction is conditional upon the Council of the Vendor ("City Council") accepting and approving this purchase and sale transaction. Should City Council not approve this transaction, full amount of the deposits, despite paragraph 2(b) above, shall be returned to the Purchaser.

6.(a) The obligation of the Purchaser to complete this transaction is conditional upon:

(i) the Real Property being, at the Closing Date, zoned to permit stand alone retail development.

(ii) the Purchaser, having until February 15, 1999, being satisfied in its sole and absolute discretion of estimates of site work and development costs for the intended development, failing which this Agreement shall be null and void and the Purchaser’s deposits (except for the $5,000.00 as noted in paragraph 2(b) above) shall be returned to the Purchaser.

(b) The Purchaser shall deliver notice(s) in writing to the Vendor, within the respective times stipulated to fulfil these conditions, confirming that these conditions are satisfied, not satisfied or waived and failing receipt of such notice(s), these conditions shall be deemed to be satisfied.

7. The Purchaser shall be permitted access to the Real Property to carry out the soil tests pursuant to subparagraph 6(a)(ii) above. The Purchaser shall save harmless and indemnify the Vendor at all times during such period of access and shall be liable for all claims, damages and losses howsoever arising from any action taken by itself, its agents, subcontractors, workers or invitees with respect to such access and soil tests. The Purchaser shall reinstate the Real Property, after conducting the soil tests, to the state in which the Real Property was prior to such soil tests, to

the satisfaction of the Vendor.

8. The Vendor shall, at its expense, have prepared by a qualified Ontario Land Surveyor, a plan of survey/reference plan showing the extent of the Real Property, and shall provide a registerable legal description of the Real Property prior to the Closing Date.

9.(a) On the Closing Date, the Vendor will deliver a good and marketable title to the Real Property free from encumbrances, except (i) any subdivision, site plan or other agreement with The Corporation of the City of Ottawa or The Regional Municipality of Ottawa-Carleton and (ii) any utility easement affecting the Real Property or any registered rights-of-way or other registered easements, registered restrictions or covenants that run with the land, provided that such are complied with and do not materially and adversely affect, the value, use or enjoyment of the Real Property for the purpose of which the property is being used.

9.(b) The Purchaser has until one hundred (100) days after the date of acceptance hereof, (the "Requisition Period") to examine the title to the Real Property. If the Purchaser has any valid objection to the title the Purchaser must deliver a written description of the objection to the Vendor before the expiry of the Requisition Period. Then, if the Vendor, acting reasonably and in good faith, is unable or unwilling to satisfy the objection, and the Purchaser will not withdraw it, the Vendor may cancel this Agreement despite the Vendor's attempts to clear the objection or despite discussions with the Purchaser about it. Under these circumstances, the deposit (except the $5,000.00 pursuant to paragraph 2(b) above) shall be returned to the Purchaser and the Vendor and the Purchaser shall have no further liability to the other.

9.(c) The Vendor shall not be bound to produce any abstract of title or title deeds or any other evidence of title except as are in its possession.

10.(a) In this paragraph, "Hazardous Materials" means any contaminants, pollutants, substances or materials that, when released to the natural environment, could cause at some immediate or future time, harm or degradation to the natural environment or risk to human health, whether or not such contaminants, pollutants, substances or materials are or shall become prohibited, controlled or regulated by any government authority and any "contaminants", "dangerous substances", "hazardous wastes", "industrial wastes", "liquid wastes", "pollutants" and "toxic substances", all as defined in, referred to or contemplated in federal, provincial and/or municipal legislation, regulations, orders and/or ordinances relating to environmental, health and/or safety matters.

(b) The Vendor warrants that to the best of the Vendor's knowledge there are no

Hazardous Materials on or affecting the Real Property except in substantial compliance with all laws, regulations, or orders rendered by any government authority, whether on or below the surface of the Real Property or located in structures or buildings erected thereon, including, without limitation, any urea formaldehyde foam type insulations, any asbestos or building materials containing asbestos, gasoline, PCB's or radioactive substances, nor, to the best of the Vendor's knowledge, are any Hazardous Materials present on properties currently owned by the Vendor adjacent to the Real Property which would affect the uses to which the Real Property may be put or the market value thereof.

(c) The Vendor further warrants that it has not received notice of and has no knowledge, of any pending, contemplated, or threatened litigation or claim for judicial or governmental administrative action relating to the use of the Real Property by the Vendor or the Vendor's predecessors in title, the existence on the Real Property of, or leakage from the Real Property of, Hazardous Materials.

(d) The Vendor further warrants that it has not received notice of, nor does the Vendor have any knowledge or information regarding, any compliance notice, order, directive, request, or advice from or issued by any government authority relating to the existence on, or leakage or emission from the Real Property of any Hazardous Materials.

11. All adjustments, including taxes, shall be made as of the date of closing.

12. The parties covenant and agree that the Real Property shall be subject to all statutes, by-laws, notice(s), orders, rules or regulations of all municipal, regional and other governmental authorities which are of general application, and specifically, shall be subject to Site Plan Approval under the provisions of the Planning Act, R.S.O. 1990, Chapter P.13.

13. Tender may be validly and effectively made upon the designated solicitors for the party being tendered upon. Payment must be made or tendered by certified cheque drawn on a Canadian chartered bank or trust company.

14. This Agreement is effective only if it does not offend the Planning Act, R.S.O. 1990, Chapter P.13, as amended, from time to time.

15. The Vendor confirms that the Vendor and any other person having to sign the Transfer will be residents of Canada on the Closing Date.

16. The Purchaser's lawyer will prepare the Transfer and it shall be registered at the Purchaser's expense.

17. Any written notice or delivery concerning this Agreement shall be made to either

party, their lawyers or their agents at their respective last known addresses and may be made by facsimile. The facsimile copy or its transmission receipt is sufficient evidence of the original notice or document so delivered in this fashion.

18. The successors and assigns of the Vendor and the Purchaser are bound by and may benefit from the terms of this Agreement.

19. All the time periods and dates referred to in this Agreement must be strictly observed by both parties.

20. This offer shall be irrevocable by the Purchaser until 5:00 p.m. on the 10th day of December, 1998 (the "Irrevocable Date"), after which time, if not accepted by the Vendor, this offer shall be null and void and of no further force and effect and the deposits, despite paragraph 2(b) above, shall be forthwith returned to the Purchaser.

Purchaser's Acceptance signed on December 7, 1998.

CHELLO BUILDING CORPORATION

Original Signed by John Mazzarello

____
PER:

I/We have the authority to
bind the Corporation.

The lawyer for the Purchaser is;

Peter Vice
Vice & Hunter Barrister
344 Frank Street
Ottawa, Ontario

Vendor's Acceptance signed on December 8, 1998.

<u>THE CORPORATION OF THE CITY OF OTTAWA</u>

Original Signed by John S. Burke

____
John S. Burke, Chief Administrator Officer

The lawyer for the Vendor is Janet L. Mitchell, Office of the City Solicitor, The Corporation of the City of Ottawa, 111 Sussex Drive, Ottawa, Ontario K1N 5A1.

City of / Ville d' Ottawa

September 7, 1999

CC2Z1999246
(File: ACC1560/99)

Ward/Quartier
City Wide

4. Meeting Schedule - 2000
Calendrier des réunions - 2000

The following 2000 Standing Committee and City Council meeting schedule is provided to each Standing Committee for approval of their own specific Committee:

For your information the March Break in 2000 is the week of March 13 - 17, 2000 for all School Boards.

Planning and Economic Development Committee Comité de l'urbanisme et de l'expansion économique	
January 11 and 25	Les 11 et 25 janvier
February 8 and 22	Les 8 et 22 février
March 28	Le 28 mars
April 11 and 25	Les 11 et 25 avril
May 9 and 30	Les 9 et 30 mai
June 13 and 27	Les 13 et 27 juin
July 25	Le 25 juillet
August 29	Le 29 août
September 12 and 26	Les 12 et 26 septembre
October 10 and 24	Les 10 et 24 octobre
November 7 and 28	Les 7 et 28 novembre
December 12	Le 12 décembre

Community Services and Operations Committee Comité des services communautaires et des opérations	
January 12 and 26	Les 12 et 26 janvier
February 9 and 23	Les 9 et 23 février
March 29	Le 29 mars
April 12 and 26	Les 12 et 26 avril
May 10 and 31	Les 10 et 31 mai
June 14 and 28	Les 14 et 28 juin
July 26	Le 26 juillet
August 30	Le 30 août
September 13 and 27	Les 13 et 27 septembre
October 11 and 25	Les 11 et 25 octobre
November 8 and 29	Les 8 et 29 novembre
December 13	Le 13 décembre

AUDIT COMMITTEE SCHEDULE TO BE ISSUED FOLLOWING ITS DECEMBER MEETING.

Policy, Priorities and Budgeting Committee Comité des politiques, des priorités et des budgets	
January 13 and 27	Les 13 et 27 janvier
February 10 and 24	Les 10 et 24 février
March 30	Le 30 mars
April 13 and 27	Les 13 et 27 avril
May 11	Le 11 mai
June 1, 15 and 29	Les 1, 15 et 29 juin
July 27	Le 27 juillet
August 31	Le 31 août
September 14 and 28	Les 14 et 28 septembre
October 12 and 26	Les 12 et 26 octobre
November 9 and 30	Les 9 et 30 novembre
December 14	Le 14 décembre

City Council/Conseil municipal	
January 19	Le 19 janvier
February 2 and 16	Les 2 et 16 janvier
March 1	Le 1er mars
April 5 and 19	Les 5 et 19 avril
May 3 and 17	Les 3 et 17 mai
June 7 and 21	Les 7 et 21 juin
July 5	Le 5 juillet
August 2	Le 2 août
September 6 and 20	Les 6 et 20 septembre
October 4 and 18	Les 4 et 18 octobre
November 1 and 15	Les 1 et 15 novembre
December 6 and 20	Les 6 et 20 décembre