



Report to: General Committee

Date of Meeting: June 12, 2006

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**SUBJECT:** Markham District Energy Capital Funding – Gas Tax  
**PREPARED BY:** Barb Cribbett, Treasurer

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**RECOMMENDATION:**

That Council approve the allocation of \$8 million of the 2007 to 2009 Gas Tax Funding to Markham District Energy Inc (MDEI).

**FINANCIAL CONSIDERATIONS:**

The Town of Markham will receive a total of \$16.9 million in Gas Tax revenue over the 2005 to 2009 term of the Municipal Funding Agreement with AMO (Association of Municipalities of Ontario). A total of \$3.495 million of the 2005/2006 funding of \$4.066 million has been allocated in the Town's 2006 Capital budget. The \$3.495 million includes an allocation of \$500k for MDEI.

The 2007 to 2009 Gas Tax funding totals \$12.8 million, therefore an allocation of \$8 million to MDEI would leave the Town \$4.8 million for other eligible projects, plus the unallocated \$572k (\$4.066M minus \$3.495M) from the 2005-2006 funding.

**PURPOSE:**

The purpose of this report is to obtain Council's approval to allocate \$8 million of Gas Tax Revenues to MDEI's 2006 to 2011 capital plan.

**BACKGROUND:**

On April 25, 2006 Mr. Bruce Ander, President of Markham District Energy Inc. (MDEI) made a presentation to the Markham Enterprises Corporation (MEC) Board of Directors, requesting a \$12 million equity investment from the shareholder as partial funding for MDEI's estimated capital investment from 2006 to 2011. MDEI proposed a \$4 million investment from MEC's reserves and a portion of future gas tax revenues from the Town of Markham as one potential combination to fund the \$12 million equity investment.

The Board directed staff of MEC to prepare a report with financing options for the May 23<sup>rd</sup> Board of Directors meeting.

On May 23, 2006 at the Markham Enterprises Corporation (MEC) Board of Directors meeting, the report "Markham District Energy Capital Funding Options" recommended the following:

*"That the Board of Directors approve a \$4 million equity investment into Markham District Energy Inc. in the year 2006*

*And That the Board of Directors recommend to the Council of the Town of Markham that \$8 million in Gas Tax funding be granted to Markham District Energy Inc."*

The recommendation was approved, and the request to the Town of Markham for an allocation of \$8 million in Gas Tax funding is therefore forwarded to Council for their consideration.

**OPTIONS/ DISCUSSION:**

The May 23<sup>rd</sup> report to the MEC Board of Directors considered several options for funding, and recommended a combination of two funding sources to the MEC Board.

Staff recommended a \$4 million investment from MEC, which was approved by the MEC Board of Directors, and an \$8 million grant from the Town of Markham's Gas Tax funding, which requires Council approval.

The benefits of this funding combination are:

**\$4 Million from MEC**

- Immediate \$4 million investment into MDEI stabilizes debt to capital ratios
- \$6 million retained in MEC for investment purposes and to provide cash for new initiatives
- Net income shortfall (projected to range between \$187k in 2007 up to \$245k in 2011) resulting from \$4 million investment in MDEI could be covered by accessing MEC retained earnings, or by retaining a portion of the annual PowerStream dividend.
- \$4 million could be recovered over 4.5 years by retaining a portion of the PowerStream dividend (retain \$900,000 of \$1,700,000)


**\$8 million from Gas Tax**

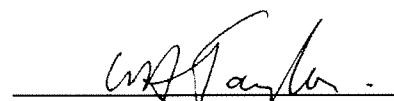
- \$4.8 million in Gas Tax remaining for other eligible projects
- Use restricted Gas Tax funds for eligible purposes, and allows discretionary MEC surplus funds and PowerStream dividends to be used at Council (and the Board's) discretion.
- Investment of restricted Gas Tax funds contributes to the generation of future unrestricted MDEI dividends projected to begin in 2012 at \$500k and increasing to \$9 million by 2015

**ENVIRONMENTAL CONSIDERATIONS:**

District Energy (heating and cooling) is included under Community Energy Systems in Section 4.1 Eligible Projects of the Federal Gas Tax Municipal Funding Agreement

**RECOMMENDED  
BY:**

  
Barb Cribbett, Treasurer

  
Andy Taylor, Commissioner  
of Corporate Services