



Report to: General Committee

Report Date: May 6, 2013

SUBJECT: PowerStream Deferred Interest
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments

RECOMMENDATION:

- 1) THAT the City continue to defer \$7,573,868.14 of interest owed by PowerStream to the City of Markham, at a rate of 4.03%, until October 31, 2018.
- 2) AND that staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Not applicable

PURPOSE:

The City of Markham currently holds approximately \$68 million of promissory notes issued by PowerStream that earn an annual interest rate of 5.58%. This equates to approximately \$3.8 million of annual interest to the City (paid in quarterly installments). This interest will be referred to as “primary interest”.

In 2006, Markham Council approved the deferral of two years of Promissory Note interest, totaling \$7,573,868.14, to assist in the funding of PowerStream’s head office. Since that time, PowerStream has been making quarterly interest payments on the deferred interest at the rate of 5.58%, totaling approximately \$423,000 annually (this interest will be referred to as “secondary interest”). The deferral of primary interest ends October 1, 2013 when PowerStream is scheduled to pay the City the \$7,573,868.14.

PowerStream has approached Markham to inquire whether the City would be interested in extending the deferral period another five years at a rate of 4.03% (which is reflective of the Ontario Energy Board’s deemed long term interest rate). This is a reduced rate from the current 5.58%. Compared to similar-term bonds, it is still an attractive rate of return for Markham.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

The 4.03% interest rate is approximately 170 points higher than 5-year Schedule I Bank bonds. Therefore, the City will be able to earn an additional \$129,000 per year compared to a similar term bank bond if the interest deferral continues for another 5 years.

Therefore, it is recommended that the City continue to defer \$7,573,868.14 of interest payments owed by PowerStream to the City of Markham until October 31, 2018.

ENVIRONMENTAL CONSIDERATIONS:

Not Applicable

ACCESSIBILITY CONSIDERATIONS:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

19/04/2013

X 

Joel Lustig
Treasurer

23/04/2013

X 

Trinela Cane
Commissioner, Corporate Services