

# CITY COUNCIL AGENDA

Consolidated as of May 13, 2016



Council Chambers, City Hall, 1 Carden Street

DATE Monday, May 16, 2016 5:00 p.m.

Please turn off or place on non-audible all cell phones, PDAs, Blackberrys and pagers during the meeting.

## AUTHORITY TO MOVE INTO CLOSED MEETING

*THAT the Council of the City of Guelph now hold a meeting that is closed to the public, pursuant to the Municipal Act, to consider:*

### **C-2016.36 CAO Contract**

Section 239 (2)(b) and (f) personal matters about identifiable individuals and advice that is subject to solicitor-client privilege

### **C-2016.37 Report from the Infrastructure, Development & Enterprise Committee - 200 Beverly Street – Former IMICO Property – Development Options**

*Section 239 (2)(c) proposed or pending acquisition or disposition of land by the municipality*

## CLOSED MEETING

OPEN MEETING – 6:00 P.M.

## Closed Meeting Summary

### Disclosure of Pecuniary Interest and General Nature Thereof

#### Proposed Amendments to CAO By-law Number (2011)-19310

1. That Report CAO-M-1602 titled "Proposed Amendments to CAO By-law Number (2011)-19310" dated May 16, 2016 be received.
2. That the proposed amendments to the CAO By-law, as outlined in Report CAO-M-1602 titled "Proposed Amendments to CAO By-law Number (2011)-19310" be approved.

## SPECIAL RESOLUTIONS

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## SPECIAL MEETING OF CITY COUNCIL AS SHAREHOLDER OF GUELPH MUNICIPAL HOLDINGS INC.

### CONSENT REPORTS – ITEMS TO BE EXTRACTED

*The following resolutions have been prepared to facilitate Council's consideration of the various matters and are suggested for consideration. If Council wishes to address a specific report in isolation of the Consent Reports/Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Consent Reports/Agenda will be approved in one resolution.*

GUELPH MUNICIPAL HOLDINGS INCORPORATED		
ITEM	CITY PRESENTATION	TO BE EXTRACTED
GMHI-2016.1 Financial History of the GMHI Group of Companies and Current Issues	Pankaj Sardana, GMHI Chief Financial Officer and CEO Envida and GHESI	✓
GMHI-2016.2 GMHI 2016 Restated Budget		

### ADJOURNMENT

# STAFF REPORT



TO Council

SERVICE AREA Office of the Mayor

DATE May 16, 2016

**SUBJECT Proposed Amendments to CAO By-Law  
Number (2011)-19310**

REPORT NUMBER CAO-M-1602

## EXECUTIVE SUMMARY

### PURPOSE OF REPORT

To update the CAO By-Law.

### KEY FINDINGS

Areas proposed for change are to strengthen Council oversight and delegated authorities to the CAO.

### FINANCIAL IMPLICATIONS

Not applicable at this time.

### ACTION REQUIRED

That Council receive Report CAO-M-1602 for information and that recommendations contained within the Report are approved.

## RECOMMENDATION

1. That Report CAO-M-1602 titled "Proposed Amendments to CAO By-Law Number (2011)-19310" dated May 16, 2016 be received.
2. That the proposed amendments to the CAO By-Law, as outlined in Report CAO-M-1602 titled "Proposed Amendments to CAO By-Law Number (2011)-19310" be approved.

# STAFF REPORT

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## BACKGROUND

The current CAO By-Law signed in 2011 is may need updating to reflect more current needs of both City Council and the CAO. The CAO has worked alongside the Mayor in preparing what is detailed within the Report.

## REPORT

In preparation for Council deliberation, the changes are outlined below and further information is attached:

Section: Schedule "A" to By-Law Number (2011)-19310 General Duties and Responsibilities

### 1. General Duties and Responsibilities

g)To attend meetings of City Council, Planning Council and Committees of Council as required or as delegated, with the right to speak but not to vote. The CAO's right to attend excludes matters specific to CAO Contract and Council's deliberation of the results of the CAO Performance Appraisal Process.

i)To direct the co-ordination of all policy decisions of Council and deal with matters arising from Council's decisions in accordance with such established policies without further reference to Council except to regularly report to Council upon the actions taken through the established reporting systems of Council and Committee or as specifically directed by Council. Also to develop and maintain for reference purposes, a comprehensive manual of policies approved by Council;

j)To guide the strategic process as established by Council for the Corporation which includes departmental work plan the development of corporate implementation plans. as established by Council;

### 3 Financial Management

g) To secure formal direction from City Council prior to the cancellation of any capital projects classified as Tier 1 or 2.

# STAFF REPORT

## Capital Project Tier Definitions

Tier-1 Project Criteria (and / or)	Tier-2 Criteria (and/or)	Tier-3 Criteria
- > \$10mil  - Large, complex scope construction  - New initiative - High-profile - Multi-stakeholders / partnerships - Highly controversial / political - Other (specified by ET)	- \$1mil - \$10 mil  - Medium scope and complexity  - Medium risk - Medium profile - Mainly internal focus - Other (specified by ET)	- < \$ 1mil  Minor scope, routine lifecycle replacement - Low risk - Low profile - Departmental Focus

### **CORPORATE STRATEGIC PLAN**

Not applicable.

### **DEPARTMENTAL CONSULTATION**

Not applicable.

### **FINANCIAL IMPLICATIONS**

Not applicable.

### **COMMUNICATIONS**

Not applicable.

### **ATTACHMENTS**

ATT-1 - CAO By-Law (2011)-19310

Cam Guthrie  
**Report Author**



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### **Approved By**

Cam Guthrie  
Mayor  
519 837 5643  
[mayor@guelph.ca](mailto:mayor@guelph.ca)

**THE CORPORATION OF THE CITY OF GUELPH**

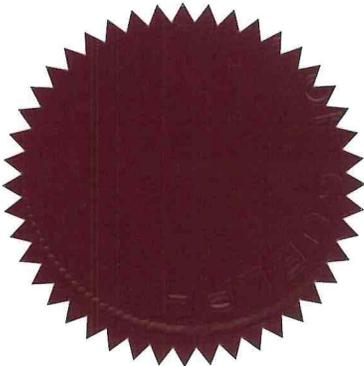
**By-law Number (2011)-19310**

A by-law to define the general duties, roles and responsibilities of the Chief Administrative Officer.

**THE COUNCIL OF THE CORPORATION OF THE CITY OF GUELPH  
ENACTS AS FOLLOWS:**

1. THAT Council shall appoint Ann Pappert as Chief Administrative Officer who shall be responsible for exercising general control and management of the affairs of The Corporation of the City of Guelph for the purpose of ensuring the efficient and effective operation of the municipality, in accordance with Schedule "A" attached hereto.

**PASSED this TWENTY-EIGHTH day of NOVEMBER, 2011.**



  
\_\_\_\_\_  
**KAREN FARBRIDGE - MAYOR**

  
\_\_\_\_\_  
**TINA AGNELLO - ACTING CLERK**

Schedule "A"  
to By-law Number (2011)-19310

**General Duties, Roles and Responsibilities**

**Introduction**

The Chief Administrative Officer (CAO) shall carry out the general duties, roles and responsibilities set out herein in accordance with any and all relevant and applicable by-laws, resolutions, policies and guidelines that may be enacted or directed from time to time by Council.

Nothing contained in this document shall be deemed to empower the CAO to perform, do or direct any act which shall in any manner or extent whatsoever encroach upon the legislative powers of Council.

**1. General Duties and Responsibilities**

Subject to the provisions of the Municipal Act, and as herein provided, the duties and responsibilities of the CAO shall be as follows:

- a) To report to, be accountable to, and receive authority from the Council of the Corporation of the City of Guelph and to perform his/her duties in conformity with Council decisions;
- b) To coordinate, lead and direct the Executive Team in the administration of the business affairs of the Corporation;
- c) To delegate appropriate duties and responsibilities to the Executive Team within the organizational structure for the purpose of establishing an efficient and effective administrative structure;
- d) To be responsible for motivating and developing the skills of the Executive Team members and fostering productivity, professionalism, adherence to the corporate values and open communications;
- e) To provide hands-on direction and assistance in planning and implementing difficult and complex tasks which may cover a number of departmental disciplines and which require the co-ordination and co-operation of the various departments;
- f) To provide information and advice, in co-operation with the Executive Team, as required or as might be useful to Council for purposes of decision making and by-law approvals;
- g) To attend meetings of Council and Committees of Council as required with the right to speak, but not to vote;
- h) To present to Council, in co-operation with the Executive Team, reports and information regarding progress and accomplishments of programs and projects, the status of revenue and expenditures and the general administrative management of the Corporation;
- i) To direct the co-ordination of all policy decisions of Council and deal with matters arising from Council's decisions in accordance with such established policies without further reference to Council except to regularly report to Council upon action taken. Also, to develop and maintain, for reference purposes, a comprehensive manual of policies approved by Council;
- j) To guide the strategic process for the Corporation which includes departmental work plan development, as established by Council;
- k) To attend to the interests of the Corporation on federal, provincial, regional or local municipal intergovernmental issues and with boards, agencies and commissions at the administrative level;

- l) To serve as the Chief Executive Officer of Guelph Municipal Holdings Inc. providing leadership and direction as a non-voting member of the Board of Directors without additional remuneration or compensation, other than as expressly approved by Council. Reasonable expenses for travel and/or training in respect of this role may be incurred in accordance with policies established by the Board and approved by Council. To act as the City's "Shareholder Representative" for purposes of communicating Council decisions to the Board; and
- m) To perform any additional responsibilities and to exercise the powers incidental thereto which may, from time to time, be assigned to the CAO by Council.

**2. Human Resource Management & Administration**

- a) To advise Council as to the appointment, promotion, demotion, suspension or dismissal of an Executive Team member reporting directly to the CAO:
- b) To have authority and responsibility to appoint, promote, demote, suspend or dismiss any employees of the Corporation below the position of Executive Director/CFO in accordance with the lines of authority defined in the organizational structure;
- c) To have authority to appoint, promote, demote, dismiss any other employees of the Corporation in accordance with procedures contained in all collective agreement and in accordance with the lines of authority that are defined in the organizational structure;
- d) To oversee the collective bargaining process with all unionized Corporation employees and to recommend to Council collective agreements concerning wages, benefits, and terms of service and upon approval of Council, to direct the administration of such collective agreements;
- e) To administer all salaries and performance review of employees who are subject to the supervision of the CAO, within the limitation of any salary plan or salary contract agreement, in consultation with Council, as required; and
- f) To carry out an annual performance evaluation of all Executive Team members recognizing achievements, correcting deficiencies and improving overall individual or departmental performance in consultation with Council, as required.

**3. Financial Management**

- a) To direct, in co-operation with the Chief Financial Officer and the Executive Team, the preparation and presentation of operating and capital budgets on an annual basis;
- b) To exercise financial control over all Corporate operations in conjunction with the Chief Financial Officer, to ensure compliance with the annual estimates of revenue and expenditure approved by Council;
  - i) to adjust staffing levels to maintain the level of Council approved programs and services provided that no new costs are incurred in the current or subsequent budget years;
  - ii) where, as a result of emerging priorities (e.g. provincial initiatives, changing community priorities, Council direction) that result in the need to introduce new programs or increased service levels, or to increase staffing levels that add cost to the current or subsequent budget years, to secure Council approval;
  - iii) where service level or program reductions are contemplated, to secure Council approval;
- c) To direct the review of fiscal policy and its management;

- d) To approve all purchasing with authority to enter into contracts;
- e) To approve all tenders and quotation awards where funds are provided in the budget and established purchasing policies have been observed; and
- f) To approve all tenders and quotation awards when Council is unavailable, where funds are provided in the budget and established purchasing policies have been observed.

**4. Administrative Organization and Management**

- a) To create and re-organize, in consultation with the Executive Team, such departments of the City as may be considered necessary and property to fulfil obligations for the Corporation, and will report to Council on the changes;
- b) To annually meet with Council to review and assess performance during the past year and review and discuss the salary and benefit provisions as well as priorities to be pursued during the following year; and
- c) To hold office at the pleasure of Council for the agreed upon term. Council may, in its sole discretion, suspend or dismiss the CAO subject to compliance with any statutory requirements or contractual agreements, and subject to the right of the CAO to a hearing before Council or such Committee therefore as Council may by by-law authorize in respect of such suspension or dismissal, if so requested by the CAO.

## Shareholders Meeting

Date: May 16, 2016

Report from: Ann Pappert, CAO, City of Guelph  
Pankaj Sardana, CFO, GMHI / CEO, Guelph Hydro Electric Systems Inc.  
and Envida Community Energy Inc.

### RE: Financial History of the GMHI Group of Companies

The financial history provides clarity and establishes a shared understanding of the transition of funds and assets among the GMHI group of companies starting with provincial government's Energy Competition Act in 1998 through to present day. A better understanding of GMHI's financial history is also an important step towards improved asset management and organizational transparency.

**Meeting context:** This shareholder meeting is part of a series of meetings related to GMHI, its subsidiaries and the City's energy projects where the following information is provided:

- April 4 and 25 – CEI Report
- May 3 and 24 – GEERS Project Proposal
- **May 16 – Financial history and GMHI's restated 2016 budget**
- June 7 – City's Audit Statements
- June 20 – GMHI Annual General Meeting
- June 27 – District energy long-term financial plan
- July TBD – CEI Update

**Asset management:** Presenting the chronological financial history of the GMHI group of companies is an important component of the City's participation in the Community Energy Initiative update. Excellence in asset management practices – one of the core objectives in creating GMHI – requires a full, accurate accounting of the company's position and assets, which is what this report provides.

**Revaluing district energy assets:** Based on the auditor's current assessment of the long-term value projections of GMHI's district energy assets, GMHI is revaluing/writing down the balance sheet value of the Galt District Energy System and Hanlon Creek Business Park district energy assets.

Since the assets are already paid for, the revaluation doesn't have an immediate impact on the organization's actual cash balance. And should the long-term value projection of the asset change, the write-down can be reversed in the future.

Providing this full accounting of the financial history of the GMHI group of companies provides clarity and transparency to the Shareholder and the community.



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Ann Pappert



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Pankaj Sardana



**GMHI Shareholder Meeting**  
**May 16, 2016**

# AGENDA

- Historical Overview – 1998 to Present
- Amalgamation: Financial Transfers, HR Transfers
- Asset Write Downs
- Tax Losses
- Inter-Company Loans
- Asset Sales to GHESI (Eastview and Southgate Solar)
- Q & A



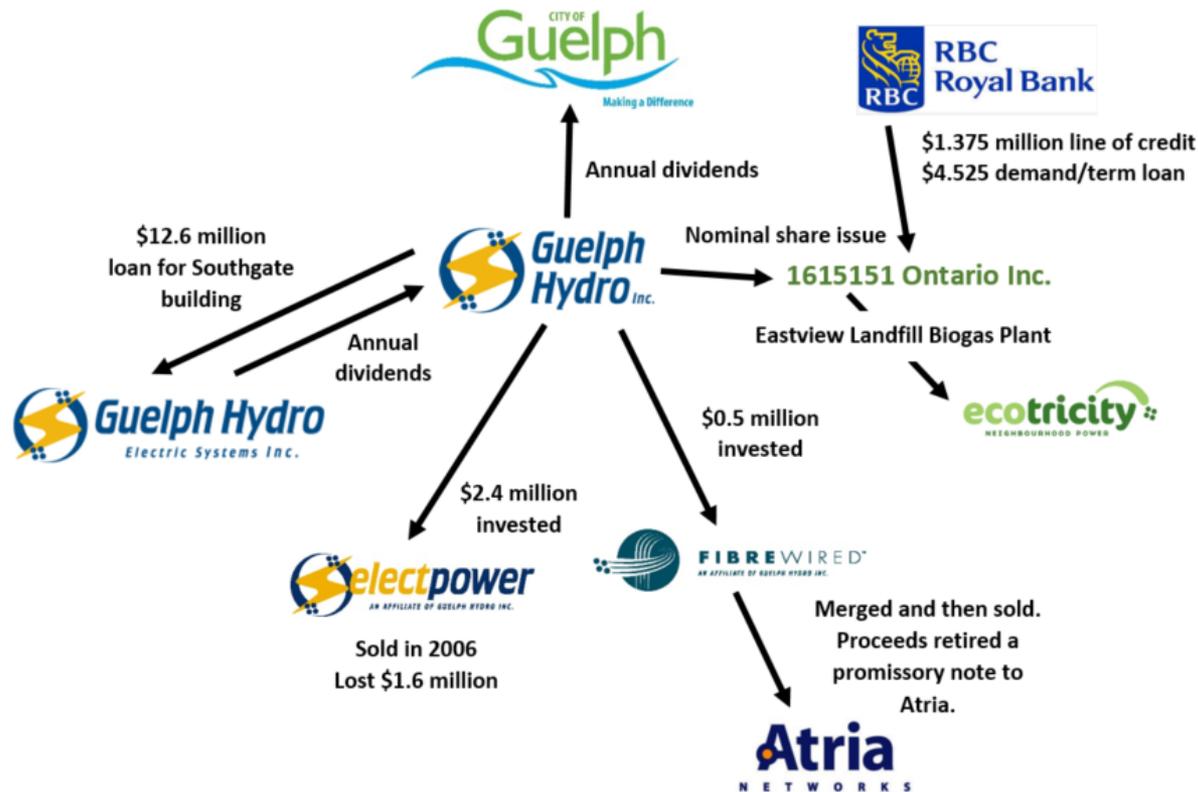
# HISTORICAL OVERVIEW -- 1998 TO 2000



- Province passes *Energy Competition Act, 1998*, which “re-regulated” electricity sector
- Local Distribution Utilities were “given” to Municipalities who had two years to establish LDCs as business corporations, with the municipalities as 100% shareholders
- In 2000 City of Guelph divided Guelph Hydro into the four businesses shown above
- For Guelph Hydro Electric Systems Inc., the OEB initially split the company’s \$75.4 million balance sheet into 50% debt and 50% equity, with all shares held by the City of Guelph



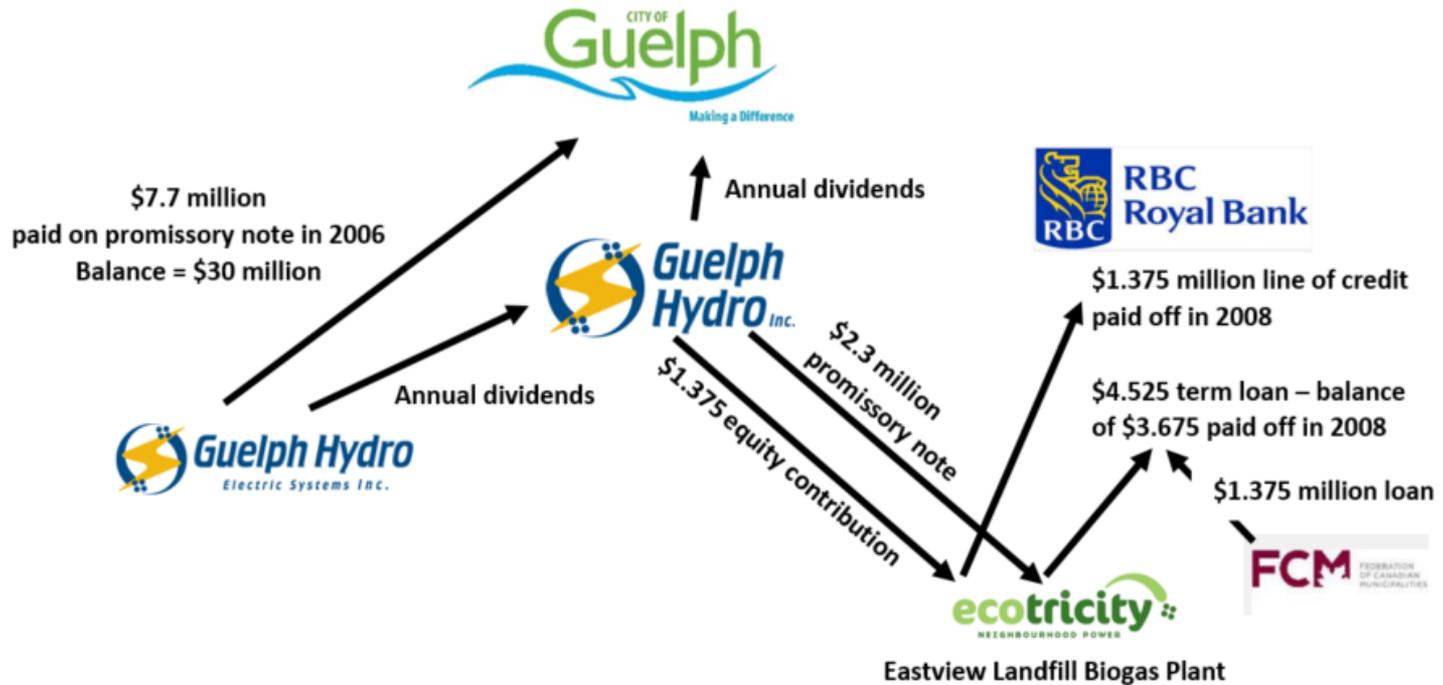
# HISTORICAL OVERVIEW -- 2000 TO 2005



- With a view to increasing shareholder value, dividend payments from GHESI to GHI permitted the investments into various unregulated businesses, and also provided funding to allow GHI to lend money back to GHESI to expand the 395 Southgate Drive building
- In 2005, the City's Eastview Landfill Biogas plant went into commercial operation



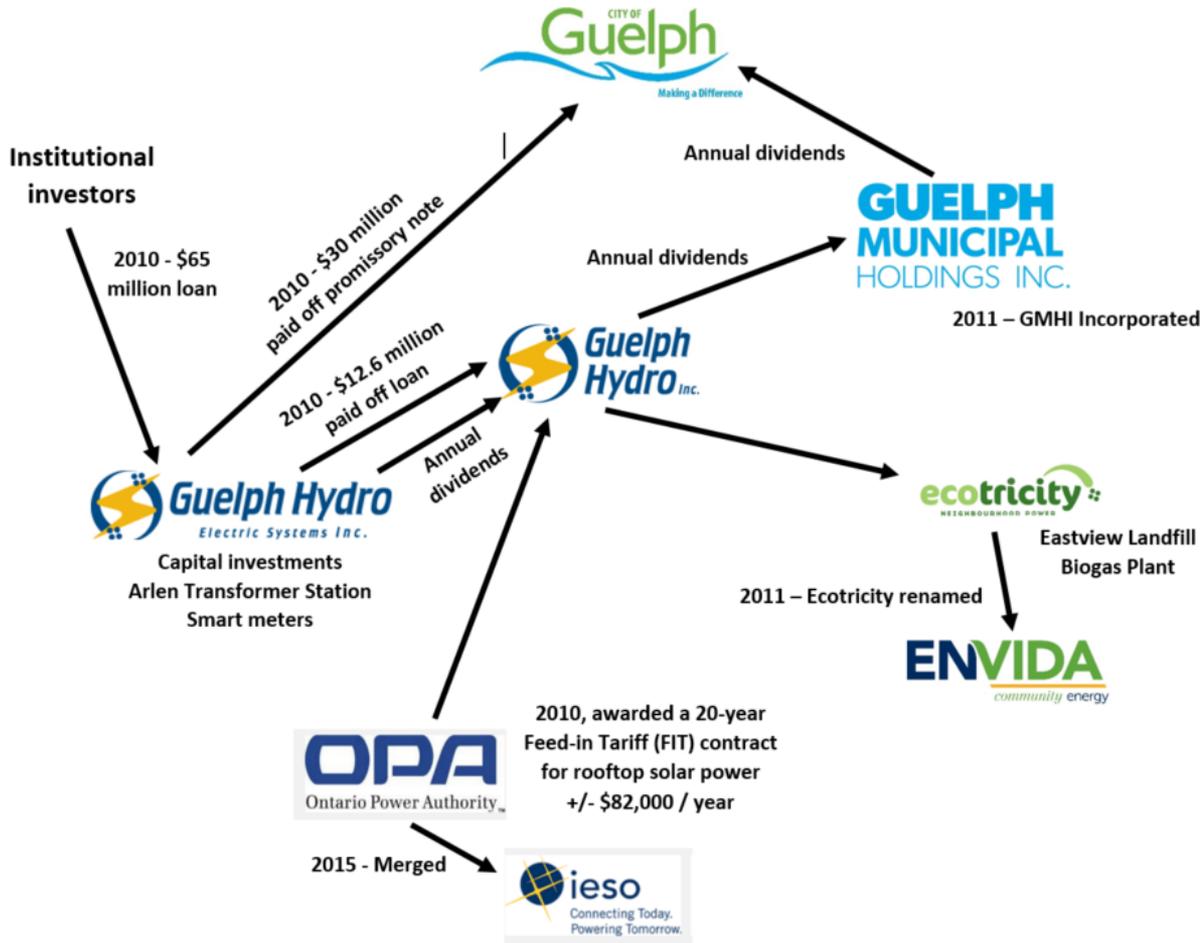
# HISTORICAL OVERVIEW -- 2006 TO 2009



- In 2006, using cash-on-hand, GHESI paid off \$7.7 million of the initial \$37.7 million debt held by the City, leaving an unpaid long-term debt balance of \$30 million
- In April, 2007, Guelph City Council unanimously endorsed the vision, goals, and general directions of a 25-year Community Energy Initiative



# HISTORICAL OVERVIEW -- 2010 TO 2011

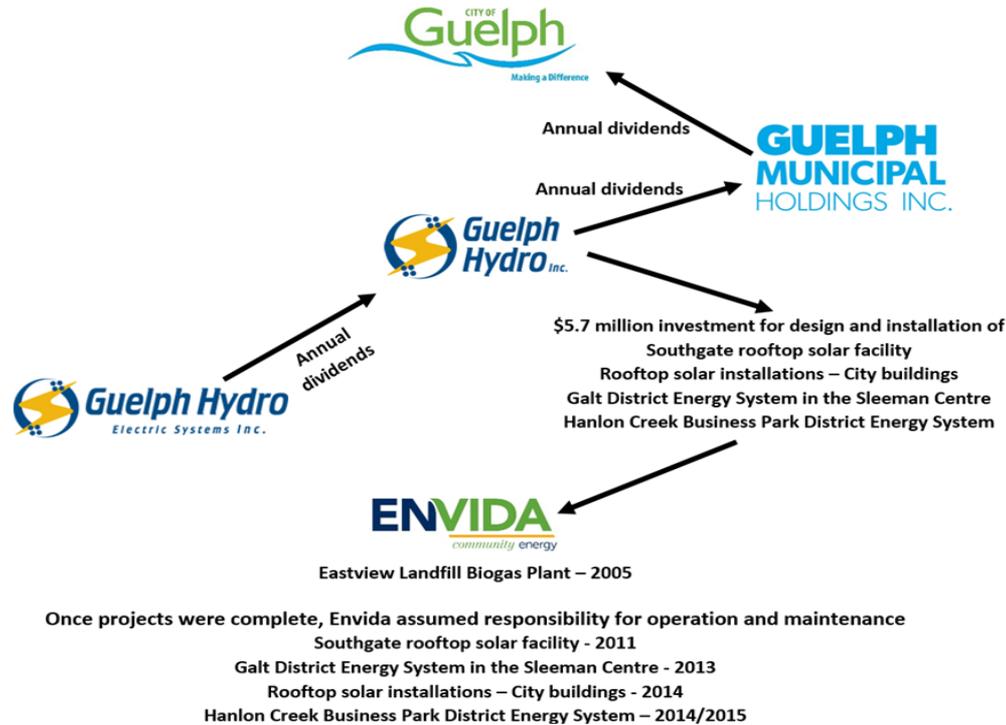


## In 2010:

- City and GHI enter into an MOI to assist City with achieving CEI targets; GHI designated as prime implementer and key developer of high-efficiency, low carbon, sustainable energy projects
- GHI awarded 20-year contract for Southgate rooftop solar PV project
- GHESI borrowed \$65 million in long-term debt; \$30 million used to retire City-held long-term debt of \$30 million; \$12.6 million used to retire debt held by GHI, and balance used to fund smart meter installation and construction of Arlen Transformer Station



# HISTORICAL OVERVIEW -- 2012 TO 2014

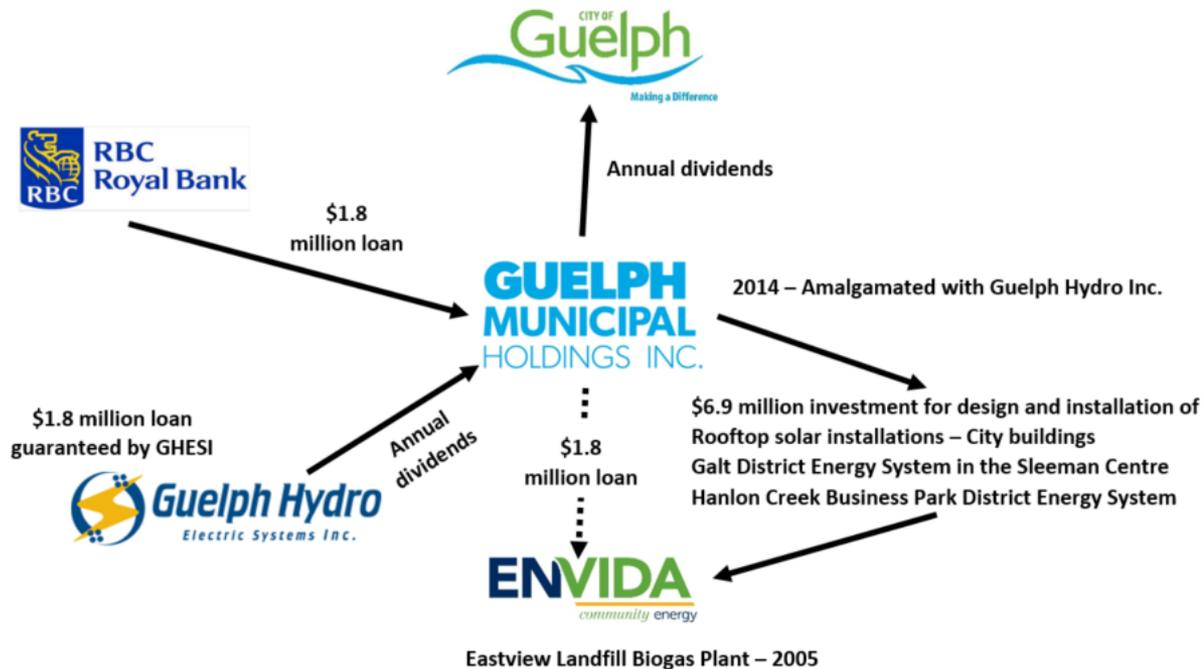


## Between 2012 and September 2014, using the \$12.6 million received from GHESI in 2010:

- GHI invested \$5.7 million in sustainable energy projects in downtown Guelph, the Hanlon Creek Business Park (HCBP), and for rooftop solar installations on City-owned buildings
- Once the projects were completed, Envida assumed responsibility for operation and maintenance
- In April, 2014, Envida was awarded a 20-year contract to supply electricity to the Ontario grid from a 10 MW natural gas-fired CHP; if built, CHP would serve as heat source for a DE system in HCBP



# HISTORICAL OVERVIEW -- 2014 TO PRESENT



Once projects were complete, Envida assumed responsibility for operation and maintenance

- Southgate rooftop solar facility - 2011
- Galt District Energy System in the Sleeman Centre - 2013
- Rooftop solar installations – City buildings - 2014
- Hanlon Creek Business Park District Energy System – 2014/2015

## In September 2014:

- GMHI and GHI were amalgamated under GMHI
- GMHI acquired 8 employees from GHI
- Since amalgamation, GMHI has invested \$6.9 million in district energy projects in downtown Guelph and the HCBP
- In July, 2015, Envida was awarded a 20-year contract to supply electricity to the Ontario grid from a 10 MW natural gas-fired CHP; if built, CHP would serve as heat source for the DE system in downtown Guelph
- Following a close examination of the thermal potential in HCBP and downtown Guelph by Ontario district energy experts, a general lack of thermal loads in the two nodes implies that CHP plants will likely not be built. This leads to Envida being required to take asset write-offs and write-downs



# ASSET WRITE DOWNS

- District energy assets in HCBP and downtown Guelph will not generate sufficient cash flows over their useful lives to fully recover the costs of installing these assets.
- The required asset write-down / write-off amounts to:

Hanlon Creek Business Park District Energy System	\$5.1 million
Downtown Guelph District Energy System	\$3.6 million



# TAX LOSSES -- GMHI

- GMHI's income is derived primarily from dividends paid by GHESI, and from interest on monies loaned to its subsidiaries. Because these intercompany dividends are not treated as taxable income, the company is typically in a "taxable loss" position as its other sources of income are insufficient to meet its ongoing operating expenses



# TAX LOSSES -- GMHI

## GMHI Non-Capital Loss Continuity Worksheet

Year of Origin	Non-Capital Loss	Expiry Date
2015	\$ 3,003,425 <sup>1</sup>	December 31, 2035
2014	388,429	December 31, 2034
2013	1,032,064	December 31, 2033
2012	2,218,324	December 31, 2032
2011	1,746,480	December 31, 2031
2010	562,622	December 31, 2030
2009	-	
2008	3,880	December 31, 2028
2007	143,911	December 31, 2027
2006	1,496,796	December 31, 2026
	<u>\$ 10,595,931</u>	

<sup>1</sup> Estimate subject to review by KPMG

- Since 2006, a total of \$10,595,931 in tax losses have accumulated. These tax losses may be applied against future income earnings but are subject to an expiry date



# TAX LOSSES -- ENVIDA

- Envida also generates tax losses since its taxable income from operations (solar installations, district energy projects, Eastview Landfill Gas Plant) does not offset its expenses (fuel costs, water charges, land lease payments, maintenance of equipment by contractors, Board of Director costs, etc.)
- Note: Envida has no employees so there are no salary and benefit costs.



# TAX LOSSES

## Envida

### Non-Capital Loss Continuity Worksheet

Year of Origin	Non-Capital Loss	Expiry Date
2015	\$ 761,290 <sup>1</sup>	December 31, 2035
2014	2,230,110	December 31, 2034
2013	81,592	December 31, 2033
2012	1,455,957	December 31, 2032
2011	758,000	December 31, 2031
2010	845,488	December 31, 2030
2009	939,360	December 31, 2029
2008	269,516	December 31, 2028
	<u>\$ 7,341,313</u>	

<sup>1</sup> Estimate subject to review by KPMG

- Since 2008, a total of \$7,341,313 in tax losses have accumulated.
- These losses may be applied against future income earnings but are subject to an expiry date



# INTER-COMPANY LOANS

- As of the end of 2015, Envida owes GMHI \$11.8 million related to funds invested in the Eastview Landfill Biogas Plant, district energy assets, and related to costs for corporate services and operating needs over the past five years
- Given the current state of operations, it is unlikely that Envida will be able to repay this loan and forgiving this loan may need to be considered



# ASSET SALES TO GHESI EASTVIEW AND SOUTHGATE SOLAR

- GHESI is allowed to invest in certain generation assets up to 10 MW as part of permitted distribution activities
- To alleviate some of the financial pressures in Envida, GHESI and Envida have begun exploring the sale of the Southgate solar assets and the Eastview Landfill Biogas plant to GHESI
- Should the sale be economically viable, the acquisitions will require approval by the OEB



# Q & A

## Questions



**Shareholders Meeting**

Date: May 16, 2016

Report from: Pankaj Sardana, CEO  
Guelph Hydro Electric Systems Inc. and Envida Community Energy Inc.

Tara Baker, Acting City Treasurer  
City of Guelph

RE: Financial History of the GMHI Group of Companies

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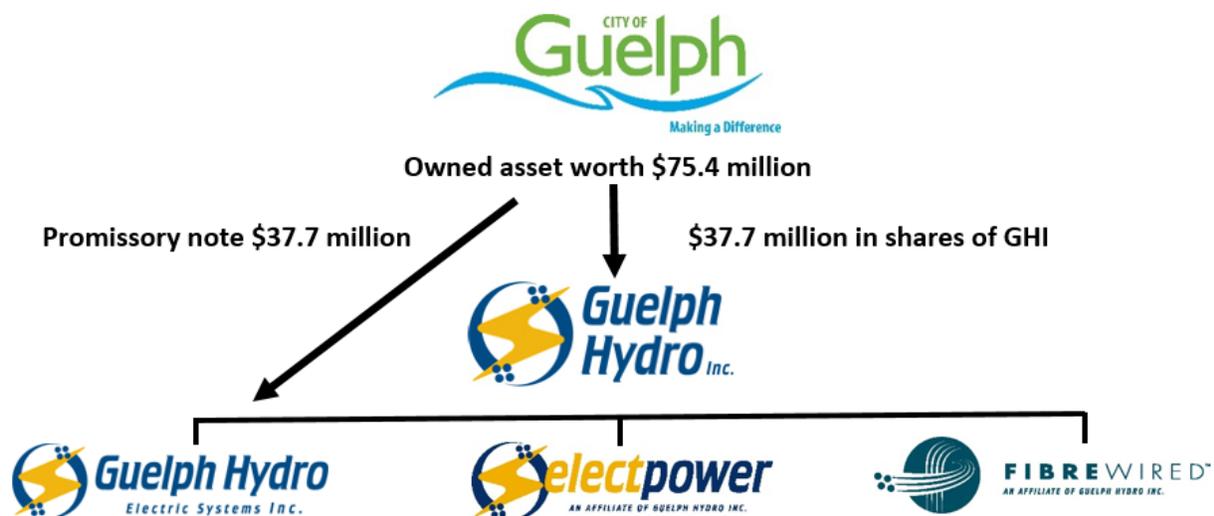


Diagram 1

**1998-2000**

1. In 1998, the Ontario government passed the *Energy Competition Act*, 1998 ending Ontario Hydro's monopoly in the province and outlining the procedures for restructuring to occur at all levels of the electricity industry. This is referred to as the "deregulation" of the electricity market.
2. Municipalities who were owners of hydro distribution assets had two years to establish a business corporation with all shares held by the municipality.
3. In 2000, Guelph Hydro was divided into four separate companies:
  - Guelph Hydro Inc. (GHI), the parent company which held the following three subsidiaries:

- Guelph Hydro Electric Systems Inc.(GHESI), a local distribution company (LDC), servicing distribution needs in the community;
  - Selectpower Inc., a retail energy and energy services company; and
  - Fibrewired, a fibre-optics company.
4. The Ontario Energy Board set a 50% / 50% debt/equity structure for LDCs. This debt-to-equity split meant that GHESI's balance sheet was initially capitalized with \$37.7 million in debt (which *de facto* was new debt created from the "downloading" of the municipal utilities to the municipalities) and \$37.7 million in equity which was the value of the shares held by its shareholder, GHI.
  5. The City's assets were comprised of the shares of GHI valued at \$37.7 million (cash) and a promissory note from GHESI for \$37.7 million for a total capitalization value of \$75.4 million.

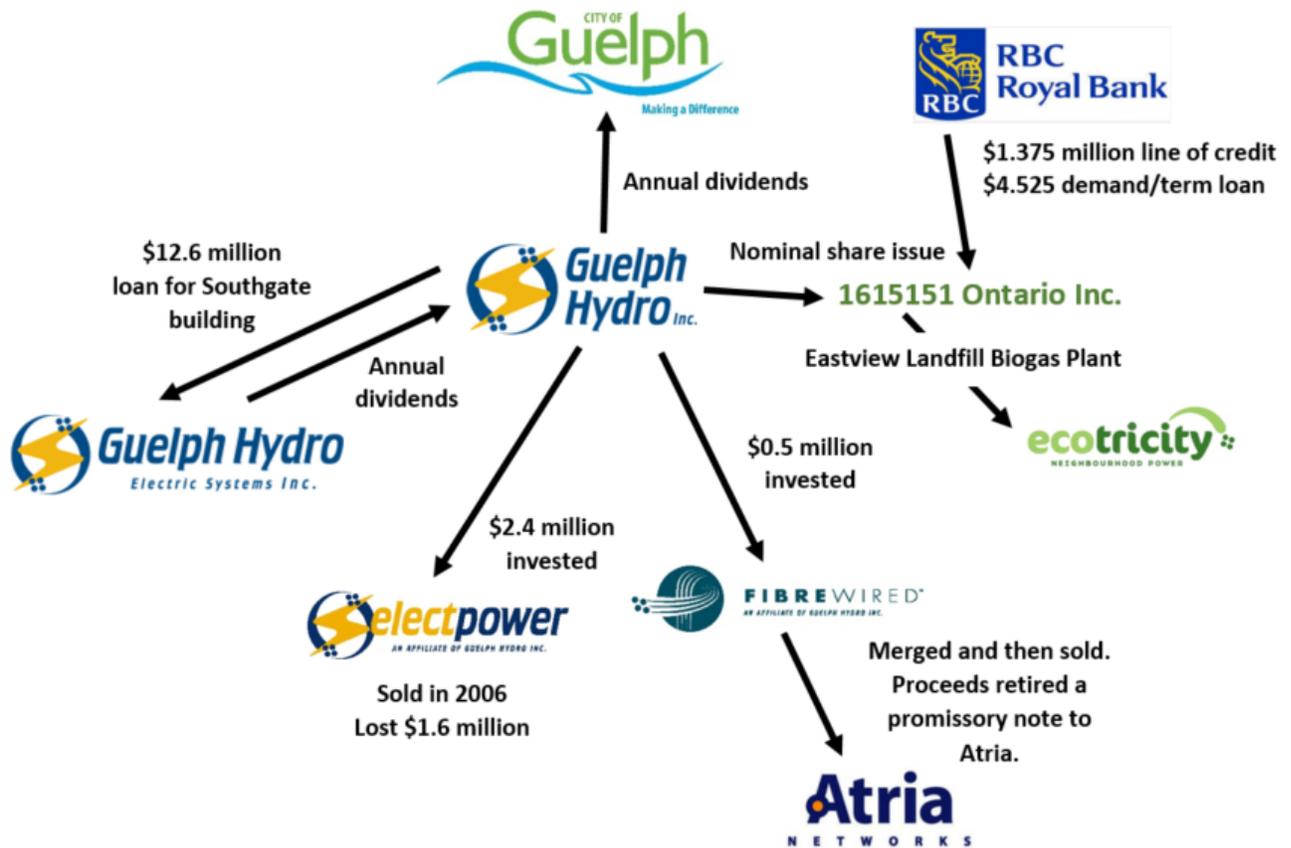


Diagram 2

## 2000 - 2005

6. Over time, funded by dividend payments from GHESI, the following investments were made by GHI:
  - \$2.4 million in SelectPower (which it sold in 2006 at a loss of \$1.5 million)
  - \$0.5 million in Fibrewired (which was merged and became Atria Networks Inc. and subsequently sold, with the proceeds from the sale used to retire a promissory note with Atria Networks Inc.)
  - \$12.6 million loaned back to GHESI to cover the cost of expanding the Southgate office building to house all GHESI (and GHI) employees.
  
7. In April, 2004, GHI incorporated another company, 1615151 Ontario Inc., with a nominal share issue (i.e. one share for \$1,000 owned by GHI at that time). The company's business purpose was to own and operate generation assets starting with the Eastview Landfill Biogas Plant. Monies to build the Eastview Landfill Biogas Plant were borrowed from the Royal Bank. The credit facilities offered by the Royal bank consisted of a non-revolving line of credit for \$1.375 million and a demand loan for \$4.525 million.

8. In June, 2005, 161551 Ontario Inc. was renamed Ecotricity Guelph Inc. (Ecotricity) so that it would have a more recognizable corporate name.
9. In 2005, the City's Eastview Landfill Biogas Plant went into commercial operation. This plant generates electricity from methane gas captured from the landfill site, The facility was granted a 20-year contract to supply 2.775 MW (years 1-7) and 1.85 MW (years 8-20) of electricity to the Ontario grid as the first participant project under the Province of Ontario's Renewable Energy Supply (RES) contract.

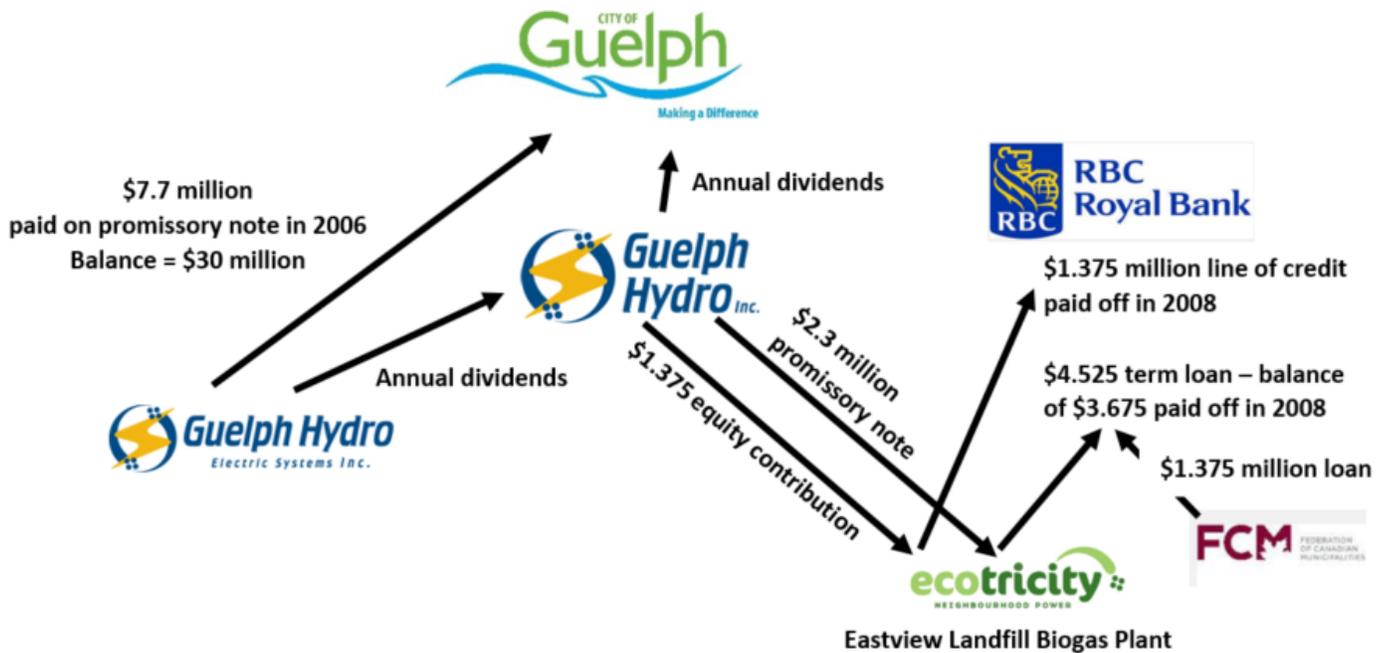


Diagram 3

## 2006 – 2009

10. In 2006, GHESI paid the City a lump-sum payment of \$7.7 million against the \$37.7 million loan provided by the City leaving a promissory note balance of \$30 million. The City applied these funds towards the construction of the Guelph Civic Administration Centre Complex (including POA Courthouse renovations).
11. In March 2006, Ecotricity entered into a loan agreement and subsequent interest rate swap agreement with the Royal Bank. This resulted in the conversion of the existing demand loan into a fixed rate loan for \$4.525 million.
12. In April 2007, Guelph City Council unanimously endorsed the vision, goals and general directions of a 25-year Community Energy Initiative. This plan was developed with the assistance of a Consortium that included the City of Guelph, Union Gas, Guelph Hydro, business and industry representatives, the University of Guelph, school boards, and the Guelph Chamber of Commerce. The goals of the Community Energy Initiative to be achieved by 2031 were:
  - Use 50 per cent less energy per capita
  - Produce 60 per cent less greenhouse gas emissions per capita
  - Encourage and facilitate community-based renewable and alternative energy systems.

Achievement of the Community Energy Initiative goals would position Guelph among the top energy performers in the world and make it one of the most competitive and attractive communities in which to invest.

13. In March 2008, the Ecotricity non-revolving line of credit facility was repaid in full via proceeds of an equity contribution from GHI.
14. In addition, during 2008, the balance of \$3.675 million on Ecotricity's term loan with the Royal Bank was repaid and the swap agreement was unwound. A portion of this debt repayment (\$1.375 million) was funded via proceeds from a low interest loan from the Federation of Canadian Municipalities (FCM). The remainder of this debt repayment was made via proceeds from a promissory note for \$2.3 million payable to GHI.
15. The Operating Results for Ecotricity from 2005 to 2009 were as follows:

<b>Ecotricity Guelph Inc.</b>						
<b>Operating Results</b>						
<b>2005-2009</b>						
		<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Revenues</b>		1,073	1,152	1,252	1,490	820
<b>Landfill Gas</b>		58	55	68	85	48
<b>OM&amp;A</b>		1,541	680	655	612	427
<b>Impairment of Fixed Assets</b>		2,984	0	0	0	0
<b>Depreciation</b>		306	327	327	324	150
<b>Interest</b>		125	414	276	342	144
<b>Tax</b>		4	-11	-13	25	24
<b>Net Income</b>		-3,945	-313	-61	102	27

16. In 2009, due to the landfill gas supply declining faster than anticipated, one of three generators at the Envida Eastview Landfill Gas site was decommissioned reducing the contract capacity to 1.7 MW from 2.775 MW three years ahead of schedule and reducing revenues. An impairment of \$2.984 million was taken in 2009.

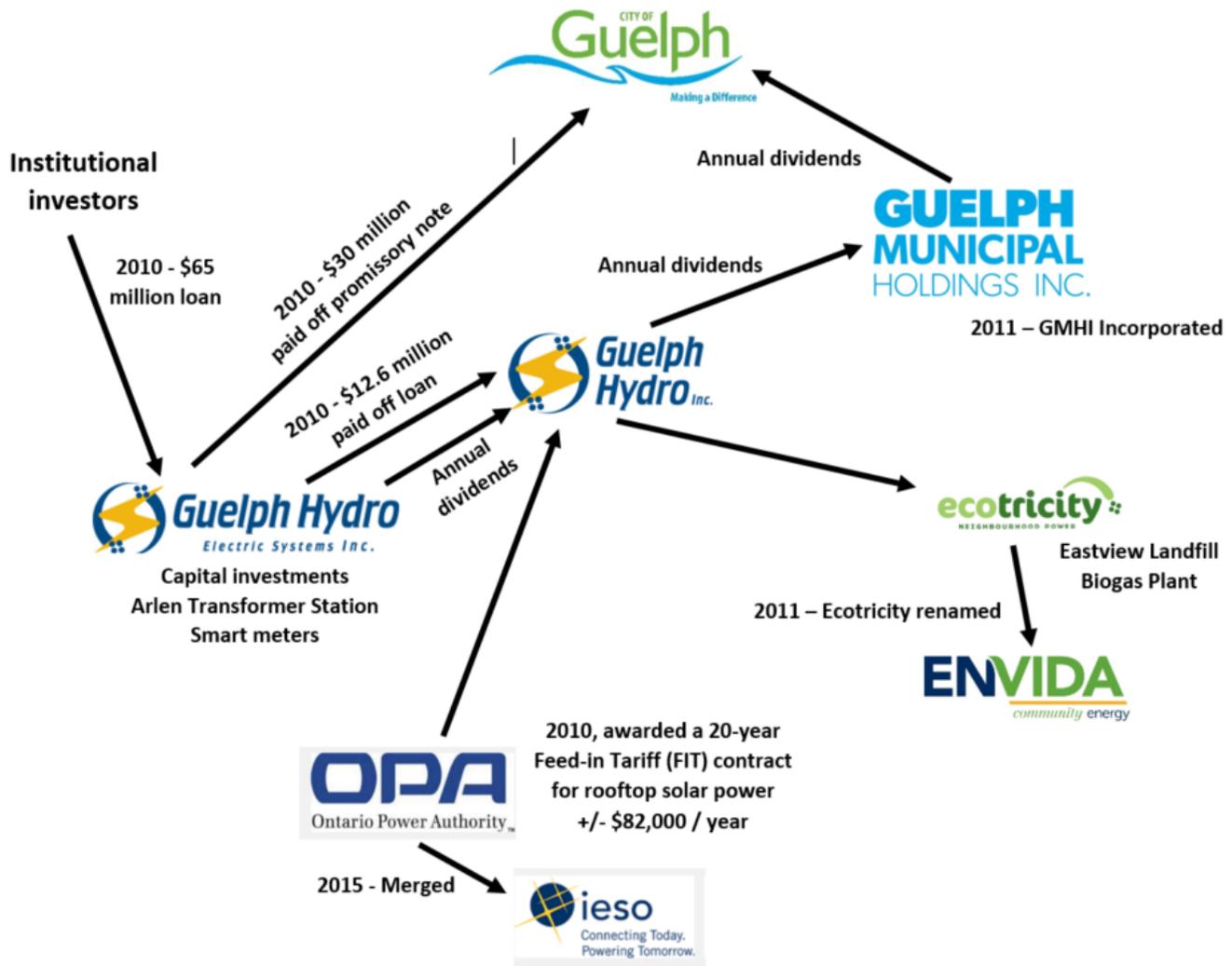


Diagram 4

## 2010-2011

17. In 2010, the City and GHI entered into a Memorandum of Intention in which GHI was designated as the prime implementer and key developer of high-efficiency, low-carbon, sustainable energy projects to assist the City of Guelph in achieving targets set out in the Guelph Community Energy Initiative and foster economic development.
18. In 2010, GHI was awarded a 20-year Feed-in Tariff (FIT) contract for electricity generated from a 100-kilowatt rooftop solar facility installed at a cost of just under \$1 million that same year on the Guelph Hydro Southgate building. This facility went into commercial operation in 2011 with annual income estimated at \$82,000.

19. In 2010, GHESI and Union Gas published a report by MCW Consultants Limited entitled “*Developing a Downtown District Energy System for the City of Guelph Using a CHP Facility.*”
20. In 2010, GHESI borrowed \$65 million via a private placement of debt to a group of institutional lenders (long-term debt issue) and used the money as follows:
  - a) \$30 million - used to pay off the remaining \$30 million owed on the promissory note to the City arising from the establishment of GHESI in 2000. The City used these monies to fund the City’s share of the Federal and Provincial Infrastructure Stimulus Funding and RINC programs with the remaining funds directed to a new reserve fund for “long-term capital forecast update” (later renamed as the Capital Asset Renewal Reserve Fund).
  - b) \$12.6 million – used to pay off the loan from GHI to cover the cost of expanding the Southgate office building to house all GHESI (and GHI) employees.
  - c) Remaining proceeds – spent on capital projects i.e., Arlen Transformer Station and the provincially-mandated installation of smart meters for all residential and small commercial customers.
21. By 2011, GHI had 7 corporate employees. A portion of their salaries and benefits were charged to subsidiary companies via intercompany charges for work provided but some ongoing costs were incurred at the GHI level.
22. Guelph Municipal Holdings Inc. (GMHI) was incorporated in 2011 to hold Guelph Hydro Inc. and its two subsidiaries – Guelph Hydro Electric Systems Inc. and Ecotricity Guelph Inc. – and was expected to take on other city-owned assets at some point in the future. The City’s shares in GHI were transferred to GMHI on Dec. 31, 2011. A Board of Directors was formed but no employees worked for GMHI.
23. In December 2011, to avoid possible copyright infringements, Ecotricity changed its name to Envida Community Energy Inc. (Envida), effective January 1, 2012.

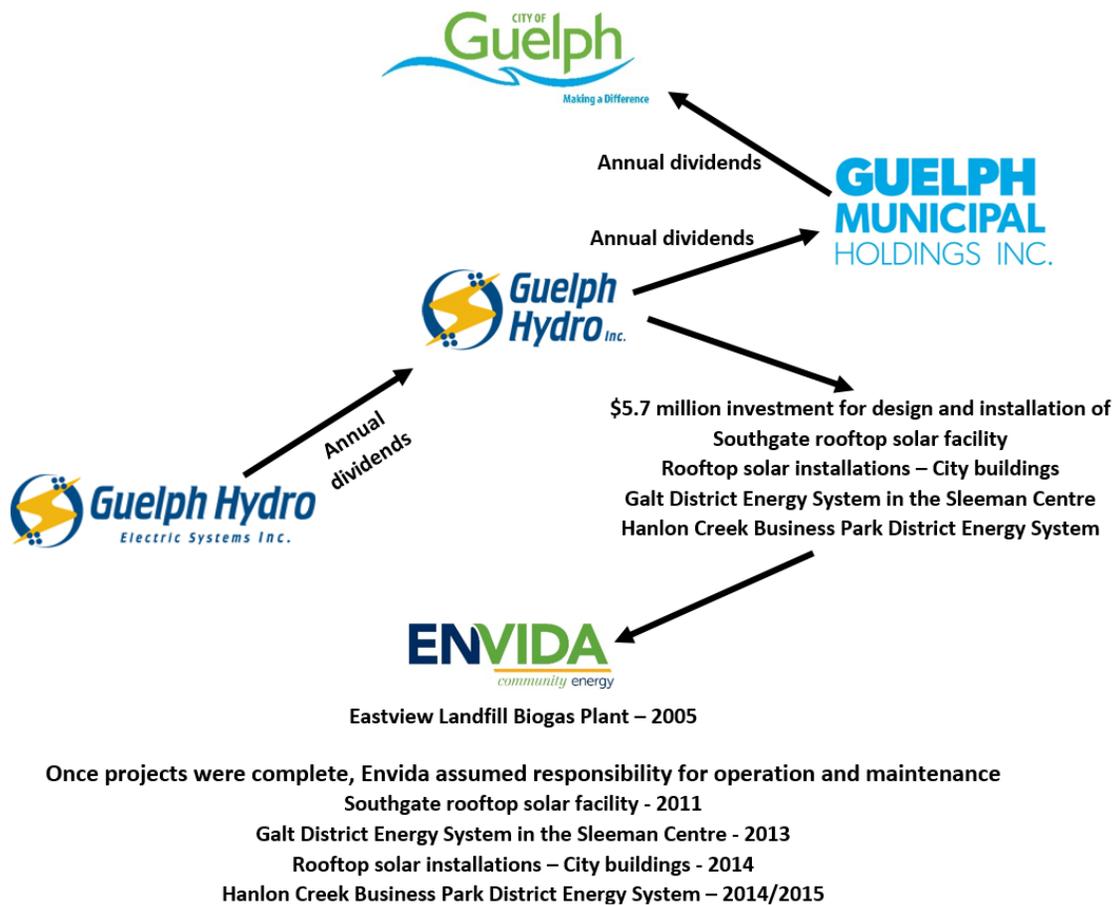
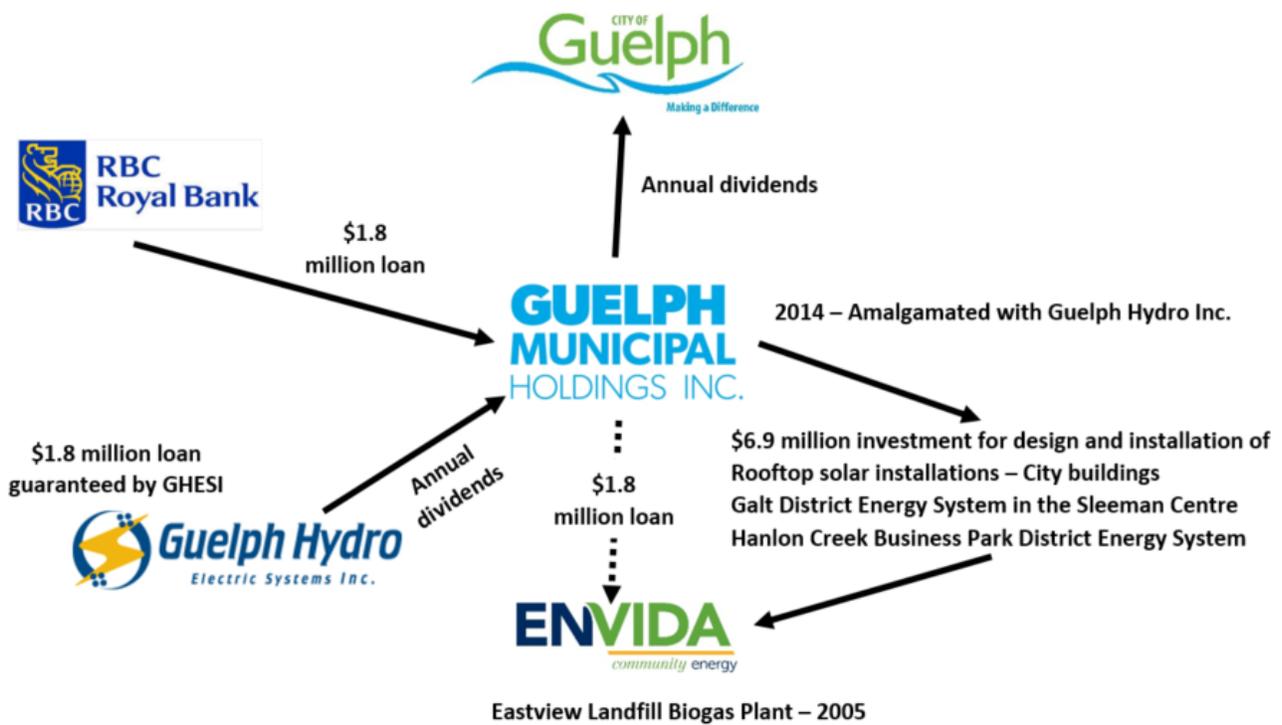


Diagram 5

## 2012 to September 2014

24. In 2013, Envida and the City of Guelph jointly prepared a District Energy Strategic Plan that provided background information on district energy systems, benefits for individuals and communities, and examples of successful district energy networks in other cities.
25. In May 2013, Envida elected to retire its loan payable to the Federation of Canadian Municipalities. Payment was made via proceeds of a promissory note from GHI.
26. Between 2010 and September 2014, using the \$12 million received from GHESI in 2010 as well as the net proceeds from annual dividends, GHI invested \$5.7 million in sustainable energy projects through a combination of equity investments and loans. Funds were used to design and install district energy infrastructure in the Sleeman Centre in downtown Guelph and the Hanlon Creek Business Park, as well as rooftop solar installations on the roof of Guelph Hydro's Southgate building and on seven buildings owned by the City of Guelph. Once projects were complete, Envida assumed responsibility for operation and maintenance.

27. In December 2013, the thermal energy centre in the Sleeman Centre in Downtown Guelph went into commercial operation
28. In April 2014, Envida was awarded a 20-year contract to supply electricity to the Ontario grid from a 10.2 megawatt natural gas-fired combined heat and power (CHP) plant to be located in the Hanlon Creek Business Park. If built, the CHP plant would serve as a heat source for a district energy system in the Hanlon Creek Business Park.
29. In August 2014, The Tricar Group – River Mill Condominium project signed a contract with Envida for district heating and cooling to be provided from the thermal energy plant in the Sleeman Centre in downtown Guelph.



Once projects were complete, Envida assumed responsibility for operation and maintenance

- Southgate rooftop solar facility - 2011
- Galt District Energy System in the Sleeman Centre - 2013
- Rooftop solar installations – City buildings - 2014
- Hanlon Creek Business Park District Energy System – 2014/2015

Diagram 6

## September 2014 to Present

- In 2014, Guelph Hydro Inc. and Guelph Municipal Holdings Inc. were amalgamated under Guelph Municipal Holdings Inc. (GMHI). GMHI acquired 8 employees from GHI. A portion of the salaries and benefits was charged back to subsidiaries for work provided via intercompany charges but there were ongoing costs at the GMHI level.
- Since amalgamation, GMHI has invested \$6.9 million in sustainable energy projects through a combination of equity investments and loans. Funds were used to design and install district energy infrastructure for the Galt District Energy System in downtown Guelph and the Hanlon Creek Business Park, as well as rooftop solar installations on buildings owned by the City of Guelph. Once projects were complete, Envida assumed responsibility for operation and maintenance.

32. In July, 2015, Envida was awarded a 20-year contract to supply electricity to the Ontario grid from a 10 megawatt natural gas-fired combined heat and power (CHP) plant to be located in downtown Guelph. If built, the CHP plant would serve as a heat source for a district energy system in downtown Guelph.
33. By June 2015, GMHI had completely exhausted the \$12 million that GHI had received from GHESI in 2010 but was still faced with expenses relating to connections to the existing district energy infrastructure for M.F. Property Management Ltd. in the Hanlon Creek Business Park and The Tricar Group's River Mill Condominiums in downtown Guelph. To meet its obligations, GMHI borrowed \$1.8 million on its short-term credit facility from the Royal Bank. This loan is guaranteed by GHESI and will need to be fully repaid at the beginning of 2017 or a new loan taken out if repayment is not possible.
34. In 2016, City Council streamlined its oversight of GMHI:
- The Board was restructured to consist of three members of City Council (Mayor Guthrie, Councillor Wettstein and Councillor Downer).
  - The City's CAO was assigned the role of Interim CEO of GMHI to provide the necessary authority and oversight to implement the directions of Council.
  - In addition, a new CEO was appointed on an interim basis for GHESI and Envida.
35. After in-depth consultation with district energy experts and KPMG, GMHI determined that without the addition of a significant thermal load in the Hanlon Creek Business Park, the project will lose money every year it is in operation and the capital costs to build the plant will be unrecoverable. Although the revenue generated from the Galt District Energy System in the Sleeman Centre will cover its operating and maintenance costs, there will be little or no revenue to repay the initial capital investment in the project.

Capital costs incurred in building the company's two district energy projects which include engineering costs and costs for piping, boilers, chillers, pumps, energy transfer station, backup generators, air conditioning units, cooling tower, air handling units, heat exchangers, etc. totalled:

- Hanlon Creek Business Park \$5.1 million
- Galt District Energy System in the Sleeman Centre in downtown Guelph \$6.1 million

## **Write-Offs / Write-Downs**

36. Envida prepares its financial statements in accordance with accounting standards which require that assets be carried on the balance sheet at no more than their recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. For each reporting period the entity is required to determine whether there is any indication that the asset is being carried at greater than its recoverable amount. If it is determined that the recoverable amount of an asset is less than its carrying value, then the asset is deemed to be impaired and the value must be written down to the recoverable amount. District energy assets in the Hanlon Creek Business Park and downtown Guelph will not generate sufficient cash flows over their useful lives to fully recover the costs of installing these assets. The required asset write-down / write-off amounted to:

- Hanlon Creek Business Park \$5.1 million
- Galt District Energy System in the Sleeman Centre in downtown Guelph \$3.6 million

## **Intercompany Loans**

37. As of the end of 2015, Envida owes GMHI \$11.8 million related to funds invested in the Eastview Landfill Biogas Plant, district energy assets, as well as other corporate service and operating needs over the past five years.

38. Given the current state of operations, it is unlikely that Envida will be able to repay this loan and consideration to forgiving this loan is being explored.

## Tax Considerations

39. GMHI's income is derived primarily from dividends paid by GHESI, as well as interest on any monies loaned to its subsidiaries. GMHI's dividends are not treated as taxable income and as a result, the company is typically in a "taxable loss" position as its other sources of income are insufficient to meet its ongoing operating expenses.
40. Since 2006, a total of \$10,595,931 in tax losses have been accumulated. These tax losses may be applied against future income earnings but are subject to an expiry date.
41. Envida also generates tax losses since its taxable income from operations (solar installations, district energy projects, Eastview Landfill Gas Plant) does not offset the company's expenses (fuel costs, water charges, land lease payments, maintenance of equipment by contractors, Board of Director costs, etc.). (Note: Envida has no employees so there are no salary and benefit costs.)
42. Since 2008, a total of \$7,341,313 in tax losses have been accumulated. These losses may be applied against future income earnings but are subject to an expiry date.

### GMHI Non-Capital Loss Continuity Worksheet

Year of		
Origin	Non-Capital Loss	Expiry Date
2015	\$ 3,003,425 <sup>1</sup>	December 31, 2035
2014	388,429	December 31, 2034
2013	1,032,064	December 31, 2033
2012	2,218,324	December 31, 2032
2011	1,746,480	December 31, 2031
2010	562,622	December 31, 2030
2009	-	
2008	3,880	December 31, 2028
2007	143,911	December 31, 2027
2006	1,496,796	December 31, 2026
	<u>\$ 10,595,931</u>	

<sup>1</sup> Estimate subject to review by KPMG

### Envida Non-Capital Loss Continuity Worksheet

Year of		
Origin	Non-Capital Loss	Expiry Date
2015	\$ 761,290 <sup>1</sup>	December 31, 2035
2014	2,230,110	December 31, 2034
2013	81,592	December 31, 2033
2012	1,455,957	December 31, 2032
2011	758,000	December 31, 2031
2010	845,488	December 31, 2030
2009	939,360	December 31, 2029
2008	269,516	December 31, 2028
	<u>\$ 7,341,313</u>	

<sup>1</sup> Estimate subject to review by KPMG

Report submitted by:

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Tel: 519-837-4707

Tara Baker  
Acting City Treasurer  
City of Guelph  
Email: [tara.baker@guelph.ca](mailto:tara.baker@guelph.ca)  
Tel: 519-822-1260

## Shareholders Meeting

Date: May 16, 2016

Report from: Pankaj Sardana, CFO, GMHI / CEO, Guelph Hydro Electric Systems Inc.  
and Envida Community Energy Inc.

### RE: GMHI Restated 2016 Budget

The changes to GMHI operations and governance approved by Council in late 2015 resulted in the need for a new budget forecast for 2016. The proposed restated budget was approved by the GMHI on Board on May 12, 2016 and is attached. Also included in the budget documents is a Cash Flow Statement.

The budget is premised on the transfer of the existing 8 GMHI employees from GMHI by June 30, 2016. The estimates in the budget will be revised once the actual date is known.

The following are the highlights of the budget:

**Finance, Accounting and Other:** GHESI Finance staff will continue to manage the financial function for GMHI during the transition period and the costs stated are estimates for the cost of that work.

**Dividend:** The dividend paid to the City will remain unchanged through 2016.

**Support Staff:** Two new contract staff people will be retained by the City to assist with the support of GMHI and its Committees during the transition period.

**Business Development:** Estimated expenses for additional resources to support the work to be done during the transitional period by GMHI and GMHI Committees and to establish DevCo.

The Cash Flow Statement shows the historical and planned cash flow for GMHI to the end of 2016. The OMAFRA Funds Obligation relates to a grant that the former Guelph Hydro Inc. received in 2010 to fund the completion of an engineering design for the construction of an Anaerobic Digester General Plant in partnership with Cargill Meat Solutions. This work has not yet been completed and OMAFRA has requested the return of the funding, less expenses for work done. The City has initiated discussions with OMAFRA and Cargill to determine if the project can be revived and an extension for completion of the work approved. If these discussions are not successful, GMHI will need to refund the grant money to OMAFRA in 2016.

The RBC Loan Obligation is a term loan expiring January 5, 2017, which may be renegotiated.



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Pankaj Sardana

**GMHI 2016 Budget**

	2016 Budget; Pre- Emp Tsfr	2016 Budget; Post-Tsfr	Total 2016 Budget
<b>Summary of Revenues:</b>			
Dividend Income <sup>4</sup>	\$ 1,500,000	\$ 1,500,000	\$ 3,000,000
Interest Income	-	108,000	108,000
<b>Total Revenues</b>	<b>\$ 1,500,000</b>	<b>\$ 1,608,000</b>	<b>\$ 3,108,000</b>

	2016 Budget; Pre- Emp Tsfr	2016 Budget; Post Tsfr	Total 2016 Budget
<b>Summary of Operating Expenses:</b>			
Board Expenses	\$ 46,000	\$ 15,000	\$ 61,000
General Administration	943,290	812,500	1,755,790
Outside Services	6,000	10,500	16,500
Support Staff	-	106,667	106,667
Professional Fees & Services	6,000	15,500	21,500
Offices Supplies	5,000	3,175	8,175
Business Development	-	75,000	75,000
	<b>\$ 1,006,290</b>	<b>\$ 1,038,342</b>	<b>\$ 2,044,632</b>

**Surplus of Revenues over Expenses** **\$ 1,063,368**

**GMHI BUDGET DETAILS**

	2016 Budget; Pre- Emp Tsfr	2016 Budget; Post Tsfr	Total 2016 Budget
<b>Board of Directors Expenses<sup>1</sup></b>	<b>\$ 46,000</b>	<b>\$ 15,000</b>	<b>\$ 61,000</b>
<b>Total BoD Expenses</b>	<b>\$ 46,000</b>	<b>\$ 15,000</b>	<b>\$ 61,000</b>
<b>General Administration</b>			
Finance, Accounting and Other <sup>2</sup>	\$ 118,290	\$ 50,000	\$ 168,290
Loan Repayment <sup>3</sup>	-	-	-
Dividends Payments to City	750,000	750,000	1,500,000
Conferences and seminars	-	5,000	5,000
Lodging	-	5,000	5,000
Meals	-	2,500	2,500
Restructuring Costs	75,000	-	75,000
<b>Total Administration Expenses</b>	<b>\$ 943,290</b>	<b>\$ 812,500</b>	<b>\$ 1,755,790</b>
Advertising	\$ -	\$ 2,500	\$ 2,500
Bank charges	-	3,000	3,000
Consultants	6,000	5,000	11,000
<b>Total Outside Services</b>	<b>\$ 6,000</b>	<b>\$ 10,500</b>	<b>\$ 16,500</b>
<b>Support Staff</b>	<b>\$ -</b>	<b>\$ 106,667</b>	<b>106,667</b>
<b>Total Support Staff</b>	<b>\$ -</b>	<b>\$ 106,667</b>	<b>\$ 106,667</b>
Corporate & Professional Memberships	\$ 6,000	\$ 3,000	\$ 9,000
Outside Services / Other	-	2,500	2,500
Professional fees - Audit	-	10,000	10,000
<b>Total</b>	<b>\$ 6,000</b>	<b>\$ 15,500</b>	<b>\$ 21,500</b>
Office Supplies - Other	\$ -	\$ 1,175	\$ 1,175
Telephone - Other	5,000	1,000	6,000
Other GMHI Expenses	-	1,000	1,000
	<b>\$ 5,000</b>	<b>\$ 3,175</b>	<b>\$ 8,175</b>
<b>Business Development</b>			
GMHI Committee Expenses	\$ -	\$ 30,000	\$ 30,000
DevCo Expenses	-	30,000	30,000
Legal fees	-	5,000	5,000
Consultants	-	10,000	10,000
<b>Total Business Development</b>	<b>\$ -</b>	<b>\$ 75,000</b>	<b>\$ 75,000</b>
<b>TOTAL Operating Expenses</b>	<b>\$ 1,006,290</b>	<b>\$ 1,038,342</b>	<b>\$ 2,044,632</b>

## GMHI Sources and Uses of Cash

<b>Sources and Uses of Cash (\$M)</b>	<b>2013</b>		<b>2014</b>	
	<b>Actual</b>		<b>Actual</b>	
Opening balance	\$	12,836,651	\$	9,432,965
Sources:				
Dividend from GHESI		1,400,000		3,000,000
Interest income		120,183		97,772
Management services		161,560		391,941
Note repayment		1,500,000		764,645
External Borrowing (RBC)				
	<b>\$</b>	<b>3,181,743</b>	<b>\$</b>	<b>4,254,358</b>
Uses:				
Operating costs				
Capital spending on DE & Solar PV Projects		5,085,429		9,855,401
Dividends to City		1,500,000		1,500,000
Potential OMAFRA Repayment				
	<b>\$</b>	<b>6,585,429</b>	<b>\$</b>	<b>11,355,401</b>
Notional Closing balance	<b>\$</b>	<b>9,432,965</b>	<b>\$</b>	<b>2,331,922</b>
<b>Third Party Obligations</b>				
OMAFRA Funds Obligation (excl. interest)	\$	932,484	\$	932,484
RBC Loan Obligation				
Total External Obligations	<b>\$</b>	<b>932,484</b>	<b>\$</b>	<b>932,484</b>
Bank Account Balance after Obligations	<b>\$</b>	<b>8,500,481</b>	<b>\$</b>	<b>1,399,438</b>

	<b>2015 Actual</b>		<b>2016 Plan</b>
\$	2,331,922	\$	(240,634)
	3,000,000		3,000,000
	27,297		108,000
	-		-
	-		-
	1,800,000		-
<b>\$</b>	<b>4,827,297</b>	<b>\$</b>	<b>3,108,000</b>

	5,899,853	to be determined	
	1,500,000	1,500,000	
		1,000,000	
<b>\$</b>	<b>7,399,853</b>	<b>\$</b>	<b>2,500,000</b>

<b>\$</b>	<b>(240,634)</b>	<b>\$</b>	<b>367,366</b>
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\$	932,484	\$	-
	1,800,000		1,800,000
<b>\$</b>	<b>2,732,484</b>		<b>1,800,000</b>

<b>\$</b>	<b>(2,973,119)</b>	<b>\$</b>	<b>(1,432,634)</b>
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