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2017 OPERATING BUDGET BRIEFING NOTE

Toronto Hydro Corporation Capital Contribution

Issue / Background:

At its meeting of December 13, 14, and 15, 2016, City Council adopted EX20.3 Asset Optimization Review, approving an equity contribution of \$250 million to Toronto Hydro Corporation. Just prior to this decision, the City had received a letter from the Board of Toronto Hydro indicating that they were going to reduce the dividend to the City to \$25 million annually to mitigate rising debt levels. The equity contribution is intended to allow the dividend to the City to be restored by the Board to 50% of the prior year's net income of Toronto Hydro.

Key Points:

Toronto Hydro released its 3rd quarter financial results in late November. Based on a review of these results, City staff anticipate that 2016 net income will be about \$150 million. In accordance with the current dividend policy, the expected dividend payments would be \$75 million in 2017. The preliminary budget estimate for 2017 dividends is currently \$60 million.

It is proposed that the budget be increased by \$15 million to reflect the City's revised net income expectations for Toronto Hydro Corporation. For budget purposes, it is assumed that the first \$5 million of this additional revenue will be allocated to compensate the investment fund for foregone earnings on the \$250 million. The resulting net budget impact is a net non-program revenue increase of \$10 million.

Staff have also been directed to report back to Council in the 1st quarter of 2017 on the implementation details of the \$250 million equity contribution and any related matters.

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Date: January 18, 2017