

Corporate Report

REPORT NUMBER 398-2023-Corporate Services-Office of the City Treasurer

DATE

PREPARED

December 5, 2023

FILE

MEETING DATE

December 18, 2023

SUBJECT

Tbaytel Dividend Model

RECOMMENDATION

WITH RESPECT to Report 398-2023-Corporate Services-Office of the City Treasurer, we recommend that the revised Tbaytel Dividend Policy as contained within this report and encompassing three major elements (a Fixed Annual Dividend, a Performance Dividend and a Special Dividend) be approved;

AND THAT the Dividend Policy continue to serve as a direction to the Tbaytel Municipal Services Board for purposes of payment of future dividends to the City of Thunder Bay;

AND THAT a review of the Tbaytel Dividend policy be undertaken every two years;

AND THAT the next review occurs in conjunction with the 2025 Third Quarter update from Tbaytel;

AND THAT the Fixed Annual Dividend in excess of \$18.75 million in 2024 and \$19.0 million in 2025 be transferred to the Stabilization Reserve unless the year-end uncommitted balance of that reserve is greater than \$10.0 million, in which case the excess funds be transferred to the Capital General Reserve Fund;

AND THAT the Performance and Special Dividends continue to be directed to the Renew Thunder Bay Reserve Fund.

LINK TO STRATEGIC PLAN

This Report supports the strategic direction to plan and deliver cost-effective services, with a focus towards long-term financial sustainability, accountability, and appropriate resource allocation.

EXECUTIVE SUMMARY

The purpose of this report is to provide information regarding the current Dividend Policy for Tbaytel and to make recommendations for revisions to the policy.

The report recommends the Fixed Annual Dividend be increased to \$19.0 million for 2024 and \$19.5 million for 2025, with \$18.75 million for the year 2024 and \$19.0 million for 2025 included as general corporate revenue, reducing the municipal tax levy.

DISCUSSION

Current Dividend Policy

The Tbaytel Dividend Policy was most recently revised in 2021 and encompasses three components:

Fixed Annual Dividend

The Fixed Annual Dividend of \$18.0 million for the years 2022 and 2023, flows quarterly to the City. Of this amount, \$17.75 million is to be included as general corporate operating revenue in the City's budget, reducing the municipal tax levy. The remaining \$250,000 is to be transferred to the Stabilization Reserve unless the year-end uncommitted balance of that reserve is greater than \$10.0 million, in which case excess funds are to be transferred to the Capital General Reserve Fund.

Performance Dividend

An annual Performance Dividend to the City, calculated as 25% of net income over the approved plan (exclusive of unbudgeted government grants), is paid following the finalization of year-end financial reporting. Performance Dividends are to be transferred to the Renew Thunder Bay Reserve Fund.

A Performance Dividend of \$3,908,000 was paid in 2021 and \$239,000 was paid in 2022.

Special Dividend

Following an annual review of both the retained earnings and free cash generated, the Board of Directors of Tbaytel may declare any available retained earnings as a Special Dividend at the Annual Members meeting or a Special Members meeting. Special Dividends are to be transferred to the Renew Thunder Bay Reserve Fund.

No Special Dividends were declared in 2021 or 2022.

Proposed Dividend Policy Revisions

City Council has directed Administration to review the Dividend Policy every two years and report back to City Council.

It is recommended that the Dividend Policy be updated to require a Fixed Annual Dividend of \$19.0 million for 2024 and \$19.5 million for 2025. It is further recommended that the proceeds are distributed as follows:

2024	General Corporate Revenue	\$18,750,000
	Stabilization Reserve*	<u>\$ 250,000</u>
	Total	\$19,000,000

2025	General Corporate Revenue	\$19,000,000
	Stabilization Reserve*	<u>\$ 500,000</u>
	Total	\$19,500,000

*If the year-end uncommitted balance of the Stabilization Reserve is greater than \$10.0 million, the excess funds are to be transferred to the Capital General Reserve Fund.

The estimated uncommitted balance of the Stabilization Reserve at the time this report was prepared was \$10.0 million.

FINANCIAL IMPLICATION

The Tbaytel Dividend significantly reduces the tax burden (by approximately 8.6% in 2023) of City ratepayers

The recommended 2024 Fixed Annual Dividend of \$19.0 million, was factored into the 2024 budget directions approved at the July 24, 2023 Committee of the Whole meeting with \$18.75 million included as general corporate revenue.

The Fixed Annual Dividend would increase to \$19.0 million in 2024 and \$19.5 million in 2025. The annual amount in excess of \$18.75 million in 2024 and in excess of \$19.0 million in 2025 are to be transferred to the Stabilization Reserve unless the year-end uncommitted balance of that reserve is in excess of \$10.0 million in which case, the funds are to be transferred to the Capital General Reserve Fund.

Both the Performance Dividend and Special Dividend are to be transferred to the Renew Thunder Bay Reserve Fund. This provides Council with the ability to address existing and emerging capital infrastructure investment and leveraging opportunities.

Since the formation of the Municipal Service Board in 2004, Tbaytel has provided \$375.9 million to the City of Thunder Bay.

CONCLUSION

It is concluded that City Council should approve the revised Dividend Policy as contained within this report, which serves as a direction to the Tbaytel Municipal Services Board for purposes of payment of future dividends.

It is also concluded that a review of the Dividend Policy should occur every two years and that the next review should be in conjunction with the Third Quarter update from Tbaytel in 2025.

It is also concluded that the Performance Dividend and Special Dividend should continue to be directed to the Renew Thunder Bay Reserve Fund and that the excess amounts of the Fixed Annual Dividend be distributed as outlined in this report.

BACKGROUND

Thunder Bay Telephone was operated as a department of the municipality for close to one hundred years. In 2004, the City changed the governance model for the utility to that of a Municipal Services Board (created under the Municipal Act, 2001). By-law 257-2004 functions as the “articles of incorporation” for Tbaytel, the City-owned telecommunications corporation.

The Dividend Policy was last reviewed and approved in December 2021 at which time there was an amendment to By-law 257–2004 which excluded unbudgeted government grants from Net Income for the purposes of calculating the Performance Dividend beginning in fiscal year 2022.

REFERENCE MATERIAL ATTACHED

None.

REPORT PREPARED BY

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REPORT SIGNED AND VERIFIED BY

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12/08/2023