

**Delegation from Paul Pagnuelo**  
Special CoW of Cobourg Council

15 September 2019

*(Mr. Pagnuelo's hospital stay in Toronto was unfortunately extended. I am Trish Whitney and a Cobourg resident. I hope that you will allow me to read Paul's previously prepared delegation.)*

Good evening Madame Chair, members of Council, the media and those here in the public gallery. I'm Paul Pagnuelo, a proud resident of Cobourg at 814 Lees Avenue. Although I am a director of the Cobourg Taxpayers Association (CTA), I want to step outside that role this evening. Mr. Strauss presented the CTA's position earlier. My delegation tonight is from an entirely personal perspective as both a Cobourg taxpayer and as a LUI client.

I don't intend to get into the weeds this evening with fancy graphs, reams of data and a PowerPoint slide deck.

In the last meeting when Mr. Gutteridge appeared before Council, he argued quite passionately that the submission they would be making this evening would be from Holdco and not LUI. I was somewhat taken aback and reflected on his comments upon noticing that the slide deck he is using shows the submission is from LUI and that LUI Chair Brocanier would be co-presenting with him this evening.

There should be four parties – LUI, Cobourg, LUI's customers and Cobourg's residents – in this discussion but only two are being considered. LUI and Cobourg are arguing in their own self-interests rather than for what is best for Cobourg's residents and LUI's customers.

- We have had Town staff and Holdco/LUI Boards disagreeing over whether the interest rate should be 3.97% or 3.72%.
- LUI wants to keep as much profit as possible by reducing the promissory note rate to no more than the OEB maximum allowed rate for affiliated debt. This is what the CTA argued for during the 2016 OEB rate hearings and I commend LUI and their CEO for finally following our sound advice.

- Town staff are rightly focused on how changes to the promissory note will negatively impact Cobourg's revenues. Any shortfall will result in lower spending, higher taxes or a combination of the two.
- Will the loan have a repayment schedule or will LUI be able to make payments or even no payments solely at their discretion?

In the latest version of the staff report all of these questions have been resolved to LUI's benefit.

How about considering what is best for Cobourg's residents and LUI's customers? Nobody is asking the crucial questions of: How will changes affect Cobourg's residents? How will changes affect LUI's customers?

Also the true objective of the LUI rate reduction proposal is still unclear:

- Is it simply to reduce borrowing costs in order to improve their profits? If so, what will they do with the additional profits?
- Is it an effort to put a good spin on their recently published scorecard – a document that is irrelevant and mostly ignored by their customers?
- If the additional profits are needed for infrastructure costs, why aren't these being funded as part of the OEB rate application process?
- Is LUI's distribution network in a more serious state of disrepair than we are being told and requires unplanned expenditures to correct?
- Is it to reduce their debt so new outside borrowing can be obtained? Will the new borrowing be used by LUI to expand into new businesses? Are they contemplating reviving Lakefront Generation, Inc which was incorporated at a cost of \$68,000 in 2005 but is now inactive? Are they contemplating another disastrous foray into street lighting by partnering with a Chinese company as with Lakefront Lighting Inc in 2008?
- Is it to make their Balance Sheet more attractive to a prospective purchaser?

These are the important questions that I don't hear anybody asking and for which Council should be seeking answers.

The Debt/Equity option put forward by the CTA on September 23 provides the most flexible structure and I'm puzzled as to why it is not being seriously entertained.

Let me explain.

- By switching debt for equity by means of preferred shares, it immediately removes all affiliated debt off LUI's books and increases its shareholder equity by \$7 Million.
- By increasing its equity, LUI now has the ability to pursue increased borrowing. Remember the level of possible borrowing is based on equity.
- Although interest would no longer be paid to the Town, under OEB rules the lost interest could be made up by a LUI dividend on the preferred shares.

Since the turn of the century, the Town of Cobourg has been successful in getting as much as \$1.1M annually through stealth taxes. Before the days of Holdco, LUI, and de-regulation, Cobourg had its own Public Utility Company. Unlike private sector corporations that operate for profit, the touted benefit of a PUC was that it operated at cost and kept electricity costs low for consumers.

The Adam Beck dream!

All governments love stealth taxes so I'm not singling out Cobourg Council. I understand that it is a hard sell to give up extra cash if it can be silently collected from higher than necessary electricity bills and then handing some of the profit to the Town to be spent as the Council of the day sees fit. No matter how one slices or dices it, Adam Beck realized that those in the middle of the sandwich – taxpayers and LUI clients – are the same people.

I prefer politicians who will be honest with me about the required tax levy. I prefer those who will be less swayed to spend on discretionary and often unnecessary items simply because a convenient slush fund is available at the expense of LUI clients and ratepayers who are for the most part both residents and taxpayers of Cobourg.

Perhaps as an interim step, the Town should call the note and allow LUI to replace it with a legitimate loan at market rates. This would at least partially end the stealth tax and would give the Town an immediate \$7 Million in cash to put towards critical infrastructure costs such as structural repairs to the East Pier. The remainder of the funds should be allocated to a legacy fund that is strictly controlled for significantly important infrastructure costs. No more Park Theatres, no more multi-million dollar over budget Public Works buildings, no more grandiose

plans for CCC expansion, etc. The Cobourg Legacy Fund should be strictly used as a rainy day fund for unforeseen critical infrastructure repairs.

This is the first in what I consider several important discussions Council and the public need to have about LUI and Holdco.

The next discussion, we should have in the immediate future is to debate the pros and cons of continuing to own LUI or whether the time has come to sell it off to the private sector. I think as adults we should be capable of having a reasoned and respectful conversation in an environment of no sacred cows.

I thank you for your time to listen to me this evening.