CITY OF HAMILTON

CORPORATE SERVICES
Taxation Division

SUBJECT: Support for the Restructuring Plan for Stelco Inc. (FCS05121) (City Wide)

RECOMMENDATION:

a) That the City of Hamilton, being an unsecured creditor of Stelco Inc. and Stelwire Ltd., vote in favour of the Stelco Plan of Arrangement and Reorganization, pursuant to the Companies’ Creditors Arrangement Act (CCAA) (Canada) and the Canada Business Corporations Act; and

b) That the Mayor and City Clerk be authorized to sign the necessary Affected Creditor’s Proxy forms for Stelco Inc. and Stelwire Ltd., on or before 5:00 p.m. November 14, 2005 in order to facilitate the City’s vote.

Joseph L. Rinaldo
General Manager
Finance and Corporate Services

EXECUTIVE SUMMARY:

The City of Hamilton, as an unsecured creditor of Stelco Inc. and Stelwire Ltd., is eligible to vote “yes” or “no” with respect to the Stelco Plan of Arrangement and Reorganization (“the Plan”) prepared by Stelco in accordance with the Companies’ Creditors Arrangement Act (CCAA) (Canada) and the Canada Business Corporations Act. Meetings of affected creditors of Stelco Inc. and Stelwire Ltd. are scheduled for November 15, 2005, in Mississauga Ontario. In order to emerge from bankruptcy protection, the plan must be accepted by affected creditors via a majority vote representing at least 66 2/3% in value of the proven claims of affected creditors, by company. Voting can be done either at the meeting or by completing an Affected
Creditor Proxy Form for each of Stelco Inc. and Stelwire Ltd., and returning same to the Monitor on or before 5:00 p.m. November 14, 2005. The City of Hamilton has unsecured claims against Stelco Inc. and Stelwire Ltd. totalling $766,988.47 and $13,473.71 respectively.

According to the Stelco Notice of Proceedings and Meetings and Information Circular With Respect to a Plan of Arrangement and Reorganization (the “Stelco Report”), a favourable vote will result in the City’s unsecured claims being converted into convertible notes or common shares in Stelco stock, with the Stelco Report indicating an estimated recovery value of 66%. An actual recovery amount is unpredictable based on market reaction to the Plan’s implementation. The Stelco Report estimates that, if the Plan is rejected by affected creditors and the company is forced into receivership or liquidation, that the expected recovery of creditor’s claims would be in the 17% to 33% range.

The City’s property taxes form secured claims against Stelco Inc. and Stelwire Ltd. and will not be affected by the Plan. The City has continued to receive the property tax payments on time. The only amount outstanding for taxes is for the period January 1 to January 29, 2004, in the amount of $1,322,243.51. Under CCAA legislation, this amount cannot be paid until the company is removed from the bankruptcy protection. Regardless of the vote with respect to unsecured claims, the Stelco Report indicates that 100% of the secured claims would be recoverable.

**BACKGROUND:**

On January 29, 2004, Stelco filed for and received protection under the CCAA in the form of a general stay of proceedings. Stelco’s group of companies (“Stelco”) and the Monitor have now presented a Plan to the courts and Stelco’s affected creditors which, if approved, will allow Stelco to emerge from bankruptcy protection. Stelco would then be able to implement its’ business plan in order to return them, hopefully, to a viable steel company in the North American Steel Industry.

**ANALYSIS/RATIONALE:**

Stelco is a major taxpayer and employer in the City of Hamilton, not only through its’ own operations and that of subsidiaries, but also through many other local support firms. The workers and pensioners from Stelco, for the most part, live in the community and pay property taxes to the City. The loss or partial loss of such an employer would have a negative economic impact not only for the City’s revenues, but for the community as a whole.
Further, via Council meeting of October 12, 2005, City Council approved a motion, which states:

“That Hamilton City Council support an open letter endorsing the Stelco Restructuring Plan to the citizens of Hamilton that would be published in the local newspapers”.

**ALTERNATIVES FOR CONSIDERATION:**

The City, as an affected creditor, could choose to vote “no” to the Plan which would not necessarily mean the Plan would be defeated. As a creditor, the City also has the option not to vote, or to otherwise participate in these proceedings.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

If the Plan is defeated, it is estimated that the City would only recover 17% to 33% of its unsecured claims against Stelco Inc. and Stelwire Ltd., resulting in a loss of revenue totalling $522,909.66 to $647,783.61.

If the Plan is accepted, in the words of the court appointed Monitor to these proceedings, the result would be as follows:

“The securities issued under the Plan will be subject to a number of risks and should be considered to be speculative”.

Therefore the City’s loss could be anywhere from $0.00 to $780,462.18.

In short, there is no guarantee of recovery; however, potential estimated recovery of 66% in the form of shareholdings is projected, which would equate to $515,105.04

**POLICIES AFFECTING PROPOSAL:**

N/A

**RELEVANT CONSULTATION:**

Legal Services has led this process with the assistance of outside legal Counsel.

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.
Community Well-Being is enhanced. ☑ Yes ☐ No

A major employer in the City of Hamilton will continue to be a viable company.

Environmental Well-Being is enhanced. ☐ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes ☐ No

Our industrial tax base remains unchanged. Employment both at Stelco and the local support companies that supply Stelco will remain stable.

Does the option you are recommending create value across all three bottom lines? ☐ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☐ Yes ☑ No