

MINISTRY PAPER No.....

Government Guarantee in respect of a Loan Facility of Four Hundred and Twenty-Five Million Dollars (\$425,000,000.00) to the Jamaica Urban Transit Company Ltd. (JUTC) from Bank of Nova Scotia Jamaica Limited (BNS).

1.0 ISSUE

The Honourable House is being invited to consider and approve a Government Guarantee under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act, for a loan in the amount of **FOUR HUNDRED and TWENTY FIVE MILLION DOLLARS (\$425,000,000.00)** from BNS to JUTC. The purpose of the loan is to refinance the company's current debt obligations while measures aimed at strengthening the financial operations of the JUTC are being pursued.

2.0 BACKGROUND

2.1 The Hon. House should note that the JUTC is pursuing a number of measures aimed at improving its operating efficiencies, reducing costs and improving revenue flows. These measures are projected to result in improved financial performance over the period 2009 – 2011.

2.2 The proceeds of the loan facility will be utilized to liquidate National Commercial Bank overdraft facility of \$250 million and principal balance of approximately \$150 million on RBTT loan of \$300 million.

3.0 LOAN FACILITY OF \$425 MILLION

3.1 Financing proposals were received from four financial institutions. From the offers received BNS was selected, as the terms and conditions were considered the most favourable.

3.2 The salient terms of the financing proposal received from BNS are as follows:

- Amount JS\$425 million
- Type of Credit Non-revolving Term Loan
- Interest Rate Higher of 6-month Weighted Average Treasury Bill Yield, or BOJ Repo plus 1.625 percentage points.
- Commitment Fees 0.5%
- Tenure 10 years
- Moratorium on Principal Repayment 24 –Months
- Principal Repayment 15 semi-annual payments of \$11.80 million plus one final payment of \$248 million
- Security Government Guarantee

4.0 FINANCIAL PERFORMANCE

4.1 In an effort to improve its operating results, the company is pursuing several initiatives over the period 2008/09 to 2010/11. These are aimed at improving operating efficiencies to contract costs, and improve revenue flows with a view to reduce the losses being incurred.

4.2 During 2008/09 staff rationalization was one of several undertakings to contain costs: staff redundancies, re-training of drivers, and the conversion of a number of buses to single operator units. Notwithstanding these initiatives for the 9-month period ended December 31, 2008 JUTC incurred loss of \$754.14 million after government support compared to budget of \$676.44 million (December 2007: \$1,232.25 m). This outcome was due mainly to sustained contraction in passenger numbers as the JUTC's operation continues to be plagued mainly by competition from transport providers operating illegally in the Kingston Metropolitan Transport Region (KMTR). Consequently, operating revenue of \$1,483.28 million was below budget by \$889.22 million, as passenger numbers fell below budget by approximately 13 million.

4.3 In response to the outcome on operating revenue the Government has provided total cash support of \$956 million to JUTC for 2008/09. This support is in respect of redundancy activities, payment of health insurance, debt service payments and to offset operating losses.

Request

5.0 The Hon. House of Representatives is accordingly asked to approve the issue of a Government of Jamaica Guarantee under the provisions of the Approved Organisations and Authorities Loans (Government Guarantee) Act for the loan facility of **FOUR HUNDRED and TWENTY-FIVE MILLION DOLLARS (\$425,000,000.00)** from the BNS Jamaica Limited to the Jamaica Urban Transit Company Limited (JUTC) to restructure its current debt obligations.

6.0 The appropriate resolution will be moved in due course.



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Minister of Finance and the Public Service

~~March~~, 2009
April 8,