



CITY OF ST. ALBERT ADMINISTRATIVE BACKGROUNDER

TITLE: ENERGY CORPORATION FEASIBILITY STUDY

PURPOSE OF REPORT

The purpose of this report is to present a motion for which Councillor Watkins gave notice on November 30, 2020.

PROPOSED MOTION(S):

That by June 30, 2021 Administration provide a feasibility report, including recommendations, for Council to consider next steps in establishing an energy corporation as a means to generate new revenue to offset declining traditional sources of revenue.

The feasibility report is to include, at minimum, an evaluation of:

- Net income projections
- The suite of potential energy generation and marketing opportunities, focusing on green energy with the objective of carbon neutral or carbon credit generating operations
- Financing methods available to raise capital independently of the City of St. Albert so as not to impact taxes, rates or debt
- Opportunities to work collaboratively with regional partners and the private sector
- Integration opportunities with regulated utilities in new developments and/or offsetting of costs associated with traditional offsite infrastructure development methods, and
- The required process, decision gates/offramps, timelines and cost to establish the energy corporation

That the feasibility report be prepared in conjunction with or as a component of the Operational and Fiscal Review being conducted by Ernst and Young, if project budget and schedule permit, and that if additional funds beyond the funds previously allocated for the Operational and Fiscal Review are needed to support the feasibility study as an adjunct to or a component of the Operational and Fiscal Review then additional funds be provided for this purpose to a maximum of \$75,000 drawn from the Stabilization Reserve.

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

Strategic Priority #2: Economic Development: Enhance business/commercial growth.

Strategic Priority #6: Environmental Stewardship: Explore innovative environmental and conservation opportunities.

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

N/A

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

N/A

BACKGROUND:

Leveraging emergent opportunities within the “green industry” to mitigate the City’s known long-term fiscal sustainability issues could provide a unique opportunity to provide value added to St. Albert tax- and ratepayers. Further, while maintaining or enhancing the local quality of life St. Albert is recognized for to achieve a “triple-bottom line” outcome or true sustainability for the City of St. Albert, its residents and its businesses.

Finances

With a high residential tax base (accounting for approximately 80% of the City’s taxation revenue) and our limited legislative ability to generate revenues, St. Albert must continue to focus on long term fiscal sustainability. Fiscal sustainability was front and center as a priority prior to COVID-19, which will exacerbate and make it more important than ever.

Some of the factors contributing to our financial challenges are:

- High resident expectations for existing and new services as evidenced in community engagement surveys, including the recent unplanned community engagement survey to “check the pulse” of the community in preparing the 2021 proposed budget as a result of the onset of an ongoing pandemic
- Low elasticity for property tax increases (for \$100 of diesel fuel for a sanding truck, residents pay \$80 of it compared to an average of approximately \$65 elsewhere in the region due to St. Albert’s high proportion of residential tax base)
- Current reliance on government grants to support the repair, maintenance and replacement needs of our existing infrastructure. This is a multi-million dollar shortfall, that Council has started to address with the 1.5% RMR Surcharge for 3 years, noting that this only begins to address the shortfall

RMR is one of the major challenges facing municipalities across Canada and to-date St. Albert has taken leadership in this issue with a proactive, although insufficient, approach

- A desire for the building of new infrastructure to support a growing community, currently at a deficit of \$256M in the Growth Plan
- Continued downloading of service responsibility from the Province
- Unknown longer-term impacts of COVID-19 in terms of revenue recapture and overall, yet to be realized and understood different ways of doing business and living life
- Provincial and Federal budget pressures will likely result in lower (potentially significantly lower) grant allocations and opportunities, noting grant allocations were in decline in recent years prior to COVID-19

St. Albert has done a very good job at managing the cost side of the equation with low debt per capita and low corporate expenditures per capita, relative to comparable municipalities in Alberta. For many years St. Albert has been able to maintain existing services as well as expand service offerings while maintaining our tax increases at or below inflation. This has been accomplished through rigorous review and controlling our cost structure - in essence we have done more with less. The Ernst & Young (E&Y) Operational and Fiscal Review underway, is the final step in the City's efforts to mitigate expenses and find cost efficiencies. Once completed, there is little more that can be done on the expense side (excepting ongoing continuous improvement work) without elimination of existing services and/or reduction of existing service levels. The work and initiatives undertaken on the City's expenses, in isolation, will not solve the City's long term fiscal sustainability challenge.

Administration has publicly stated on numerous occasions that expense side management alone will not address the long-term fiscal sustainability of the City of St. Albert and that new revenue is also required to fully address it. Councillor Watkins Notice of Motion, to investigate the potential for new revenue opportunities through an energy corporation, is consistent with the investigation and reporting of findings by Administration on financial matters of the City.

The E&Y Review also supports Administration's assertion that the way to address the fiscal sustainability deficit remaining after expense side management is addressed is to both support the growth in our non-residential tax base and to identify and implement projects that generate new, non-traditional ongoing revenue sources.

Opportunity:

Around the world, countries have adopted unprecedented policies during the Covid-19 crisis. The province and the community have an opportunity to emerge from this moment with a resilient economy that supports long term prosperity. To achieve this goal, we must build on and leverage our strengths and assets that align with growing emerging global markets. Canada already has a competitive advantage of low carbon natural resource commodities, low emission operations, smart buildings, and energy, which are all poised for growth going forward with increasing

importance in the Edmonton region to leverage blue hydrogen and other green energy sources and consistent with numerous private sector visions and investments such as Shell's "Green Utility" plan (inclusive of divesting of hydrocarbon extraction operations) and Suncor's \$75 million investment in Enerkem's Waste to Energy process.

Feasibility Report Delivery

The feasibility report will provide the necessary requirements outlined in the motion; however, it will also focus on a local vision, capitalizing on the strengths of the community while supporting the long-term sustainability. Over the past year E&Y has had the opportunity to develop a comprehensive understanding of the City of St. Albert from the services we deliver, the uniqueness of our community and the way business is delivered.

Administration will work with E&Y to deliver a feasibility report that considers net income projections, energy opportunities and the transition towards carbon neutral and carbon credits. The report will provide a highlight of financing methods to raise capital based on the various partnership opportunities that are prevalent that provide mutually beneficial synergies in a business case.

Finally, the report will provide an outline on implementation time-lines, high level partnership and funding opportunities, and collaboration points between Administration and Council.

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