



Legislation Text

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TAMRMS#: B06

Utility Corporation Considerations

Presented by: Kate Polkovsky, Director, Utilities & Environment Department

RECOMMENDATION(S)

1. That Council move in camera to discuss a matter pursuant to 24(1)(a) of the Freedom of Information and Protection of Privacy Act ("FOIP") -- advice, proposals, recommendations, analyses or policy options developed by or for Council -- and also pursuant to FOIP s. 25(1)(c) -- information the disclosure of which could reasonably be expected to prejudice the competitive position of the City.
2. That the Confidential Administrative Report and details of the *in-camera* discussion remain confidential pursuant to Section 153(e) of the *Municipal Government Act*.
3. That the report entitled "Utility Corporation Considerations" dated October 28, 2019 be received as information.
4. That a public hearing on a proposed resolution to control a Municipal Utility Corporation be scheduled for December 2, 2019 at 5:00 p.m. Mountain Standard Time.

PURPOSE OF REPORT

To provide an update to Council with business case information including opportunities for additional revenue generation to support the long-term fiscal position of the City of St. Albert.

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

Strategic Priority #4: Infrastructure Investment: Identify and build needed capital assets.

- 4.3 Explore non-traditional funding options including regional partnerships.

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

N/A

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

On September 16, 2019 Council passed the following motion:

(AR-19-362)

That a deadline extension for the following item be approved:

Time Extension Requests - Utility Corporation Considerations extended from September 23, 2019 to October 28, 2019 City County meeting.

On April 1, 2019 Council passed the following motion:

(AR-19-040)

That a Request for Proposal to complete a comprehensive Business Plan and Market Analysis be issued, and a contract awarded by end of May 2019, contingent of funding approval by Council. The Business Plan and Market Analysis would be provided to Council by the end of Q3, 2019 for review and contemplated next steps.

That Administration commence partnership discussions with sub-regional partners on a waste-to-energy pilot scale operation commencing in Q3, 2019 and that a Request for Proposal for a pilot scale waste to energy plant, consisting of one-year operation and associated reporting, be issued and a contract awarded for end of June 2019 conditional of any required funding approval to support the program.

That Administration continue to evaluate broader alternative servicing technologies, consistent with the Corporate Business Plan, and prepare any required business cases for Council's investment consideration.

That Administration prepare a Municipal Utility Services Bylaw for Council's consideration no later than end of Q3, 2019.

BACKGROUND AND DISCUSSION

In Q4 2019, Grant Thornton completed a comprehensive business plan and market impact analysis examining the viability a Municipal Utility Corporation (MUC), where the sole shareholder would be the City of St. Albert. Some of the content of the business plan must be kept confidential at this time, but key elements can and will be disclosed publicly including the proposed rate structure under the corporation, and a market impact analysis. The business case examined three streams of possible revenue and took a conservative assessment of the plan. The project took a holistic look at the various components that can affect the functioning of any corporate entity including limitations, identification of viable services, input assumptions, current services, new services, the pure financial projections including the cashflow statements, and profit/loss statements providing the details for the balance sheets and finally a risk assessment and mitigation strategies.

To confirm the viability of the MUC, a financial model was developed to determine if the MUC would be profitable and a sustainable entity. The model used realistic and achievable revenue sources based on our current businesses practices as well as those within arms reach, a conservative approach. It assumed moderate growth, the advancement of alternative energies, contracted services, and diversified utility delivery. The business plan was expanded to examine a 10-year conservative income statement.

In order to understand the inputs into the financial projections, it is critical to start looking at the ten-year projections of *status quo*. These projections provide a consolidated examination of the financial statements considering the existing assets, revenues, expenses and required capital output within utilities, see attachment. The consultant then considered the possible growth of an MUC expanding three business sectors, private utility management, waste to energy and solid waste management for commercial and multifamily establishments. The projected revenues were then incorporated into ten-year financial projections. Two scenarios were considered, the first considered the porting of the existing debt and linear assets associated with utility delivery, and the second model considered leaving the debt and “aged” linear assets with the City. Assets would be ported at such a time that they were replaced or remediated, new assets would directly be incorporated into the MUC. These two projected, consolidated net revenue scenarios are attached.

With any contemplated business case, adaptations can be incorporated during the operation to yield more aggressive revenues through the projected timeline. Concurrently, partnerships would be examined to provide mutually benefited outputs, these partnerships can provide capital, human assets and/or equipment support. With any partnership, agreed capital output based on an agreed business plan with agreed projections are key to the solidification of these relationships.

As with any technical model, the further any model extends the higher degree of likely variability due to the amount of assumptions and changes that can affect the outcomes. Both positive and negative positions could vary based on the projected timelines of the model and the inherent assumptions.

If the decision to commence an MUC is undertaken and future Councils wish to reverse the decision, or the results do not produce as expected, Council could return to the current model of the City providing all utility services directly. Losses to make that transition back could include start-up transition costs, associated legal fees, and a portion of capital investment that may need to be liquidated.

Timelines for financial projections are based on a MUC being fully stood up and ready to do business in Q1 2021. This provides opportunities to engage with necessary stakeholders, recruit the Board and senior management, and work through the logistics of the corporation.

As a concurrent component of the business case development, Administration examined revenue generating opportunities within the boundaries of the City of St. Albert that could be contemplated within the existing municipal framework. Some of these businesses areas include:

- Private infrastructure and the requirement of new infrastructure to have camera inspections by City crews.
- Private Oil Grit Interceptor cleaning
- Private Infrastructure management and assessment

Additionally, Administration has examined the opportunities for large scale solar farms that have relatively short paybacks and can provide long term predictable revenue. Revenue is dependent on the scale and size of the installed farm and the relative access to the grid. As solar arrays are increased in size their payback periods decrease in timeframe, thereby increasing the returned dividends. There are a number of governance models for Utility Scale Solar that could be contemplated by Council.

The region surrounding St. Albert provides an exceptional solar resource, providing generation opportunities during high demand periods which offers premium price on an investment return. Utility scale solar plants are passive industrial assets, without the impacts of industrial stacks and moving parts, and require minimal maintenance. Solar farms could be planned and commissioned within the existing municipal framework and could be managed as an extension of the Environment portfolio.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

A public notice will be published, both in the Gazette and on the City website, identifying key information about the proposed new corporation that is available to any interested party beginning October 30, 2019, through to and including the time of the public hearing.

IMPLICATIONS OF RECOMMENDATION(S)

Financial:

One of the perceived advantages of establishing a MUC is the ability to remove debt off of the City's financial statements. While this is true and may be advantageous in some situations, there are several things to consider.

With the establishment of the MUC, the City will have 2 choices in terms of how the debt and debt limit are considered:

1. Include the revenue from the MUC along with the City when calculating the debt limit (debt limit = 1.5 X revenue). This produces a higher limit however the associated utility debt must also be included.
2. Exclude the MUC portion of revenue and debt. This removes the debt from the assessment of debt available for use however the base upon which the debt limit is calculated goes down by the amount of the MUC revenue.

Currently the City holds/will hold a relatively small amount of utility debt (project 9). Option 2 would remove approx. \$13m of debt "off the books" but would reduce the future debt limit in the neighborhood of \$65M. This situation will be impacted based on the amount of debt the MUC takes on.

It is unclear if this "choice" is a permanent declaration once it has been made. Further analysis will be required to determine the most advantageous route for the City/MUC to take.

As mentioned in the report, forecasts over a long period of time have inherent risks due to the uncertainty around the input assumptions. This risk has been somewhat mitigated by employing conservative estimates and assumptions.

Legal / Risk:

A public hearing is required before Council may consider passing a resolution to authorize the City to control a Municipal Utility Corporation.

Program or Service:

N/A

Organizational:

N/A

ALTERNATIVES AND IMPLICATIONS CONSIDERED

If Council does not wish to support the recommendation, the following alternatives could be considered:

Alternative 1. Administration provide businesses cases for Council on Solar Farm implementation within the existing municipal framework

Alternative 2. Administration provide recommendations on businesses opportunities that can be implemented within the existing municipal framework.

Report Date: October 28, 2019

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