



City of Chestermere

Council Meeting

Proposed Material Changes to Business Operations of Chestermere Utilities Inc.

June 18, 2019

Council Agenda

Staff Report

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- Introductory Comments
- Summary of Representations
- Public Comments, Inquiries and Responses
- Comments and Questions
- Decisions for Consideration

Question Period

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Actions/Decisions

J1

- Decisions

Introductory Comments

Bernie Morton

City of Chestermere

Chief Administrative Officer



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Summary of Representations

Rick Quail

Chestermere Utilities Inc.

Transition Manager



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Summary of Representations

Special Meeting of Chestermere City Council Summary – Business Operations of CUI

- Chestermere City Council held a Special Meeting on June 11, 2019 at 7:00 p.m. with the purpose of providing information and opportunity for public representations on the proposed material changes to the business operations of Chestermere Utilities Inc. (CUI). Pursuant to section 75.3 of the Municipal Government Act as well as section 7 of the Municipally Controlled Corporations Regulation, City Council is required to provide residents the opportunity to make representations pertaining to the proposed material changes. The legislation also stipulates advertising requirements for the meeting to which the City met, as well as the requirement to report back to CUI with a summary of representations made during the engagement process.
- The meeting was advertised for two consecutive weeks in the local newspaper as well as through the City's social media accounts and website. All members of the public were welcome to attend the meeting, in addition the proceedings were live streamed and available on the City's website.



Summary of Representations

Following the call to order and adoption of the agenda, members of the CUI Transition Team presented two options, being to insource or outsource utility services, to Council. Presenters included:

- Bernie Morton, Chief Administrative Officer: introduction and summary
- Rick Quail, CUI Transition Manager: service delivery options
- Brenda Hewko, Chief Financial Officer: utility rate reduction options
- Patrick Bowman, Consultant (InterGroup Consultants Ltd): utility rate comparisons
- Richard Jones, Legal Counsel (McMillan LLP): legal structure



Summary of Representations

Members of Council then provided questions and comments to presenters.

The public representation session commenced following Council's opportunity for questions and comments. Twenty-two members of the public attended the meeting, while a maximum of fifteen views were attained by the live stream. This portion of the meeting allowed members of the public to provide feedback and comments, however an opportunity for questions to be asked of Council or the Transition Team was not provided. Six members of the public spoke, all of which were Chestermere residents.



Summary of Representations

Below is a summary of comments made during the public input session:

- The most common concern among residents is the debt load and the fear of resulting tax or utility bill increases in years to come.
- There is the need for Council and Administration to be more transparent with where bill payments go (i.e. the 50% water charges from City of Calgary), budgets, as well as a better understanding regarding CUI financial statements.
- Other suggestions from residents include introducing *conservation pricing* which means to change the ratio from the current higher fixed costs with lower usage costs versus a lower fixed cost and higher usage costs model.
- Confirmation that the Hybrid model meets the requirements of the MGA.
- Concerns were brought forward regarding the perception from the community that there should be an influx of dollars because of the historical profit generated by CUI. This is a misunderstanding within the Community.
- Concerns were presented regarding the proposed billing structure and, should Council choose to insource, the level of expertise within City Administration to take on the warranted responsibilities.
- Residents thanked Council and the Transition Team for their work and dedication throughout this process.
- More detailed summary of feedback about CUI options is available on the City's website.

Public Comments, Inquiries and Responses

Brenda Hewko

City of Chestermere

Chief Financial Officer



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Public Comments, Inquiries and Responses

Themes

- Insourcing Option and Staffing
- Rate Structure
- Utility Revenues
- Debt
- Financial Summary
- Reporting Information
- Public Opinion Results



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Public Comments, Inquiries and Responses

Insourcing Option and Staffing

- Insourcing versus Outsourcing
- Level of Expertise
- Knowledge Transfer
- Synergy
- One-time Costs



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Public Comments, Inquiries and Responses

Rate Structure

- Utility Ratemaking Principles
 - Objectives
 - Revenue Requirements and Costs
 - Allocate to Customers
 - Implement
- Fixed and Variable Rates
- Conservation
- Next Steps



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Public Comments, Inquiries and Responses

Utility Revenues

- Cash
- Cash Restricted and Assets



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Public Comments, Inquiries and Responses

Debt

- Projections
- November 8, 2018 Council Resolution CUI no new Debt
- Paying Down Debt
- Higher Taxes
- Higher Utility Rates



Public Comments, Inquiries and Responses

Financial Summary

	Outsource 1.5% on All	Outsource 2.0% Water Utilities	Insource 6.5% on All	Insource 8.0% Water Utilities
Lenders Financial Covenants	Compliant	Compliant	Compliant	Compliant
Bank Account Balance 2019 and 2023 years	\$3.1 and \$3.9 M	\$3.1 and \$3.8 M	\$3.2 and \$4.0 M	\$3.2 and \$3.8 M
Capital Spending 5 years total	\$3.9 M	\$3.9 M	\$3.9 M	\$3.9 M
Revenue 2019 and 2023 years	\$14.4 and \$16.3 M	\$14.4 and \$16.2 M	\$14.1 and \$15.5 M	\$14.1 and \$15.4 M
Profit (Loss) Total of 2019-2023 years	\$(7.2) M	\$(7.3) M	\$(7.2) M	\$(7.3) M
Retained Earnings 2018 and 2023 years	\$10.5 and \$3.3 M	\$10.5 and \$3.2 M	\$10.5 and \$3.3 M	\$10.5 and \$3.2 M
Residential Bill Average 12 Month Reduction	\$27.48	\$30.81	\$119.06	\$123.22

Public Comments, Inquiries and Responses

Financial Summary

Audited Financial Statements	2011 - 2018
Revenue	\$ 98 Million
Contributed Asset Revenue (non-Cash)	\$ 24 Million
Cash Revenue	\$ 76 Million
Expenses	\$ 91 Million
Amortization (non-Cash)	\$ 13 Million
Cash Expenses	\$ 78 Million
Difference	\$ (2.0) Million



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Public Comments, Inquiries and Responses

Reporting Information

- IFRS
- Communication and Education



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Public Comments, Inquiries and Responses

Poll Results from Special Council Meeting June 11, 2019

Polling was open from June 11 until June 17

Public Poll Question	Results #	Results %
What do you support for the future utility service structure in Chestermere?		
Option A: Outsource stormwater management, curbside waste collection and customer service & billing – Utility Rate Decrease of 1.5% to 2.0%	73	24%
Option B: Insource stormwater management, curbside waste collection and customer service & billing – Utility Rate Decrease of 6.5% to 8.0%	228	76%

Comments and Questions



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Decisions for Consideration

Bernie Morton

City of Chestermere

Chief Administrative Officer



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Decisions for Consideration

What is the Legal Structure?

Choice 1

Municipalization

Benefits

- Become a department of the City
- Cross-subsidize with property taxes
- One set of Financial Statements

Disadvantages

- May limit future capital spending
- Commingling of activities

Choice 2

Keep CUI Hybrid

Benefits

- Reduces limitation on future Councils
- Separate legal company
- All costs, activities are recorded separately
- Cross-subsidizing can not occur

Disadvantages

- Additional cost of one employee estimated \$0.50/month/account

Decisions for Consideration

Who provides the Services?

Option A

Outsource

Benefits

- Less workload to City Staff

Disadvantages

- More expensive deliver service
- Potential delay in responding to Customer Service inquiries
- Lower opportunities to experience synergy among the related services

Option B

Insource

Benefits

- Substantially lower cost to deliver service
- Ability to respond quickly to all Customer Services inquiries
- Opportunity for synergies between related services

Disadvantages

- Additional cost of one employee estimated \$0.50/month/account

Decisions for Consideration

Decision Tree

LEGAL STRUCTURE

Choice 1: Municipalization

- All utility services will be municipalized
- CUI will be dissolved
- The City would direct the CUI Board to carry out the orderly return of utility services from CUI to the City

Option A: Outsource – City but outsourced to third parties

Council of the City of Chestermere hereby resolves to outsource CUI's utility services with a proposed utility rate reduction of between 1.5% and 2.0%.

Option B: Insource – City directly

Council of the City of Chestermere hereby resolves to insource CUI's utility services to the City of Chestermere with a utility rate reduction between 6.5% and 8.0%.

Choice 2: Hybrid/Shell

- CUI will continue to operate until it has paid all of its debt
- CUI would not be allowed to incur new debt
- CUI would have 1 employee who would administer services
- Day to day operations would be outsourced

Option A: Outsource – outsourced to third parties

Council of the City of Chestermere hereby resolves: as the sole shareholder of CUI, the City directs the CUI board to make a rate application seeking a utility rate reduction of between 1.5% and 2.0

Option B: Insource – City directly

Council of the City of Chestermere hereby resolves: as the sole shareholder of CUI, the City directs the CUI board to make a rate application seeking a utility rate reduction of between 6.5% and 8.0%.

RATE STRUCTURE

Decisions for Consideration

Next Steps

Regardless of Legal Structure or Service Provider

- Bylaws updates or amendments
- Service Agreements to be executed

If CUI Hybrid remains

- CUI Board of Directors to submit Rate Application for July 16, 2019 Council Meeting



Question Period



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Decisions

Bernie Morton

City of Chestermere

Chief Administrative Officer



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Decisions

Decision Tree

LEGAL STRUCTURE

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RATE STRUCTURE

Comments



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