



TOWN OF INNISFIL STAFF REPORT

STAFF REPORT NO: DSR-123-15
DATE: June 17, 2015
TO: Mayor, Deputy Mayor and Members of Council
FROM: Andy Campbell, Deputy CAO / Town Engineer
SUBJECT: Municipal Services Corporations Adoption

RECOMMENDATION:

That Council adopts the business case for the Municipal Services Corporations (“MSCs”) for a water and wastewater utility (“InnServices”) and a holding company (“Innisfil Municipal Holdings”) as outlined in the document prepared by PriceWaterhouse Coopers dated April 29, 2015;

That Council directs the preparation of the following foundational documents as outlined in Staff Report DSR-123-15, dated June 17, 2015:

1. Articles of Incorporation for Innisfil Municipal Holdings and InnServices;
2. Corporate by-laws for Innisfil Municipal Holdings and InnServices;
3. Shareholder Declaration between the Town, Innisfil Municipal Holdings, and InnServices, highlighting the priority need to obtain the level of financing to implement the strategic servicing plan for Innisfil Heights;
4. Asset Transfer to Corporations Policy;
5. Asset Purchase Agreement transferring all of the Town’s water and wastewater assets, liabilities and reserve accounts to InnServices;
6. Asset Purchase Agreement transferring all of the Town’s shares in InnServices to Innisfil Municipal Holdings; and,

That effective immediately, Council appoints George Shaparew, John Skorobohacz, and the newly appointed CAO as the interim Board of Directors of InnServices, and also appoint each sitting Council Member as a Board Member of Innisfil Municipal Holdings;

That Council directs InnServices to prepare a Water and Wastewater Operations and Maintenance Agreement for consideration and report back to Council in due course;

That Council creates two key positions to support the ongoing formation and development of both Innisfil Municipal Holdings and InnServices. First the creation of a Chief Executive Officer and President position for Innisfil Municipal Holdings and InnServices:

Council hereby appoints: _____ as the Chief Executive Officer and President of InnServices and Innisfil Municipal Holdings effective immediately;

That Council appoints John Skorobohacz as Strategic Advisor effective August 1, 2015.

That Council appoints _____ as the Chief Administrative Officer of the Town, effective August 1, 2015;

That Council directs the Administration to arrange for the transfer of Town employees related to the administration and operation of Water and Wastewater to InnServices no later than January 1, 2016; and

That Council authorizes the ongoing supply of corporate and other Town services to Innisfil Municipal Holdings and InnServices in accordance with the Town's Fees and Charges By-law, or, where not applicable, on a full cost-recovery basis through 2015.

BACKGROUND:

On February 18, 2015 Council adopted resolution CR-037-01.15, directing staff to update Council on how to implement water and wastewater servicing for Innisfil Heights as identified in the Community Strategic Plan, *Inspiring Innisfil 2020*.

Staff brought forward the requested update on March 18, 2015 in DSR-053-15. The adopted resolution of that report directed staff to prepare a business case for a Municipal Services Corporation for the Town's water and wastewater services and capital infrastructure program (CR-053-02.15).

On May 6, 2015 a Municipal Services Corporation Business Case (Staff Report DSR-092-15) was received by Council (CR-094-08.15). This Business Case outlined the creation of two MSCs; one a holding company (Innisfil Municipal Holdings) and the other an operating company for water and wastewater (InnServices). Stakeholder consultations on the Business Case were held on May 21 and May 28, 2015.

ANALYSIS/CONSIDERATION:

Public Consultation

The creation of a Municipal Services Corporation (MSC) is governed under the *Municipal Act, 2001*, Reg. 599/06 (“Regulation”) and the Ontario *Business Corporations Act*. This Regulation defines the municipal powers, duties and limitations for both the MSC and the municipality.

The Regulation requires public consultation on the Business Case for the MSCs as both a requirement for transparency but also for the purpose of gathering input from the community. In addition to the regular Council meeting wherein this matter has been advanced, further consultations were held and open to the general public at a meeting at Town Hall and the development community and real estate brokers at the Developers Liaison Group. There was support for the Business Case as the attendees understood the financial challenges the Town has in servicing the employment lands in Innisfil Heights and that the MSC approach is a viable solution. Some of the existing business owners in Innisfil Heights commented that the new servicing would be advantageous when they expand their operations while others were concerned that they would be forced to pay to connect to sanitary sewers when their existing septic systems don’t need to be replaced. There were no changes made to the Business Case prepared by PriceWaterhouse Coopers (PwC) dated April 29, 2015 as a result of the public comments. Staff will also be engaged with the 400 Business Association on Monday June 15th to provide an overview of the Business Case and the implications to the strategic employment lands. Since this report will be released prior to that session with the 400 Business Association, staff will be prepared to provide a verbal update to Council when this report is being considered on June 17th.

Town Staff also reached out to the Province and engaged the Ministry of Municipal Affairs and Housing to provide an overview of the concept of the Municipal Services Corporation and the utility business model. The discussions included PWC’s representative along with Town staff. During and subsequent to our consultation with the Province, we have not received any concerns that suggest that either the MSC or the utility model would prevent the Town from delivering on the strategic servicing objectives that have been articulated from the outset of this exercise.

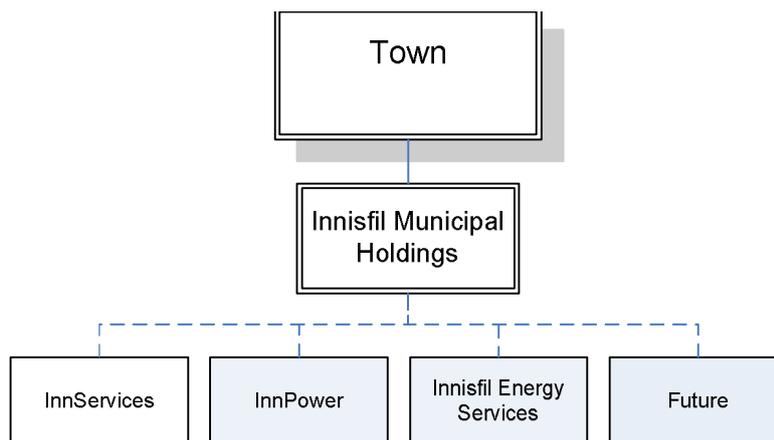
Incorporation of the MSCs

The Administration has been actively engaged in the Business Case development and therefore recommends that Council adopt the April 29, 2015 “*Business Case, Using the Municipal Services Corporation and Utility Models for Financing and Managing Waste and Wastewater Delivery*”. If adopted by Council, the following actions, at a minimum, need to take place for the creation of a holding company (Innisfil Municipal Holdings) and an operating company for water and wastewater utility (InnServices):

- Approval of the Articles of Incorporation and governing by-laws for both MSCs;
- Corporate By-laws for Innisfil Municipal Holdings and InnServices;
- Approval of Shareholders Directions;

- Transfer of all water and wastewater assets, liabilities and water and wastewater reserves to InnServices;
- Appointment of Board members to InnServices;
- Confirmation that the sitting members of Council would be appointed to the Innisfil Municipal Holdings as the Board of Directors;
- Appointment of at least one Officer for Innisfil Municipal Holdings and InnServices; and
- Approval of service agreements between the Town and the MCSs.

The incorporation of the new MSCs is under the *Ontario Business Corporations Act*. The requisite Articles of Incorporation, corporate by-laws and Shareholders Agreements are being prepared by Aird & Berlis LLP. It is proposed that the holding company be named “Innisfil Municipal Holdings” and that the operating company for water and wastewater be named “InnServices”. Further it is proposed that the Articles of Incorporation for Innisfil Municipal Holdings and the Shareholders Agreement allows for future assets/subsidiaries to be held by Innisfil Municipal Holdings to allow flexibility for the Town to advance future initiatives in an efficient manner.



Asset Transfer

The operations and activities performed by Innisfil Municipal Holdings and InnServices are currently undertaken by the Town and need to be transferred to these new corporations. Over the next several months the work will be undertaken to prepare the corporate policies, develop and receive Board direction and then transfer staff and assets. During this time operations will continue as usual by the Town. Therefore a services agreement is required between the Town, Innisfil Municipal Holdings and InnServices to manage current staff costs, accounts receivable and payables, information technology and capital works.

All of the assets and liabilities for the water and wastewater operations need to be transferred to InnServices. Ontario Regulation 599/06 requires that Council approve an asset transfer policy. An Asset Transfer to Corporations Policy is being prepared.

Corporate Structure

Innisfil Municipal Holdings and InnServices are independent corporations and have individual Boards of Directors.

The Board structures are as follows:

Innisfil Municipal Holdings – The nine elected Town Councillors are appointed as members of the Board

InnServices – There will be up to five independent Board members selected to the Innisfil Municipal Holdings Board, but the interim Board members recommended for approval are George Shaparew (current but soon to be retired President of InnPower), John Skorobohacz (current Town CAO and soon-to-be Strategic Advisor) and the incoming appointed CAO of the Town.

The Act also requires that at least one Officer be appointed for each new corporation. The Business Case contemplates that Town Council will appoint the first Chief Executive Officer and President for Innisfil Municipal Holdings and InnServices. Subsequent to these appointments the Board of Directors for each corporation will select its own Officers.

The start-up of these two MSCs requires a significant effort by staff and provides an opportunity for the Town to seek additional investments, economic development opportunities and new ways to undertake growth initiatives. The current Chief Administrative Officer, Mr. John Skorobohacz, has been instrumental in guiding much of the strategy in identifying new ways for the Town to grow and succeed. His leadership with the Corporation and undertaking initiatives such as the MSCs have positioned Innisfil to be “The Place to be by 2020” as sought out in *Inspiring Innisfil 2020*. Mr. Skorobohacz has recently announced his desire to relinquish his role as CAO effective July 31, 2015 and has recently been re-appointed as a Board Member for InnPower and Innisfil Energy Services. Council has previously expressed their desire to continue to retain Mr. Skorobohacz in a newly created strategic advisory capacity and leadership role with the Town and is recommending that Mr. Skorobohacz be appointed as Strategic Advisor effective August 1, 2015 to December 31, 2017.

Water and Wastewater Operations

The creation of Innisfil Municipal Holdings and InnServices do not change any obligations or requirements to ensure the production and distribution of safe drinking water or the collection and treatment of wastewater. Town Council will still be legally responsible to meet all of the requirements of the Ontario Ministry of the Environment and Climate Change for the operations of the facilities. The User Rates will also be approved by Council, pursuant to the Innisfil Water Rates By-law No. 019-15, and Wastewater By-law No. 018-15, both effective February 18, 2015.

An agreement between the Town and InnServices is therefore needed for the operations and maintenance of the systems to ensure strategic and environmental alignment. This agreement would include communication standards, operational performance, customer service expectations, rate setting methodology, capital development and recovery mechanisms as well

as engineering standards. It is proposed that InnServices staff develop the agreement in conjunction with Town staff for review and approval by Council by the end of 2015.

Discussions with local UNIFOR members have taken place and there will need to be a formal agreement between the union, the Town and InnServices prior to the transfer of unionized staff. In the interim the costs for the operations will continue to be paid by the rate payers pursuant to the principle of full cost recovery. It is recommended that all staff related to the administration and operation of the water and wastewater systems be transferred to InnServices by January 1, 2016.

OPTIONS/ALTERNATIVES:

Council has the option to reject the creation of the MSCs or to request amendments to the foundational documents. In addition, Council can elect not to proceed with the adoption of the proposed positions as outlined in the report but may elect to consider an alternative recruitment process.

FINANCIAL CONSIDERATION:

The Business Case provides an analysis of the financial capacity to own and operate the water and wastewater systems separate from the Town. The finding is that the Innisfil Municipal Holdings and InnServices can be structured to ensure credit worthiness and the ability to recover its costs from Development Charges and Rates. Further, the analysis predicts that the Rates will not increase as a result of the creation of the MSCs (please note that the Town has already projected Rate increases due to the costs for asset replacement, non-growth funded capital projects and inflation). Finally the analysis projects that there may be an opportunity to reduce Development Charges and/or Rates in the future. This opportunity would allow for increased economic development incentives or relief to ratepayers.

The assets and liabilities for the water and wastewater operation need to be transferred to Innisfil Municipal Holdings and InnServices. As at April 29, 2015 the water and wastewater related debt was nil. Projected debt to be incurred in 2015 for waste and wastewater is approximately \$4 million to cover existing unfunded capital expenditures. In addition there is a long-term payable to Bradford West Gwillimbury of \$3.3 million for previous water capital works which is due no later than February 2036. As at January 1, 2015 the asset renewal reserves were approximately \$11 million. Bradford West Gwillimbury owes the Town \$3.9 million, due no later than 2018, for their share of previous water capital works. The current book value of the Tangible Capital Assets for water and wastewater was approximately \$150 million as at January 1, 2015. It is recommended that all assets and liabilities noted and those occurring until the start-up of Innisfil Municipal Holdings and InnServices be transferred to the new MSCs as per an Asset Transfer to Corporations Policy.

The Town will recover all expenses related to the operation of water and wastewater services until InnServices is fully established.

CONCLUSION:

Staff have exercised due diligence through their investigation and planning for two municipal corporations to operate the water and wastewater systems in the Town. The creation of Innisfil Municipal Holdings and InnServices will allow the servicing to the employment lands in Innisfil Heights. In addition these MSCs may allow other innovative opportunities for economic growth and efficiencies within the Town.

PREPARED BY:

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Website Links:

1. [Innisfil Wastewater By-law No. 018-15](#)
2. [Innisfil Water Rates By-law No. 019-15](#)