The costs, benefits and additional considerations to starting up a new Dedicated City Administration (DCA) program compared to MDC Superlight

Besides costs and time to launch, there are some additional factors to be considered in the comparison between the MDC Superlight model and the new DCA program with respect to activating vacant surplus City-owned lands in addition to those outlined in CR_3168.

1. Cost
2. Time to launch
3. Compliance with provincial legislation and municipal policy

Cost
To summarize, the projected cost over four years to establish and operate the MDC Superlight model is $4.5 million; the cost of a new DCA program over the same period would be $2.8 million, for a difference of $1.7 million, or 38 percent less. That estimate translates to about $500,000 less per year.

The budget forecasts developed by Administration for the new DCA program and by Deloitte for the MDC Superlight model assume that similar activities will be undertaken. The lower cost for the new DCA program is related primarily to lower staff compensation and the elimination of directors' fees. However, the reduced compensation necessarily associated with a new DCA program subject to City guidelines would mean the new program is less competitive for top-level talent and, therefore, more reliant on the contributions of the proposed business advisory committee (*see* Attachment 2). It should also be acknowledged that even the MDC Superlight, which could offer wages above the municipal scale, would still be unlikely to offer a competitive salary in comparison with private sector developers, and so the corporation also would rely heavily upon the advice and counsel of its Board of Directors and the proposed business advisory committee.

The business case proposed for the MDC Superlight in the October 5, 2015, Sustainable Development report CR_2132 suggested the corporation would borrow $1 million in its first few years of operation. All borrowings and guarantees will be included in the calculation of the City's debt limit.

The Alberta Control of Corporations regulation requires a municipal for-profit corporation to demonstrate to the Minister that it will be self-sustaining at the end of its first three years of operation as evidenced by projected financial statements and cash flow. Any profits generated by the MDC would be retained to cover operations and new investments. The MDC Superlight model does not include any dividends or cash reimbursement to the City for transferred land, though initial cash flow could be paid to the City as early as the second year. A modest dividend may be realized in future years depending on the corporation's success

and at the discretion of its Board. However, most revenue would be re-invested in new for-profit development projects.

The new DCA program, as part of the Administration, would remain subject to the Land Enterprise Dividend policy.

Time to launch

Even as the leanest start-up model, the MDC Superlight could take 12 months or more to establish and another 36 months thereafter to be self-sufficient. A separate legal entity must be established, a Board appointed, and staff with sufficient development expertise recruited. Select City-owned surplus properties must be reviewed, appraised, transferred, and only then can value-enhancing activities with a view to profit generation begin.

By contrast, a new DCA program could be established under authority of the City Manager much more quickly. There would be no need to incorporate a separate legal entity, recruit a board of directors, recruit staff, or apply to the Minister of Municipal Affairs for authorization to incorporate a for-profit corporation. A new DCA program could require a new position or positions and accompanying resources though it is also possible, given the corporate reorganization currently underway, that existing resources could be reconfigured to deliver the program. As noted above, the review and appraisal of City-owned surplus properties could be initiated within 30 to 60 days.

Compliance with provincial legislation and municipal policy

As City-owned entities, both the MDC Superlight and the new DCA program would be subject to all trade agreements and must, therefore, comply with competitive procurement requirements, including the selection of a partner for any given project. Neither the City nor its subsidiaries can enter into a business structure that objectively defeats the trade agreement requirement of competitive procurement to obtain the partner or to procure anything required for the project. This necessarily longer process could introduce additional financial considerations to a particular project associated with the time value of money.

Both the MDC Superlight and the new DCA program must comply with the *Freedom of Information and Protection of Privacy Act*, an obligation that would be extended to the City’s or the MDC’s contractors or agents.

Many private development deals involve creating a new corporation within which to do the transaction. The new corporation essentially holds no assets, but work flows through it in return for share equity. These for-profit entities — shell companies, normally — are created under the *Alberta Business Corporations Act.* The City cannot establish a for-profit company without Ministerial approval and the *Control of Corporations Regulation* does not currently provide authority for a City owned for-profit corporation to create new for-profit entities.

If the object of a transaction is to sell an enriched land asset, or to capture a share of lease payments through an equity investment, then the project is not eligible for Alberta Capital Finance Authority funding. City contributions to financing must be provided from its own funds or secured from commercial lenders.

Corporations in which the City controls an interest of 90 percent or greater are income tax exempt. If the City's interest is less than 90 percent, the exemption does not apply. Tax-exempt status could shape the delivery of specific projects and would certainly attract the attention of the local land development community, which advocates for a "fair playing field."

City investments are subject to the *Major Cities Investment Regulation* under the *Municipal Government Act* (MGA) and the City's Investment Policy. Equity investments and joint ventures may not meet the "prudent person" test because they involve higher investment risk than ordinary municipal investments. Private developments usually attract a higher degree of risk than is ordinarily accepted by Council or Administration employing a risk management framework. However, the City has also established potential precedents with the downtown arena district (also supported by a Community Revitalization Levy) and LRT construction that could be replicated concerning City-Building Outcomes or other desirable outcomes by writing such outcomes into contractual agreements arising out of a competitive bid process. However, Finance would likely have to evaluate every business transaction on a case-by-case basis to ensure it complies with municipal investment rules. The power to take shares, offer guarantees or borrow all have to meet MGA requirements.

Land assets transferred to the MDC Superlight at fair market value could be disposed of by the corporation without further involvement of the City. If those assets are retained within the City to be administered by a new DCA program, the City Administration Bylaw (Bylaw 12005) limits Administration's ability to enter into any transaction through dollar and term limits. The need to obtain Standing Committee approvals for transactions will increase the time and resources needed for transactions.