



Municipal Development Corporation Operating Plan



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Operational considerations

If strategy sets direction, then operations is the engine to achieve results. A true Operational Plan provides detailed planning and guidelines on day-to-day operations, usually on an annual basis, that allows a company to translate its strategic goals into more stepwise interim goals, objectives, and tactics. The board, in collaboration with management, will need to develop this plan and develop communication strategies while following best practices.

A detailed Operational Plan is outside the scope of this document, but it is important to consider a number of operational activities that are of key importance to the MDC. It should be noted that once a start-up committee is established, staff are hired and a Board of Directors is in place, additional deeper and more precise detailed planning will take place. The purpose of this operating plan is to address all the key aspects of the MDC's operations and to set a general direction for its operations.

Value-add activity

The MDC will endeavour to create and realize value on surplus City of Edmonton properties by performing activities to improve their marketability and development-readiness. The proposed initial transfer of properties includes five plots worth approximately \$17.9 million, as outlined in the table below. The properties have been analyzed to determine what activities would be required in order to achieve optimum uplift, including the ideal type of zoning to facilitate highest and best use. The exact timing of the transfer of each property from the City to the MDC will be established after the MDC is created.

The two primary pre-development activities that the MDC could perform on the land are rezoning for optimal use and the establishment of development permits. These activities would be undertaken in consultation with the development industry, to ensure that the resulting shovel-ready properties are marketable and attractive to private sector developers.

The MDC may perform some activities on the value chain, such as rezoning or removing barriers to development, and then sell the site to the development community. Alternatively, the MDC's board may choose to participate with an individual or consortium of organizations in the development community to move the site further down the value chain by performing activities such as securing development permits. If the MDC participates in the development of a particular property, there would be a split in the timing of value-realization. A portion of the proceeds of sale would be recognized immediately as revenue, and the remaining portion could be retained in the development as an equity share, realizing a higher value lift but over a longer period. The financial model has used a simplifying assumption of 50% of the uplifted value being recognized as revenue, and 50% transferred into the venture. Participating in a project would allow the MDC the opportunity to reap some of the benefits and value-uplift of development without taking on the additional risk of contributing large amounts of equity. Retaining a minority share in a project may also allow the MDC to marginally influence development outcomes, potentially resulting in the opportunity to incorporate CBOs. The Board must determine a specific development approach for

each property being developed, taking into consideration the current market conditions at the time.

Operational barriers

There are a number of operational barriers that have the potential to impede the success of activities that the MDC undertakes. These impediments exist today and require due attention to enable the MDC to be successful. These hurdles range in their impact, and have effects on the end-to-end process, from the supply of surplus land, to the intricacies of sale.

Communications and engagement

Due to the level of scrutiny expected, the MDC will require a robust and well thought out communication and engagement plan both on an overall and site-specific basis. The plan should include a detailed stakeholder analysis as well as an implementation plan.

Website and social media

We recommend that the MDC maintains its own website that would contain all relevant publicly available documentation as well as information about the executives and ongoing/proposed projects.

We also recommend that the MDC maintain a presence on social media to communicate information about ongoing activities.

Websites for specific developments should be the responsibility of the development partner.

Regular reporting

There are a number of key stakeholders that will have access to regular reporting by the MDC including City Council, City Administration, the real estate community, and the general public. The MDC will need to be appropriately transparent and publicly release an MDC Annual Report.

Property specific communications

Each site that the MDC undertakes activity on may require a separate communication outlining the MDC's goals and objectives. The communication may be distributed via press release, social media, and through the MDC website.

Funding model

The City will need to adequately fund the MDC in order to support the goal of becoming financially independent within 3 years of incorporation, in order to demonstrate its capacity to meet regulatory requirements.

Funding of land purchase

The specific identified surplus municipal land will be transferred to the MDC at the as-is appraised fair market value. Transferring the land at as-is fair market value supports the City's ability to assess the financial performance in future years and to ensure that the MDC is adding value to these properties.

While transferring the land at as-is fair market value will allow for more clarity on the MDC's performance, it creates a number of potential financial challenges given that the MDC would not have the immediate cash flow to cover the holding costs and, if interest costs are accrued at market rates, the future viability of the MDC would be in doubt.

At inception of the MDC, the City will need to accept shares (potentially a combination of redeemable and retractable preferred shares), and possibly debt, in the MDC instead of receiving cash or ongoing interest payments on the as-is fair market value of the land. This strategy will allow the MDC to invest in its own growth rather than be restricted by onerous payments to its shareholder in the early years.

The exact timing of when each parcel of land will be transferred from the City to the MDC will need to be determined by the MDC and the City. It should be noted that once the land is transferred from the City to the MDC, the MDC will be responsible for carrying costs, such as property taxes.

Funding of operations

The City will support the MDC's first three years of operations with a cash contribution of \$1.25 million each year. With a lean operating model, the MDC will require approximately \$1 million in overhead, salaries, and general & administrative costs. The balance will be used to fund value-uplift and operating activities.

If the MDC experiences a shortfall in cash flow, they may choose to borrow externally to fund the difference.

Creating business relationships with the private sector

A key strategy of the MDC will be to engage with private sector developers on development projects as appropriate. The MDC should be strategic in defining the scope of work when procuring private sector participants for its projects. The MDC will set itself up for the most success by aligning with well capitalized and experienced groups that share the same high level vision.

Selecting potential partners

The MDC Board will develop and approve a process for the solicitation, evaluation, and negotiation of projects with the private sector development community. This process will adhere to the high level principles of equity, accountability and due diligence that meet public sector procurement requirements. As a part of this process, the MDC would need to create a scope for

the project in order to communicate the vision and ensure that the proponents understand the opportunity, the objectives of the MDC, and potential CBO's to be included in the project.

Proposals from private developers would be in a form that meets the guidelines established by the MDC Board of Directors. The MDC would be able to negotiate the terms with the proponent and / or can decide not to pursue entering into a partnership.

Allocation of risks

The Board of Directors of the MDC will determine a risk management process. In general terms, the MDC should try to limit its exposure to risk as much as possible by using contracts and insurance to its advantage.

Contractual risk mitigation might involve: developer penalties/incentives regarding budget and completion time, provisions specifically limiting the MDC's liability to specific amounts, etc.

There are a number of types of insurance that the MDC should investigate as a corporation and on a project by project basis to mitigate various risks.

Staffing & salaries

The success of the MDC will be largely tied to the quality of the Board of Directors and the senior executive team and their execution of their roles.

The key role of the Board of Directors of the MDC is to hire, manage, direct, evaluate, and compensate the CEO of the MDC. The CEO will then determine the final management structure that s/he will require to implement a functioning organization. The initial structure of the MDC will be very lean with a small focused staff of professionals, and ideally supported by a shared services system in a partner organization with administrative, accounting, IT, HR and other services available at low cost.

Key internal roles

The MDC should initially be staffed with 2 to 4 key staff including the CEO and coordinators to manage the value-add activities, with a shared services model for all other support requirements. The team may increase in size as the operation grows but there is a benefit in the early years to place a hard cap on the operating cost budget and have the MDC work within that budget and potential staffing and then scale up appropriately.

Use of external consultants

The level of staffing may grow as the scale of operations increases. In the initial start-up phase, there may be benefit in utilizing consultants to deliver reporting or administer activities when needed. Utilizing external consultants for some functions throughout the life of the MDC could also make sense as a key focus should be to keep operating costs low to minimize financial risk.

Compensation

Compensation should include a combination of a base salary plus an incentive program based on the overall success of the MDC. This incentive program must align with best practice that rewards for performance but still recognizes that the MDC is a publicly owned company. At other MDC's this incentive for employees has varied from 10-20% of the salary with the senior executive having more of their pay based on incentives. The compensation needs to be competitive with the private sector in order to attract qualified talent.

Administrative systems

The Board of Directors of the MDC in conjunction with the CEO will develop a series of administrative policies and functions which we would expect to ramp up over the first two years of operations.

At the outset, the MDC would focus on its core activities; the support functions of HR, payroll, accounting and other “routine administrative” costs could be shared with another organization that has capacity, perhaps one that is also owned by the City of Edmonton. This concept of shared services should be explored in more detail in phase two of this process.

The following is an example list of potential administrative systems and/or policies that the MDC may need to develop and incur operational costs in order to be implemented:

1. Internal controls
2. Legal
3. HR
4. Planning tools
5. Accounting systems
6. Asset management system
7. Business development policies
8. Computer and network systems
9. Document storage
10. Website and email
11. Documentation of policies, procedures and systems

Startup activities

There are a number of key activities that would be undertaken prior to the MDC becoming operational. These tasks will fall under the responsibility of either City administration or the MDC board and management, as outlined in the table below. City administration may utilize external support to carry out some key activities where necessary.

City administration	MDC board and management
<ul style="list-style-type: none"> • Review land management guidelines/procedures supporting the periodic review of City holdings. • Development of a formal property transfer protocol and process • Develop a communication and engagement plan • Complete incorporation activities • Recruitment of board of directors • Submit the application for ministerial approval (including the business plan, incorporation documents, definition of purpose for incorporation, and any other matter the minister requires) 	<ul style="list-style-type: none"> • Development of board documents to include board policy and overarching mission statements • Identify targets and accountability • Develop dividend policy in consultation with the shareholder • Develop a detailed 1 Year operating plan • Develop a communication and engagement plan • Setup of accounting and reporting system • Legal matters • Hiring of staff

City administration

Consideration and planning of continuous acquisition to support future activities

The MDC is intended to be a going concern. City administration will create a process that would support the transfer of future surplus City property to the MDC. These properties will require further analysis from both administration and the MDC. This analysis could be completed with external support in order to leverage available skill sets and expertise. If successful, the MDC and the City may develop processes that support future identification and transfer of property to the MDC for future activity.

The initial operating model of the MDC is centered on value-add activities in the pre-development value chain. In the future, as the MDC matures as an organization and is able to absorb the risk and capital contributions, there may be potential for the company to enter the development arena, either as a larger equity partner in joint venture or independently.

Development of a formal property transfer protocol and process

A transfer protocol and process should be developed in order for each transfer of property to follow a set of predefined guidelines.

Develop a communication and engagement plan

Communication and engagement will be one of the biggest challenges for the MDC given that its shareholder is a municipality. A detailed communication and engagement plan that includes a stakeholder analysis as well as detailed strategies and tactics will be required.

Complete incorporation activities

The following documents need to be prepared in advance of incorporation:

- The Unanimous Shareholders' Agreement (USA)
- Draft articles of incorporation
- Draft bylaws
- Application to the Minister of Municipal Affairs

Submit the application for ministerial approval

An application to the Minister of Municipal Affairs must be submitted for approval. This application should include the business plan, incorporation documents, definition of purpose for incorporation, and any other matter the Minister requires.

Recruitment of board of directors

The board of directors will be selected by the City as the sole shareholder. A detailed recruitment plan needs to be prepared, which is in the terms of reference for the Real Estate Expert Consultants. Initial work regarding board skills matrix and other materials in this plan can be used as inputs, and refined with the input of the Real Estate Experts and implemented with the support of the City Clerk's Office.

MDC board and management

Development of board documents

The MDC Board will develop documents including board policy and overarching mission statements in accordance with the articles of incorporation and any unanimous shareholders' agreement.

Identify targets and accountability

Completion of detailed analysis of the initial list of properties, combined with high level planning activities on the remaining and future properties, would allow the MDC to set some realistic and achievable targets both from a financial and a city building perspective. This activity must be ratified by the board of directors.

High level proformas and development timelines have yet to be developed for the list of future transfer properties. These would be required from a high level planning perspective in order to identify the future needs and objectives of the MDC.

Develop dividend policy in consultation with the Shareholder

A clear dividend policy must be finalized between the City and the MDC. As there should be no expectation from the Shareholder of any dividend proceeds in the initial years, this is not an immediate task for the Board of Directors but should be in their overall work plan. In addition the MDC must set realistic targets based on the activities above.

Develop a detailed 1 Year operating plan

A plan outlining the goals and objectives for the first year of operations will be required to be developed by management and ratified by the board of directors.

Develop a communication and engagement plan

Communication and engagement will be one of the biggest challenges for the MDC given that its shareholder is a municipality. A detailed communication and engagement plan that includes a stakeholder analysis as well as detailed strategies and tactics will be required.

Setup of accounting and reporting system

Although the MDC is a startup venture, it will have reporting requirements above and beyond those of a small business. In addition to an integrated bookkeeping system, the MDC will also require a system that allows for annual audited financial statements and reporting.

Legal matters

The company will have to retain its own legal advisors who will manage land transfers, agreements and other legal matters for the company

As the MDC will often be repeating similarly structured projects, it would be advantageous to have a repository of legal templates. These templates can be developed over time, but a framework for development that is aligned to the guiding principles of the MDC would be beneficial.

Hiring of staff

In order for the MDC to become operational it will require staff as outlined earlier in this business plan. The Board and CEO will establish a recruitment strategy and may require additional external or City staff support for that process.

Develop a risk mitigation plan

This business plan has identified high-level risks and mitigation strategies. A more detailed risk mitigation plan is required along with implementation steps and timelines.

Financial results

Financial results

To generate the proforma financial statements for the MDC we made a number of underlying assumptions. Namely:

1. Each property will be zoned and developed to its highest and best use, except where restricted by pre-existing community or City encumbrances.
2. The City of Edmonton will provide the MDC cash of \$1.25 million per year for three years.
3. The value of CBOs are not directly captured in the model, as CBOs will be achieved as a result of the specificity of development permits.
4. Value-add activity costs and timing are driven by the number and type of activities. An assumption has been made that zoning changes will occur on all sites. Although sites may have the best high-level zoning, alterations will generally need to be made to specific zoning constraints.
5. The selling price per acre for each property has been estimated based on market experience and existing market conditions at the time of the estimate.
6. The MDC is not subject to income taxes as a wholly owned subsidiary of a Municipality.
7. When the MDC develops business relationships with the private sector, the MDC will immediately realize a percentage of the property value contributed as revenue. The remainder of the property's value will be contributed to the project as an equity contribution, and will increase or decrease in value based on the project's outcome and results. Realizing a portion of the increased land value will allow the MDC to mitigate development and market risk, as well as realize cash to cover operating costs. The invested portion is recognized at the time of transfer as a simplified terminal value calculation. This calculation avoids speculative assumptions regarding timing and value of realization. The percentage realized as revenue and remainder contributed have been estimated as 50%.

Based on these assumptions and an analysis of the initial selected properties, we estimate the MDC's financial performance as follows:

City of Edmonton Return	Annual Cash Injection from the City (for first 3 years)	City Land Contributed	MDC Debt (Line of Credit)	First Profitable Year
6.0 - 9.0%	\$1,250,000	\$ 17,885,000	\$1,000,000	Year 2