

# Staff Report



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To	<b>City Council as Shareholder of Guelph Municipal Holding Inc.</b>
Date	Wednesday, June 14, 2023
Subject	<b>2022 Guelph Municipal Holdings Inc. Audited Financial Statements</b>

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## Recommendation

That the Guelph Municipal Holdings Inc. Audited Financial Statements for the year-ended December 31, 2022, be received for information.

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## Executive Summary

### Purpose of Report

To present and review the 2022 Guelph Municipal Holdings Inc. (GMHI) Audited Financial Statements.

### Key Findings

In 2022 GMHI reported total comprehensive income of \$2.9 million for the year compared with \$4.8 million in 2021. There are two key drivers of this year-over-year decline:

- Decrease in the equity share of earnings in Alectra Inc. (Alectra) from \$5.2 million in 2021 to \$3.0 million in 2022; and
- Sale of district energy operations in 2022 which included a commitment for equipment repair and replacement costs totaling \$250 thousand, of which \$108 thousand was incurred in 2022.

GMHI's investment in Alectra decreased by \$1.4 million as GMHI received \$4.4 million in dividends from Alectra compared with GMHI's share of 2022 earnings (\$3.0 million).

GMHI paid dividends totaling \$3.7 million to the City of Guelph in 2022.

### Financial Implications

The prudent management of the City's hydro utility company is an important asset that generates a healthy dividend to the City which in turn reduces the requirement of property tax increases to fund capital infrastructure renewal.

The City's investment in GMHI decreased by \$547 thousand in 2022 as represented by GMHI's shareholder's equity. GMHI paid \$3.7 million in dividends to the City in 2022 compared with earning total comprehensive income of \$2.9 million. The City will recognize a loss of \$547 thousand related to its investment in GMHI in 2022, which will offset the dividend revenue of \$3.7 million for net income from GMHI in the City's 2022 financial statements totaling \$3.2 million.

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## Report

### **Statement of Financial Position, Statement of Changes in Equity, and Statement of Cash Flows**

GMHI ended the year with \$1.5 million in cash, an increase of \$1.1 million from the 2021 year-end. The increase is attributable to \$434 thousand in positive cash flows from operations (receipt of district energy security deposit of \$400 thousand) and \$4.4 million in cash flows from investing activities (receipt of dividends from Alectra). The increases were offset by a decrease in cash flows from financing activities (dividends paid to the City of Guelph totaling \$3.7 million).

The ending balance in accounts receivable totaled \$209 thousand, of which \$127 thousand was receivable from Canada Revenue Agency for HST refunds and the remaining \$80 thousand was due from Cascara Energy for costs associated with the ownership transition.

The City of Guelph owed GMHI \$2.1 million at the end of 2022, a reduction of just under \$300 thousand from the intercompany balance at the 2021 year-end.

GMHI's investment in Alectra decreased by \$1.4 million in 2022 as dividends paid by Alectra to GMHI during the year exceeded GMHI's share of Alectra's 2022 net income.

A refundable security deposit of \$400 thousand was provided by Cascara Energy as part of risk mitigation associated with the sale agreement and is recorded as a new liability in the 2022 financial statements.

The deferred tax liability was reduced by \$356 thousand in 2022 as it is related to the value of the investment in Alectra which declined in 2022.

Total shareholder's equity decreased by \$547 thousand in 2022 as GMHI paid \$3.7 million in dividends to the City of Guelph in 2022 compared with total comprehensive income of \$2.9 million. This was offset by a \$217 thousand reduction in the refundable portion of the deferred tax liability. There was no deviation from the approved dividend declaration and payment schedule for 2022.

### **Statement of Income and Other Comprehensive Income**

In 2022 GMHI reported total comprehensive income of \$2.9 million for the year compared with \$4.8 million in 2021. There are two key drivers of this year-over-year decline:

- Decrease in the equity share of earnings in Alectra; and
- Sale of district energy operations in 2022

### **Dividends Received and Paid and Alectra Equity Earnings**

GMHI received \$4.4 million in dividends from Alectra in 2022. This is a dividend income surplus of \$491 thousand in comparison with the 2022 budget expectations. This dividend income is not reported as revenue for the purposes of the audited financial statements, and instead reduces GMHI's investment in Alectra under International Financial Reporting Standards.

For financial statement purposes GMHI recognized \$3.0 million in revenue from Alectra, which is 4.63 per cent of Alectra's net income for 2022, compared with \$5.2 million in 2021.

Alectra reported total comprehensive income totaling \$65 million in 2022 compared with \$112 million in 2021. The major contributors to this decrease were \$44 million less in income from operating activities from 2021 to 2022, an increase of \$38 million in financing costs and other adjustments related to property, plant and equipment, and recognition of an impairment loss on an investment in an associate. This was offset by a reduction of \$17 million in income tax expense, and an increase of \$18 million in other comprehensive income.

GMHI paid dividends totaling \$3.7 million to the City of Guelph in 2022 which is consistent with the board approved budget.

## **District Energy Operations**

In June 2022 GMHI sold the district energy operations to Cascara Energy. Overall, GMHI incurred \$267 thousand in district energy costs in 2022, offset by thermal energy sales of \$107 thousand for a net loss of \$160 thousand for the year (loss of \$108 thousand in 2021). This is a negative budget variance of \$104 thousand for the year.

There is a \$250 thousand commitment to Cascara Energy for equipment replacement and retro-commissioning costs as part of the sale agreement, with approximately \$108 thousand incurred in 2022 and the remainder expected to be incurred in 2023. This was the primary contributor to the negative budget variance realized for district energy operations.

This \$250 thousand for equipment replacement and retro-commissioning costs is expected to be the final cost associated with GMHI transitioning out of the district energy business and represents a significant savings from the \$3.5 million preliminary estimate prepared in 2018 to transition the two downtown node customers to traditional heating and cooling systems.

## **GMHI Management and General Administration**

GMHI management and general administration expenses totaled \$86 thousand and align with the 2022 budgeted costs.

## **Risks**

Alectra Inc. Q4 Shareholder Report outlined risks related to GMHI's investment in Alectra. These risks included:

- Higher than normal customer arrears balances.
- Impairment write-off of one subsidiary and dilution of ownership stake in another.

Alectra issued long-term debt totaling \$250 million in the fourth quarter of 2022 to improve liquidity and ensure it is able to meet its financial obligations for the foreseeable future.

## **Financial Implications**

The prudent management of the City's hydro utility company is an important asset that generates a healthy dividend to the City which in turn reduces the requirement of property tax increases to fund capital infrastructure renewal.

The City's investment in GMHI decreased by \$547 thousand in 2022 as represented by GMHI's shareholder's equity. GMHI paid \$3.7 million in dividends to the City in 2022 compared with earning total comprehensive income of \$2.9 million. The City will recognize a loss of \$547 thousand related to its investment in GMHI in 2022, which will offset the dividend revenue of \$3.7 million for net income from GMHI in the City's 2022 financial statements totaling \$3.2 million.

### **Consultations**

None.

### **Attachments**

Attachment-1 2022 GMHI Audited Financial Statements

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### **This report was approved by:**

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