

# Staff Report



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To	<b>City Council as Shareholder of Guelph Municipal Holding Inc.</b>
Date	Tuesday, June 25, 2024
Subject	<b>Guelph Municipal Holdings Inc. 2023 Audited Financial Statements</b>

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## Recommendation

That the Guelph Municipal Holdings Inc. audited financial statements for the year-ended December 31, 2023, be received for information.

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## Executive Summary

### Purpose of Report

To present and review the 2023 Guelph Municipal Holdings Inc. (GMHI) audited financial statements.

### Key Findings

GMHI's investment in Alectra Utilities Inc. (Alectra) increased by \$3.2 million as GMHI received \$3.5 million in dividends from Alectra compared with GMHI's share of 2023 earnings (\$6.7 million).

In 2023, GMHI reported total comprehensive income of \$6.3 million for the year compared with \$2.9 million in 2022. The main driver of the increase in revenue is a more than two-fold increase in net comprehensive income by Alectra, which resulted in a \$3.7 million increase in GMHI's equity share of earnings.

The increase in equity earnings of Alectra was offset by the reversal in temporary differences in deferred taxes, resulting in \$309 thousand decrease in income (2022, \$139 increase).

GMHI paid dividends totalling \$3.8 million to the City of Guelph in 2023.

### Financial Implications

The City's investment in GMHI increased by \$2.1 million in 2023 as represented by GMHI's shareholder's equity. GMHI paid \$3.8 million in dividends to the City in 2023 compared with earning total comprehensive income of \$6.3 million. The City recognized a gain of \$2.1 million related to its investment in GMHI in 2023, which when added to the total dividend revenue of \$3.8 million results in net income from GMHI in the City's 2023 financial statements of \$5.9 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 \$1.3 million in cash, \$138 thousand less than the \$1.5 million from the 2022 year-end. GMHI paid \$252 thousand more in dividends to the City than it received in dividends from Alectra in 2023. Changes in non-cash operating line items and collections on accounts receivable offset this difference.

GMHI is reporting a receivable from the City of Guelph of \$2.1 million at the end of 2023 consistent with 2022.

GMHI's investment in Alectra increased by \$3.2 million in 2023 as GMHI's share of Alectra's 2023 net income exceeded the dividends paid.

The deferred tax liability increased by \$794 thousand in 2023 as it is related to the value of the investment in Alectra which also increased in 2023.

Total shareholder's equity increased by \$2.1 million in 2023 as GMHI paid \$3.8 million in dividends to the City of Guelph in 2023 compared with total comprehensive income of \$6.3 million. The equity increase (income less dividends) was further reduced by a \$485 thousand change in the refundable portion of the deferred tax liability. There was no deviation from the approved dividend declaration and payment schedule for 2023.

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

In 2023 GMHI reported total comprehensive income of \$6.3 million for the year compared with \$2.9 million in 2022. This favourable change in income is a result of the large increase net comprehensive income by Alectra in 2023 which translated to a \$3.7 million increase in GMHI equity share of earnings. The increase in earnings of Alectra was partially offset by a higher deferred tax expense arising from differences in the carrying amount of the value of the investment in Alectra between accounting and tax.

Other changes in the income statement included higher interest revenue than budgeted (\$107 thousand). GMHI benefited from higher overall interest rates and a full year of holding the \$400 thousand security deposit on the district energy sale in 2023 versus a three-month period in 2022.

Other variances are primarily due to the sale of the district energy operations to Cascara Energy in 2022 and the elimination of associated revenue and reduction in expenses. GMHI recorded natural gas costs of \$51 thousand relating to the Sleeman Centre (expenses which should have been recorded in 2022, and which were billed back to Cascara in 2022) and \$73 thousand in equipment and retro-commissioning fees paid to Cascara.

GMHI management expenses were about \$11.3 thousand under budget. The bulk of this difference was insurance and related to the timing of insurance expenses recognized in 2022 versus 2023.

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

GMHI received \$3.5 million in dividends from Alectra in 2023. This is a dividend income deficit of \$352 thousand in comparison with the 2023 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 \$6.7 million in revenue from Alectra, which is 4.63 per cent of Alectra's net income for 2023, compared with \$3.0 million in 2022.

Alectra reported total comprehensive income totaling \$145 million in 2023 compared with \$65 million in 2022. The major contributors to this increase were \$52 million additional income from operating activities and a reduction in associated operating expenses of \$94 million, offset by increases in financing costs (\$17 million) and an increase in taxes of (\$35 million).

### **Investment in Alectra and Risks**

Alectra Inc.'s 2023 Q4 Shareholder Report outlined financial highlights and risks related to GMHI's investment in Alectra. The company has a three-year capital expenditure plan of \$922 million over the 2024-2026 period, driven by the requirement to connect new residential and general service customers and expand existing customer requirements.

#### 2023 Highlights:

- Higher distribution revenue (\$96 million) due to higher revenue through Ontario Energy Board (OEB) approved rate increases (4.5% rate adjustment approved for Jan 1, 2024).
- Lower cost of power (\$114) due to lower electricity prices and lower consumption.
- Higher income taxes (\$35 million) and financing costs (\$17 million).
- Higher amortization costs and operating expenses (combined \$20 million).
- Lower electricity sales (\$47 million).

#### Risks:

- Credit risk although the percentage of arrears has declined, the estimate of bad debts for residential and commercial customers carry a higher degree of uncertainty than prior to the COVID-19 pandemic.
- Promissory notes totalling \$166.1 million maturing May 31, 2024, will not be renewed. The company will be required to issue a new debenture to refinance the matured promissory notes.

### **Financial Implications**

The City's investment in GMHI increased by \$2.1 million in 2023 as represented by GMHI's shareholder's equity. GMHI paid \$3.8 million in dividends to the City in 2023 compared with earning a total comprehensive income of \$6.4 million. The City recognized a gain of \$2.1 million to its investment in GMHI in 2023, which will add to the dividend revenue of \$3.8 million for net income from GMHI in the City's 2023 financial statements totalling \$5.9 million.

### **Consultations**

None.

## **Attachments**

Attachment-1 2023 GMHI Audited Financial Statements

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

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## **This report was recommended by:**

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