

Beaver County Council Concerns October 16, 2019

1. Financial Forecasting and potential impact on viability. It is noted that 2019 revenue is likely to far exceed projections. What happens if the opposite occurs?

Municipalities' viability may be affected if dividends are lowered because revenue does not meet projections. (see number 8 below).

Brownlee Response – This is a business term, not a legal term. If the revenue drops to a point whereby there is no ability to pay dividends, then no dividends will be paid. This is a business risk, regardless if this remains as a Commission or as the Limited Partnership. This risk is the same for both structures.

BMS – More than half of BMS revenues are non-contract related, or otherwise unsecured by minimum tonnage requirements. Most revenue is landfill-disposal related, hence the need for diversification. Fixed costs and labour (standing crew and admin.support) make up 2/3's of the total costs. An unanticipated revenue decrease would be reviewed with regard to expected duration – temporary or long-term, and cost-reduction focus would be on:

1. labour (fuel would reduce and other consumables)
2. postponement of capital investments
3. sponsorship grants
4. grants in lieu to municipal members
5. surplus release (i.e. dividends)
6. closure fund contribution

2. MNP Due Diligence Report notes that business plan must address Market Impact Assessment, especially with respect to competing private businesses.

Brownlee Response – We did make our comments on this earlier on the email of October 22. The MGA requirements do not provide much detail as to what the Market Impact Analysis needs to be. However, recall that not much is changing from the status quo with respect to competition to the outside world. The new limited partnership will still be in the same market as the Commission was before. Not much will change here.

The current business plan does address it somewhat in pages 14 and 15. Again, this is not a scenario whereby the private sector is facing new competition where it did not before, so the market impact is likely to be negligible.

BMS - BMS is a current player in the Alberta waste market. The MMC re-structuring does not change BMS's immediate role in the marketplace. The re-structuring does increase BMS's ability to expand its role, and partner with other waste management organizations in order to provide additional waste resource recovery facilities. The business plan can be edited to clarify this fact.

3. MNP Due Diligence Report notes that the business plan must include cost of MCC formation.

Brownlee Response – Agreed that this is mandatory to include. We could not find where it was referenced. If it is not missing, it should be included.

BMS - The business plan can be edited to include the cost incurred so far and estimate

to complete the re-structuring.

Below is the CFO calculation of costs incurred to date by BMS for the project, and future expected:

Please find below the project to date (2016 to Sept 2019) expenses related to MCC. The consulting services cover New West Partnership. Amounts below does not include expenses for October until public hearing date, which is estimated to be around \$15-\$20k.

Project to date related to MCC as of Sept 30, 2019 paid by BMS	Amount
Reimbursements to Town of Tofield for Brownlee	\$ 147,117.82
BMS expenses	
Legal Fees paid to RMRF	\$ 17,126.65
Consulting services	\$ 34,165.68
Branding, website	\$ 11,919.50
Total Project to Date expenses paid by BMS	\$ 210,329.65

Please find below the expected expenses to set up the MCC (after we get all the member motions). Miscellaneous intended to replace stickers on vehicles, signs, business cards, forms and contingency for professional services.

Expected future MCC set up fees	Amount
Reimbursements to Town of Tofield for Brownlee	\$ 35,000.00
BMS expenses	
Legal Fees paid to RMRF	\$ 35,000.00
Consulting services	\$ 48,000.00
Branding, website	\$ 30,000.00
IT & Accounting set up services	\$ 22,000.00
Miscellaneous	\$ 30,000.00
Total Expected Expenses to be paid by BMS to create MCC	\$ 200,000.00

4. MNP Due Diligence Report recommends a private, professional board, with no political or administrative membership from the shareholders (see point 9 below).

Brownlee Response – This is a recommendation and may be a wise recommendation, but it is not mandatory nor a legal requirement. However, Section 5.01(c) of the USA already contemplates that this is going to happen. This is already present in the documents.

BMS – An appointed expert Board is recommended for improved governance. The timing of this Board change, the creation of Board committees, additional related governance documents, and a written plan on the transition, especially the future relationship with the Board for the Commission that will remain to hold the closure funds and LAPP employees, must be developed. BMS recommends a suitable governance consultant be engaged to assist with this development. BMS can suggest a qualified consultant for this purpose.

The timeline for this development is coincident with the MCC approval by the Councils, and should not impede MCC approval.

5. MNP Due Diligence Report (Page 31) indicates that **Net Profit Margins** have steadily decreased. What has caused this drop? Should we be concerned?

Brownlee Response – This is a business issue and not a legal issue. Perhaps BMS' staff can best address this.

BMS - Landfill disposal has been very competitive in the Edmonton area with two large-capacity landfills within a 90 minute truck transport from the city core, plus smaller "opportunistic" landfills also nearby. To secure waste contracts, we have bid to this market. Over time, (less than two planning cycles) we expect that disposal prices will increase as smaller landfills meet capacity constraints, and unit revenues increase.

Labour costs and capital costs are considerable for the operation and increase annually. As unit revenues begin to increase, income results will trend up.

6. Would like explanation of why City of Edmonton charges customers \$67/tonne (MSW), but BMS charges Edmonton only \$26/tonne (MSW).

Brownlee Response – This is a business issue and not a legal issue. Perhaps BMS' staff can best address this.

BMS – CoE charges customers for the "suite" of processes the waste goes through – screening for organics and for waste-to-energy, transferring waste to the process streams including placement of landfillable waste in tractor-trailers to Ryley, paying for the transport and finally, paying the disposal fee. Our disposal fee is only one of the costs that the CoE pays in the processing of MSW.

7. MNP Due Diligence Report (page 38). 2nd bullet indicates that the business plan does not anticipate major capital spending, with little explanation. Is this because the current landfill cells will accommodate years of growth?

Brownlee Response – This is something that only BMS's staff can answer.

BMS – Yes. The current business plan projects to 2023. Additional cell capacity for MSW will be required for subsequent years. The business plan can be edited to provide additional information on cell planning through to the end of the next five year cycle.

8. MNP Due Diligence Report (Page 41). How does BMS arrive at or determine revenue forecasts? Is there a reason we are 30% over in 2019 (see number 1 above). Is there an industry accepted “margin of error” for similar business projections?

Brownlee Response – This is something that only BMS's staff can answer.

BMS – Revenue forecasts are based on both “forward-looking estimates” and on historical market trends. There is no accepted industry “margin of error”. All enterprises prepare their forecasts on the best market information and research they have. (generally through sales and marketing) Detailed estimates of customer work are prepared. Market changes can be sudden, however, as in the acceleration of the LRT contaminated soil, and the closure of the CoE composting facility. These two events significantly increased incoming tonnage in 2019. Our other revenue estimates have been in line with actual results to-date.

9. The recent public presentation indicates no change to governance, but there has been some previous discussion that the new Board be independent and professional. The MNP Due Diligence report recommends same. Should this be clarified by the shareholders before proceeding further? (see point 4 above)

Brownlee Response – There has not been an official public hearing yet. Once the hearings are conducted, this needs to be communicated correctly.

BMS – See previous comments for note 4.

10. MNP Due Diligence Report (page 13). In the new structure, there will be a Governance Board, and the Commission will remain. What is the role of the Commission moving forward? Is the purpose limited to addressing employee and pension purposes?

Brownlee Response – The proposed services agreement between the Commission and the new structure contemplates keeping the Commission for the primary purpose of maintaining the employee's pensions. However, there are some additional benefits in that some of the Commission's important contracts are not transferrable to the new structure and that additionally, it will help to better preserve the reserve funds from being accessible to third party creditors.

BMS – It is recommended that the Commission be retained for employing LAPP-participating employees, holding title to land and some municipal contracts and holding segregated funds for future landfill closure. Accordingly, an Operating Agreement has been drafted to manage the relationship between the two entities. Also, see note 4 regarding Board relationships.

11. Beaver County Council would like to review the dividend formula (profit sharing among shareholders).

Brownlee Response – This is a partnership issue between the 5 municipalities and it must be agreed upon by all. We do not involve ourselves in this, but once agreed upon, we will document the agreed upon formula.

BMS – The current dividend and grant formulas were developed by the municipal members in consideration of all the financial transfers between the members for various jointly-funded services and projects. The MCC re-organization can continue without revisiting the formula understanding there has been no significant change in these funding transfers.

Under the MCC agreements, the distribution of income among the shareholders can be revisited when the underlying funding transfers change.

12. Beaver County Council would like to understand the post closure reserve formula (how is this established?).

Brownlee Response – This is something that only BMS's staff can answer.

BMS – Together with the auditors, the calculation of the amount of closure funds to be transferred is based on the anticipated cost of future closure (when the cells reach capacity) compared to the level of current capacity reached. The calculation is made annually, with the closure cost independently reviewed by an engineering consultant every three years. The calculations can be made available for inspection at any time.