



**STAFF REPORT
ACTION REQUIRED
with Confidential Attachment**

**Build Toronto – Annual General Meeting and
2014 Audited Financial Statements**

Date:	June 15, 2015
To:	Executive Committee
From:	Acting City Manager and Deputy City Manager & Chief Financial Officer
Wards:	City-wide
Reason for Confidential Information	This report includes information pertaining to matters about an identifiable individual formerly employed by a City corporation.

SUMMARY

This report contains recommendations for the actions necessary to comply with the requirements of the *Business Corporations Act* (Ontario) for holding the Annual General Meeting of the Shareholder of Build Toronto Inc. (Build Toronto), including receipt of its Annual Report for 2014 and audited Consolidated Financial Statements December 31, 2014, and appointment of the Auditor for 2015.

This report also contains recommendations for receipt at the Annual General Meeting of the Shareholder of information disclosing the individual compensation of executive officers employed by Build Toronto in 2014, Build Toronto actions to add value to transferred properties to date, and Build Toronto's 5-year business plan.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council treat that portion of the Council meeting at which this Report is considered as the Annual General Meeting of the Shareholder for Build Toronto by:

- a. Appointing Pricewaterhouse Coopers LLP, Chartered Accountants, as the Auditor of Build Toronto for fiscal year 2015, and authorizing the Board of Directors of Build Toronto to fix the Auditor's remuneration;
 - b. Receiving the Build Toronto 2014 Annual Review, forming Attachment 1 to this Report;
 - c. Receiving the Build Toronto Financial Report to the Shareholder, forming Attachment 2 to this Report;
 - d. Receiving the Build Toronto Inc. 2014 Compensation Disclosure and Analysis, forming Attachment 3a and Confidential Attachment 3b to this Report;
 - e. Receiving Build Toronto's 2014 Value Add Report to Shareholder, forming Attachment 4 to this Report;
 - f. Receiving the Build Toronto Strategic Direction 2015-2019, forming Attachment 5 to this Report; and
2. City Council direct the City Clerk to forward the Build Toronto Financial Report to the Shareholder, forming Attachment 2 to this Report, to the Audit Committee for information.
 3. City Council direct that Confidential Attachment 3b to this Report remain confidential in its entirety as it deals with personal information about an identifiable individual.

FINANCIAL IMPACT

There are no financial implications to the City resulting from the implementation of the recommendations in this report.

Subsequent to their 2014 year-end close, Build Toronto declared a \$15-million dividend payable in 2015. The dividend will be contributed to the Capital Financing Reserve and be used to fund capital projects in accordance with the Council-approved non-debt funding strategy.

DECISION HISTORY

At its meeting on July 11-13, 2012, City Council required that Shareholder Directions for all wholly-owned City corporations be amended to require public disclosure to the extent permitted by law of individual executive compensation as part of the annual reporting to the Shareholder and where required obtain consent from executives. City Council also required that individual variable pay remuneration (one-time lump sums) not exceed 25% of an executive's base salary ([EX21.19: Executive Compensation 2011 for Agencies and Corporations](#)).

That portion of the City Council meeting on June 10-13, 2014, where [EX42.9: Build Toronto - Annual General Meeting and Audited Annual Financial Statements 2013](#) was approved by Council, was considered the previous Annual General Meeting of the Shareholder for Build Toronto and the 2013 Consolidated Financial Statements were received. At the meeting, Council requested Build Toronto to submit the Board-approved Build Toronto Business Plan to the Executive Committee for information.

At its meeting on July 8, 9, 10 and 11, 2014, City Council directed Build Toronto to provide a summary of the value created on the sale of each property closed during the year and on each project completed during the year within each Annual Report ([GM31.6: Build Toronto Progress](#)).

At its meeting on March 31, April 1 and 2, 2015, City Council considered [AU1.7: Operational Review of Build Toronto Inc.](#) In the review, Toronto's Auditor General recommended that the Board of Directors of Build Toronto request the City Manager to submit the approved 5-Year Strategic Plan, or any subsequent updates to the Plan, to City Council for information. The Board adopted this recommendation at their meeting of January 26, 2015. In addition, Council requested the City Manager review the Shareholder Direction to Build Toronto, and ensure a comprehensive City-wide real estate framework is prepared.

At its meeting on March 31-April 2, 2015, City Council approved Pricewaterhouse Coopers LLP, Chartered Accountants, as the Auditor for 2015-2019 for the City, certain City Agencies, and other programs and funds, and specific City Corporations ([AU1.20: Award of Request for Proposal No. 9171-14-7121 to PricewaterhouseCoopers LLP for External Audit Services for the City and Certain of its Agencies and Corporations](#)).

ISSUE BACKGROUND

Build Toronto Inc. was incorporated under the *Business Corporations Act (Ontario)* in 2008. The City is the sole shareholder. The mandate of Build is to unlock the value of underutilized lands and use the available City and agency land base to attract targeted industries, stimulate the creation of desirable employment and regenerate neighbourhoods.

Subsection 154 (1) of the OBCA requires that the Shareholder receive Build Toronto's audited annual financial statements and the report of the auditor at the annual meeting of the Shareholder. Subsection 94 (1) requires that the Directors of Build Toronto call an annual meeting of its Shareholder by no later than fifteen months after holding the last preceding annual meeting.

Section 149 (2) of the OBCA requires that Build Toronto's Shareholder at each annual meeting appoint one or more auditors to hold office until the close of the next annual meeting, and allows the Shareholder to authorize the directors to fix the auditor remuneration.

Section 6.1 of the Shareholder Direction to Build Toronto requires the Board to approve a 5-year business plan, and Section 6.7 requires Build Toronto to deliver its audited consolidated annual financial statements and business plan to the City within 120 days of its fiscal year end. These documents are filed with the City Clerk's office.

COMMENTS

1. APPOINTMENT OF AUDITOR

The City's Auditor General from time-to-time conducts a competitive process to select an external auditor. At its meeting on March 31-April 2, 2015, City Council approved Pricewaterhouse Coopers LLP, Chartered Accountants, as the Auditor for 2015-2019 for the City, certain City Agencies, and other programs and funds, and City Corporations which includes Build Toronto Inc.

As a result, Pricewaterhouse Coopers LLP is to be appointed as the Auditor for Build Toronto for fiscal year 2015. The Board of Directors of Build Toronto will fix the annual remuneration of the Auditor.

2. KEY BUILD TORONTO ACHIEVEMENTS IN 2014

Build Toronto has reported a number of achievements in 2014, as described in their 2014 Annual Review which forms Attachment 1 of this Report. Their accomplishments include:

- \$14.8 million profit and a declared dividend of \$15 million (more detail provided in Build Toronto 2014 Audited Financial Statements below).
- Active work on 18 different projects within a portfolio of 35 projects.
- Two significant development projects sold to private developers (4050 Yonge Street and 455 Dovercourt Road). These developments have provided over \$1 million in development charges, fees and property taxes to date, and will provide an addition \$2.5 million in development charges and fees, provide \$4.4 million annually in property taxes, accommodate over 2,000 jobs and improve subway access and local streetscapes.
- Commitment to 25 affordable housing units within the Ordnance Triangle development.
- Project management of the Fort York Pedestrian and Cycle Bridge design phase.
- Continued focus on building collaborative and open relationships with City of Toronto stakeholders.
- Establishment of City-building strategic priorities, and systems to measure accomplishments in support of them.
- Streamlined operations to meet current business environment through a reduction in staff by approximately 25%.

3. BUILD TORONTO 2014 AUDITED FINANCIAL STATEMENTS

Disclosure of Financial Results

This section of the report provides a summary of the audited 2014 consolidated financial statements of Build Toronto and its wholly-owned subsidiaries established for risk mitigation purposes. The complete Build Toronto Financial Report to the Shareholder forms Attachment 2 of this Report, and includes a letter from the Chair and President & CEO, Build Toronto's Management Discussion and Analysis of the financial statements, and Build Toronto's audited 2014 Consolidated Financial Statements.

Build Toronto's 10 wholly-owned subsidiaries include:

- Build Toronto Holdings One Inc. (BTHOI)
- Build Toronto Holdings (Harbour) Inc.
- Build Toronto Holdings (Ordnance) Inc.
- Build Toronto Holdings (York Mills) Inc.
- Build Toronto Holdings (Victoria Park) Inc.
- Build Toronto Holdings (Tippet) Inc.
- Build Toronto Holdings (Dunelm) Inc.
- Build Toronto Holdings (Billy Bishop) Inc.
- Build Toronto Holdings (Richmond) Inc.
- Build Toronto Holdings (Bicknell) Inc.

Highlights of 2014 Financial Results

- Net income was \$14.8 million – an increase of \$16.9 million – compared to a loss of \$2.1 million in 2013, as a result of a significant increase in revenue from real estate sales.
- Total assets increased by 10.4% to \$303.1 million, while total liabilities declined by 2.5% to \$57.5 million, and total shareholder equity increased by 14.0% to \$245.6 million at year-end, resulting from higher net income and transfer of property from the City.

Consolidated Balance Sheet

Consolidated Balance Sheet as at December 31, 2014	2014	2013	2014 vs 2013 Increase/ (Decrease)	
	(\$ millions)			%
Total assets	303.1	274.5	28.6	10.4%
Current assets	270.7	163.2	107.5	65.9%
Non-current assets	32.4	111.2	-78.9	-70.9%
Total liabilities	57.5	59.0	-1.5	-53.4%
Shareholder's equity	245.6	215.4	30.1	14.0%
Total liabilities & shareholder's equity	303.1	274.5	28.6	10.4%

Total assets were \$303.1 million, including \$153.9 million in real estate inventory and \$14.7 million in investment properties. This represents an increase of \$28.6 million (10.4%).

- Current assets increased by \$107.5 million mainly as a result of an increase in real estate inventory resulting from a reclassification of investment property and an increase in cash and equivalents and loans receivable.
- Non-current assets decreased by \$78.9 million largely as a result of a \$45.9 million reduction in investment properties (referenced above) and a reduction of loans receivable associated with lower outstanding vendor-take-back mortgages and reclassification of the current portion of receivables.
- Total loans receivable (current and non-current) were \$37.8 million (\$60.4 million in 2013), comprising Pinewood Toronto Studio Inc. (\$33.4 million), various vendor-take-back mortgages (\$1.6 million) and Toronto Waterfront Studios Inc. (\$2.8 million).

Total liabilities were \$57.5 million, comprising:

- \$45.7 million in current liabilities
- \$11.9 million in non-current liabilities in environmental provisions.

Compared year over year, total liabilities decreased by \$1.5 million (-2.5%). An increase in current liabilities by \$34.7 million was offset by a decrease in the provision for environmental costs and debt (-\$38.1 million).

Total shareholder equity at year-end was \$245.6 million, an increase of \$30.1 million (14.0%) compared with a year ago, and mainly due to an increase in retained earnings resulting from a net profit for the year (\$14.8 million) and the property transfer from the City (\$15.6 million).

Consolidated Statement of Comprehensive Income

Summary Consolidated Statement of Comprehensive Income for the year ended December 31	2014	2013	2014 vs 2013 Increase/ (Decrease)	
	(\$ million)			%
Real estate inventory:				
Sales	33.1	2.3	30.9	1369.3%
Cost of sales	-11.2	-1.0	-10.2	1053.0%
Profit from sale of real estate inventory	21.9	1.3	20.6	1608.6%
Investment property:				
Rental revenue	3.2	2.0	1.2	60.3%
Property operating costs	-2.5	-1.2	-1.2	99.5%
Net property income	0.7	0.8	0.0	-2.6%
Net gain from fair value adjustments to investment property	0.3	5.0	-4.8	-95.0%
Revaluation of real estate inventory & environmental provision	0.0	-0.2	0.2	-100.0%
Share of net losses from subsidiaries	-0.2	-0.7	0.5	-74.8%
General & administrative expenses & others	-8.6	-9.4	0.8	-8.4%
Operating profit (loss)	14.2	-3.2	17.4	-536.7%
Net interest income/(costs)	1.8	1.9	-0.1	-7.0%
Other	-1.1	-0.8	-0.4	48.9%
Net income & total comprehensive income for the year	14.8	-2.1	16.9	-813.8%
Equity - January 1 opening balance	215.4	228.6	-13.2	-5.8%
Transfer of properties from shareholder & related parties	15.3	-1.1	16.4	-1490.8%
Dividend declared	0.0	-10.0	10.0	-100.0%
Equity - December 31 ending balance	245.6	215.4	30.1	14.0%

In 2014 the Corporation recorded a net profit of \$14.8 million, an increase of \$16.9 million over 2013, resulting primarily from increased revenue from real estate inventory transactions – the sale of two properties and additional profit participation from prior year property sales.

Subsequent Events

The Board of Directors declared a dividend of \$15 million to be paid in 2015.

4. EXECUTIVE COMPENSATION 2014

Build Toronto has disclosed executive compensation information for senior management in 2014 Compensation Disclosure and Analysis, forming Attachment 3a and Confidential Attachment 3b to this Report as requested by City Council.

The protection of individual privacy is required by the *Municipal Freedom of Information and Protection of Privacy Act* (MFIPPA). Specific compensation data of individual

employees is private information under MFIPPA. Build Toronto has indicated that current and former senior management have consented to the public disclosure of individual compensation information contained in Attachment 3a and assured the City that there is no unauthorized release of personal information. Confidential Attachment 3b contains compensation data of a former senior management employee who did not give consent to its release.

5. VALUE ADD REPORT

Build Toronto carries out a number of activities to enhance the value of City properties transferred to it. The Value Add Report to Shareholder forming Attachment 4 of this report indicates Build Toronto activities to add value to each property transferred to it, and summary financial and city-building outcomes as a result of these activities, as requested by Council. The report states that the total financial value created as a result of Build Toronto activities to date is \$84.6 million. This figure is based on revenue from real estate sales less the value of properties when they are first transferred to Build Toronto and costs related to improvement and sale of the properties, as shown in Build Toronto's audited financial statements.

6. STRATEGIC DIRECTION 2015-2019

The Board of Build Toronto has approved and submitted to the City a 5-year strategic plan entitled, "Build Toronto Strategic Direction 2015-2019," which forms Attachment 5 to this Report. The document includes a business environment analysis and resource assessment; eight strategic objectives for the organization; City-building and financial outcome measures; a budget for 2015 and subsequent years to 2019; and comment on variances from the previous business plan. It largely fulfills the requirements for a 5-year business plan under Section 6.1 of the Shareholder Direction to Build Toronto, and is provided for information at the request of Council and recommendation of the Auditor General.

The Strategic Direction recognizes that Build Toronto's role will continue to evolve to remain relevant and deliver enhanced value to the City. It states that Build Toronto is well positioned to serve the City of Toronto as a Real Estate Value Creation Company. In this capacity, Build Toronto would continue to analyze opportunities, develop and invest in properties, execute on partnerships and joint ventures where appropriate, but also assist the City, when requested, providing expertise and performing City real estate infrastructure projects where they have a direct interest. The document outlines eight strategic objectives which incorporate themes related to balancing its city building and financial return mandates, improving transparency and accountability, maximizing the value of City-owned real estate through collaboration, delivering more affordable housing, managing financial risk through the creation of multiple revenue events and income streams, and supporting City priorities.

The Build Toronto Strategic Direction 2015-2019 provides a thoughtful perspective from the organization regarding its current status, future challenges and opportunities, and strategic objectives. Its contents will be considered in the development of the City-wide real estate framework and the review of the Shareholder Direction to Build Toronto.

CONTACT

Peter Notaro, Director, Strategic and Corporate Policy Division
Tel: 416-392-8066; Email: pnotaro@toronto.ca

Rob Hatton, Director, Strategic Initiatives & Intergovernmental Finance
Tel: 416-392-9149; Email: rhatton@toronto.ca

Michael Smith, Solicitor, Legal Services Division,
Tel: 416-392-7245; Email: msmith10@toronto.ca

SIGNATURE

John Livey
Acting City Manager

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

- Attachment 1: Build Toronto 2014 Annual Review
- Attachment 2: Build Toronto Financial Report to Shareholder, which includes the Build Toronto Inc. Consolidated Financial Statements December 31, 2014.
- Attachment 3a: Build Toronto 2014 Compensation Disclosure and Analysis including Schedule A
- Confidential Attachment 3b: Build Toronto 2014 Compensation Disclosure and Analysis, Schedule B
- Attachment 4: Build Toronto's 2014 Value Add Report to Shareholder
- Attachment 5: Build Toronto Strategic Direction 2015-2019