



REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Toronto Community Housing Corporation – Annual General Meeting and 2017 Audited Consolidated Financial Statements

Date: June 4, 2018

To: Executive Committee

From: Interim City Manager and Interim Chief Financial Officer

Wards: All Wards

REASON FOR CONFIDENTIAL INFORMATION

This report deals with personal matters about an identifiable person.

SUMMARY

This report recommends the actions necessary to comply with the requirements of the Ontario Business Corporations Act (OBCA) for holding an Annual General Meeting of the Shareholder of Toronto Community Housing Corporation (TCHC), including receipt of TCHC's 2017 Audited Consolidated Financial Statements and appointment of the auditor for TCHC for 2018.

This report also recommends that Council approve the dissolution of two non-active TCHC subsidiaries, and amendments to TCHC's financial control by-law, as required under the OBCA and the Shareholder Direction to TCHC.

RECOMMENDATIONS

The Interim City Manager and the Interim Chief Financial Officer recommend that:

1. City Council treat the portion of the City Council meeting at which this report is considered as the Annual General Meeting of the Shareholder for Toronto Community Housing Corporation by:

- a. receiving the Letter to the Shareholder from the Toronto Community Housing Corporation's Chair of the Board of Directors and President and Chief Executive Officer dated April 30, 2018 transmitting the Toronto Community Housing

Corporation 2017 Annual Report and additional information, forming Attachment 1 and Confidential Attachment 5 to this report;

b. receiving Toronto Community Housing Corporation's 2017 Audited Consolidated Financial Statements for the period ending December 31, 2017, including the auditor's report dated May 4, 2018, forming Attachment 2 to this report; and

c. appointing PricewaterhouseCoopers LLP, Chartered Accountants, as the auditor for Toronto Community Housing Corporation for fiscal year 2018 at the fee provided in the City's agreement with that firm.

2. City Council, as Shareholder, approve amendments to Toronto Community Housing Corporation's financial control By-law (By-law 3), forming Attachment 3 to this report.

3. City Council, as Shareholder, request the Toronto Community Housing Corporation to align its financial control By-law (By-law 3) with the City's financial management and control By-law once revisions are approved by Council.

4. City Council, as Shareholder, approve the dissolution of Toronto Community Housing Corporation subsidiaries Don Mount Court Development Corporation and Access Housing Connections Incorporated.

5. City Council direct that the confidential information contained in Confidential Attachment 5 remain confidential in its entirety, as it deals with personal matters about an identifiable person.

6. City Council direct the City Clerk to forward a copy of Toronto Community Housing Corporation's 2017 Audited Consolidated Financial Statements December 31, 2017, forming Attachment 2 to this report, to the Audit Committee for information.

FINANCIAL IMPACT

TCHC's 2017 audited financial statements indicate net income of \$60.4 million (an increase of \$19.0 million over 2016), total assets of \$3.611 billion (an increase of \$363.9 million over 2016), and total liabilities of \$2.559 billion (an increase of \$302.5 million over 2016). Shareholder's equity increased by \$61.3 million in 2017 to \$1.051 billion, and the value of TCHC's housing projects increased by \$202.0 million to \$2.970 billion.

The Interim Chief Financial Officer has reviewed this Report and agrees with the financial impact information.

DECISION HISTORY

City Council on March 26 and 27, 2018, referred a staff report on the City's Financial Management and Control By-law Review and Update to the City Manager and the Chief

Financial Officer, and requested they submit an updated Financial Control By-law for consideration with the long-term financial plan.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX32.3>

TCHC's previous annual shareholder meeting, at which its 2016 annual report and audited financial statements were considered, took place at the City Council meeting of July 4, 5, 6 and 7, 2017.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX26.11>

At its meeting on December 13, 14 and 15, 2016, City Council approved the City to assume the services installed within the Don Mount Court Subdivision and assume the roads within the Registered Plan of Subdivision 66M-2441. In addition, Council authorized the release of the performance guarantee held with respect to the municipal services in accordance with the Subdivision Agreement.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.TE20.80>

At its meeting of May 5, 6 and 7, 2015, City Council authorized the acquisition of the social housing waiting list administration business and rent supplement program administration business of Access Housing Connections Inc. by the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX5.11>

On March 31, 2015, City Council approved PricewaterhouseCoopers LLP, Chartered Accountants, as the Auditor for 2015-2019 for the City and certain City Agencies and Corporations, including Toronto Community Housing Corporation.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU1.20>

An Amended and Restated Shareholder Direction for TCHC was adopted by City Council at its meeting held on November 13, 14, 15 and 18, 2013. The Shareholder Direction sets out the Shareholder's objectives, establishes governance principles for TCHC and its subsidiaries and the powers of the Board of Directors, and details the accountability and reporting requirements for TCHC to the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX35.5>

ISSUE BACKGROUND

Subsection 154 (1) of the Ontario Business Corporations Act (OBCA) requires that the Shareholder receive TCHC'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 TCHC call an annual meeting of its Shareholder by no later than fifteen months after holding the last preceding annual meeting, which was held by City Council at its meeting of July 4, 2017.

Section 149 (2) of the OBCA requires that TCHC'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's remuneration.

The City's Shareholder Direction to TCHC requires that it prepare an annual report and audited consolidated financial statements and submit them to City Council through the

Executive Committee. In addition, Council has directed that TCHC report annually on a number of other items.

TCHC's Board of Directors approved its 2017 Letter to the Shareholder, Annual Report and additional information (Attachment 1), and 2017 annual consolidated financial statements (Attachment 2), at its meeting on April 30, 2018.

COMMENTS

1. Appointment of Auditor

The City's Auditor General, every five years, conducts a competitive process to select an external auditor. On March 31, 2015, City Council approved PricewaterhouseCoopers LLP, Chartered Accountants, as the Auditor for 2015-2019 for the City and certain City Agencies and Corporations (including for the TCHC), and other programs and funds.

As a result, this report recommends that PricewaterhouseCoopers LLP be appointed as the Auditor for the TCHC for the fiscal year 2018 at the fee provided for in the City's agreement with that firm.

2. Key Achievements in 2017

The Letter to the Shareholder from TCHC's Chair of the Board of Directors and the President and Chief Executive Officer transmits the 2017 Annual Review and additional information (Attachment 1), which highlights key TCHC achievements in 2017.

3. Summary – 2017 Audited Consolidated Financial Statements

2017 Audited Consolidated Financial Results

The consolidated financial statements include the assets, liabilities and results of operations of TCHC, its wholly-owned subsidiaries and proportionate interests of its joint ventures. TCHC subsidiaries and joint ventures include:

Subsidiaries

- Don Mount Court Development Corporation (DMCDC)
- 2001064 Ontario Inc.
- Access Housing Connections Inc. (AHCI)
- Regent Park Development Corporation (RPDC)
- Toronto Community Housing Enterprises Inc. (TCHE)
- Railway Lands Development Corporation (RLDC)
- Allenbury Gardens Development Corporation (AGDC)
- Regent Park Energy Inc. (RPEI)
- Alexandra Park Development Corporation (APDC)
- Leslie Nymark Development Corporation (LNDC)
- Housing Services Inc. (HSI)

Joint Ventures

- Dundas and Parliament Development Corporation (DPDC)
- Parliament and Gerrard Development Corporation (PGDC)
- Library District Inc.
- Allenbury Gardens Revitalization General Partnership (AGP)
- Alexandra Park Phase I Partnership (APPI)
- Leslie Nymark Partnership (LNP)

Highlights of 2017 financial results

- \$60.4 million as net income compared with \$41.4 million for 2016.
- \$1.051 billion in shareholder's equity, an increase of \$61.3 million over 2016.
- \$9.5 million contributed to the State of Good Repair Fund, established in 2011 to finance the capital repair needs of existing residential buildings.

Balance Sheet

Table 1 below summarizes TCHC's consolidated balance sheet as at December 31, 2017 with comparative figures for 2016.

	<i>2017</i>	<i>2016</i>	<i>Increase/(Decrease)</i>	
	<i>\$ million</i>		<i>\$ million</i>	<i>%</i>
<i>Assets</i>				
Current assets	334.5	302.8	31.7	10%
Receivables and investments	305.9	175.7	130.2	74%
Housing projects and capital assets	2,970.3	2,768.3	202.0	7%
	3,610.6	3,246.8	363.9	11%
<i>Liabilities</i>				
Current liabilities	337.7	326.1	11.6	4%
Project financing	1,601.8	1,332.5	269.3	20%
Other liabilities	619.9	598.4	21.6	4%
	2,559.4	2,256.9	302.5	13%
<i>Surplus & share capital</i>	1,051.2	989.9	61.3	6%
<i>Total liabilities, surplus and share capital</i>	3,610.6	3,246.8	363.9	11%

Total assets were \$3,610.6 million, an increase of \$363.9 million (or 11%) compared with the previous year resulting from:

- an increase in current assets by \$31.7 million primarily as a result of increases in cash and loans receivable, offset by a reduction in accounts receivable,

- an increase of \$130.2 million in receivables and investments mainly on account of externally restricted investments related to additional project financing acquired in 2017, and
- an increase of \$202.0 million in housing projects and capital assets, due to improvements to land and buildings carried out in 2017.

Total liabilities were \$2,559.4 million, an increase of \$302.5 million (or 13%) compared with the previous year, resulting from:

- a \$269.3 million increase in project financing – the net effect of new project financing and on-going mortgage and loan repayments, and
- a \$33.2 million increase in other liabilities – current liabilities and deferred capital contributions.

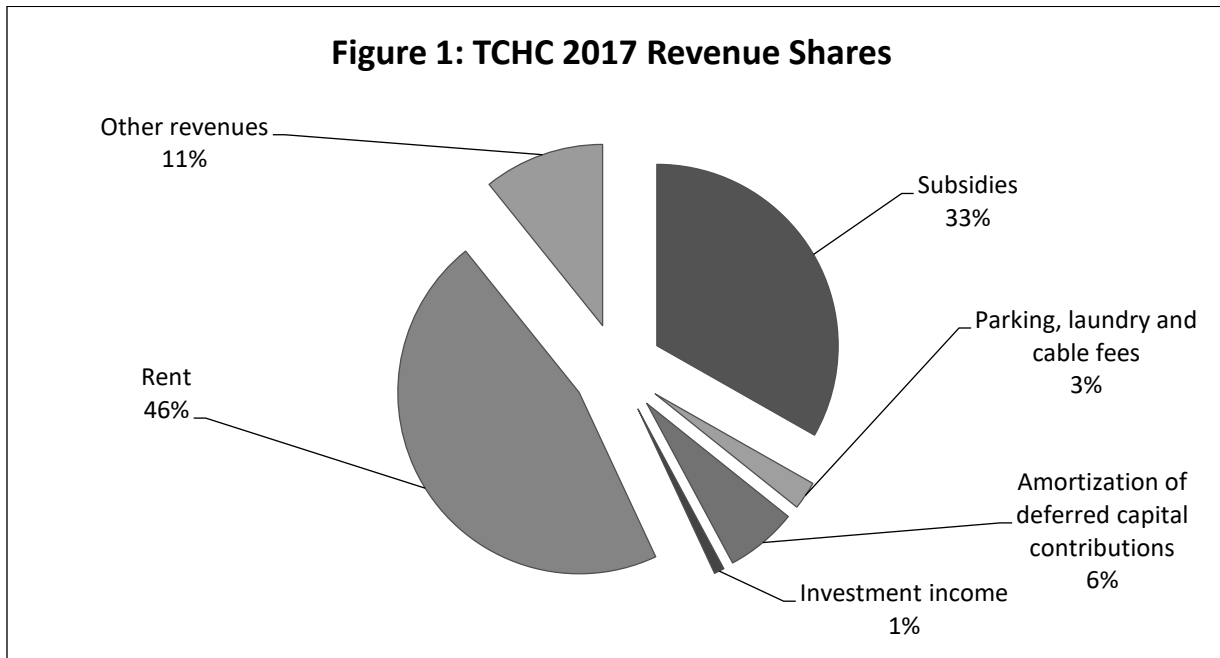
Statement of Operations

Table 2 below summarizes TCHC's 2017 consolidated statement of operations with comparative figures for 2016.

	2017	2016	Increase/(Decrease)	
	\$ million		\$ million	%
<i>Revenue</i>				
Subsidies	234.5	227.4	7.1	3%
Rent	326.0	316.0	10.0	3%
Amortization of deferred capital contributions	45.3	46.4	-1.2	-2%
Parking, laundry and cable fees	17.8	17.4	0.4	2%
Investment income	6.5	10.4	-3.9	-37%
Joint venture income	19.2	-0.5	19.7	-4372%
Other revenues	56.8	49.3	7.5	15%
Total revenues	706.1	666.5	39.6	6%
<i>Expenses</i>				
Operating and maintenance	322.4	293.4	29.0	10%
Municipal taxes	17.2	16.5	0.8	5%
Depreciation	163.0	152.4	10.6	7%
Interest	75.8	74.1	1.7	2%
Rent supplement program	0.0	25.7	-25.7	-100%
Administration & other	67.3	63.0	4.3	7%
Total expenses before unrealized losses	645.7	625.1	20.6	3%
Excess of revenue over expenses before unrealized losses	60.4	41.4	19.0	46%
Unrealized gain/(losses)	0.0	0.0	0.0	
Excess of revenue over expenses for the year	60.4	41.4	19.0	46%

Total revenues in 2017 were \$706.1 million, an increase of \$39.6 million (or 6%) over the previous year. Rental revenue increased by \$10 million (or 3%); other revenues that included revenue from the sale of housing projects increased by \$7.5 million (or 15%). Income from joint venture operations showed a significant difference between 2016 and 2017 as a result of project completions and unit sale transaction closings in 2017.

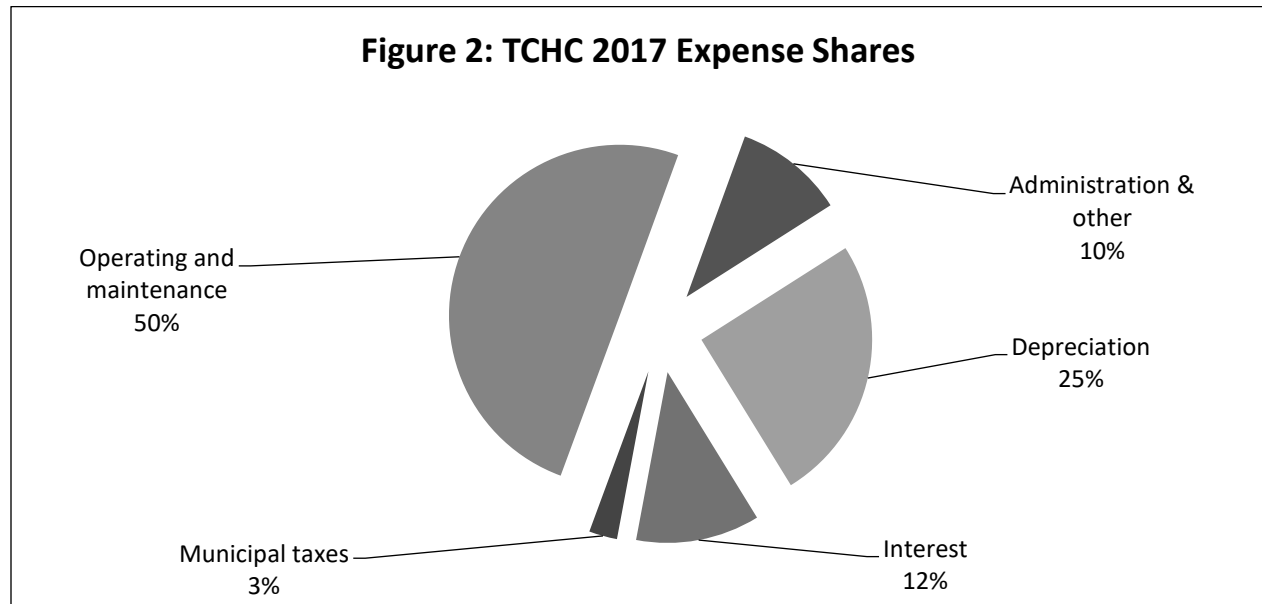
The share of revenues classified by broad categories is presented in Figure 1 below.



Total expenses in 2017 were \$645.7 million, an increase of \$20.6 million (or 3%) over the previous year. Higher total expenses resulted largely from an increase of \$29.0 million (or 10%) in operating and maintenance expenses, a \$10.6 million increase (or 7%) in depreciation allowance, and an \$8.4 million increase (or 14%) in administration and other expenses. These increases were offset by a decrease of \$25.7 million (or -100%) in the rent supplement program.

Regarding the rent supplement program, the City assumed the responsibility for various programs and agreements related to rent supplements at the end of 2016. However, TCHC continued to process the rent supplements as a pass-through transaction. Consequently, the related subsidy amounts are no longer reflected in TCHC financials in 2017.

The share of expenses classified by broad categories is presented in Figure 2.



The year ended with an excess of revenue over expenses of \$60.4 million, an increase of \$19.0 million (or 46%) over the prior year.

4. Additional Reporting Requirements

TCHC is required by its Shareholder Direction and Council decisions to report annually on a number of items, including executive compensation and TCHC's strategic plan. These items are listed in Attachment 1 (Additional Information, Appendix B) and Confidential Attachment 5 of this report.

TCHC is currently developing its 2019-2022 Strategic Plan, and is targeting Q1 2019 to submit its Strategic Plan to the City for transmittal to City Council.

5. TCHC Financial Control By-Law

Under the Shareholder Direction to TCH, City Council is required to approve any new, amended or repealed by-laws of TCHC. Should the Board by resolution change any of its by-laws, it is required to submit them to City Council, as Shareholder, for approval.

TCHC By-law 3 currently governs the financial control structure of TCHC. With the exception of amendments to the definition of "commitment", it has not changed since it was established in 2002. According to TCHC, the current By-law is not well structured and unclear in multiple areas, leading to confusion and uncertainty in its interpretation.

The TCHC Board has approved a revised financial control By-law (By-law 3) at its meeting on December 11, 2017 (Attachment 3). The proposed changes include, but are not limited to:

- The elimination of unnecessary terms and introduction of new terms to assist with interpretation,

- An increase to the lower threshold for change orders requiring Board approval from \$100,000 to \$250,000 or 20% of the original commitment value for all budgets,
- The introduction of a Procurement Award Committee consisting of senior management of TCHC with delegated authority from the Board, modelled on the City's Bid Committee, and
- Amendments to the existing delegated authority threshold to the Chief Executive Officer from including taxes to excluding taxes.

City staff have reviewed TCHC's revised By-law, are supportive of the rationale for the changes, and are satisfied that its implementation will result in effective financial controls at TCHC. This report recommends that TCHC's revised By-law 3 be approved.

Further, this report recommends that TCHC be requested to align its financial control By-law with the City's Financial Control By-law at a later date. The Interim City Manager and the Interim Chief Financial Officer will submit an updated Financial Control By-law for Council's consideration following the start of the 2018 to 2022 term of Council. Once the City's Financial Control By-law is approved, TCHC is requested to ensure TCHC's By-law aligns with the City's revised By-law.

6. Dissolution of TCHC Subsidiaries

Under the Shareholder Direction to TCHC, Shareholder approval is required for TCHC to permit any subsidiary to take or institute proceedings for any winding up, arrangement, corporate governance or legal reorganization or dissolution.

Don Mount Court Development Corporation (DMCDC) was incorporated as a wholly owned subsidiary of the TCHC on August 28, 2002, under the OBCA. DMCDC was created to oversee the redevelopment of TCHC's residential complex located on Don Mount Court in the Dundas Street and Broadview Avenue of the City of Toronto. In December 2016, the City formally assumed roads within the subdivision and released the performance guarantee held with respect to the municipal services. Since the redevelopment has been completed and all operational activities are concluded, the business rationale for DMCDC has come to an end. The DMCDC Board and the parent TCHC Board have approved voluntary dissolution of DMCDC (see Attachment 4).

Access Housing Connections Incorporated (AHCI) was incorporated as a wholly owned subsidiary of TCHC on August 14, 2003, under the OBCA. AHCI was created to administer and manage the social housing waitlist and rent supplement program. The City assumed the business of AHCI on December 31, 2016. Since the City acquired all assets of AHCI and direct control of the rent-geared-to-income waiting list function, the business rationale for AHCI has come to an end. The AHCI Board and the parent TCHC Board have approved voluntary dissolution of AHCI (see Attachment 4).

DMCDC and AHCI are TCHC subsidiaries for the purposes the Shareholder Direction to TCHC, and Council must provide the requisite consent of the City before the steps to formally dissolve the subsidiaries can be taken. City staff have no issue with the dissolution of these subsidiaries.

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SIGNATURE

Joe Farag
Interim Chief Financial Officer

Giuliana Carbone
Interim City Manager

ATTACHMENTS

Attachment 1 – Letter to the Shareholder, dated April 30, 2018, TCHC's 2017 Annual Report and Additional Information

Attachment 2 – Toronto Community Housing Corporation, 2017 Audited Consolidated Financial Statements for the period ending December 31, 2017

Attachment 3 – Request to Revise TCHC's Financial Control By-law (By-law 3)

Attachment 4 – Don Mount Court Development Corporation (DMCDC), Access Housing Connections Incorporated (AHCI), and TCHC Special Board Resolutions to Dissolve Corporations

Confidential Attachment 5 - TCHC Executive Compensation Information