

**REPORT FOR ACTION****Build Toronto - Annual General Meeting and 2018 Audited Financial Statements**

Date: June 19, 2019

To: Executive Committee

From: City Manager and Chief Financial Officer & Treasurer

Wards: All

SUMMARY

This report transmits materials submitted by the Board of Directors of Build Toronto to the City. No independent review or analysis has been performed by City staff.

This report contains recommendations for the actions necessary to comply with the requirements of the Business Corporations Act, Ontario (OBCA) for holding the Annual General Meeting of the Shareholder of Build Toronto, including receipt of its Annual Report and Audited Financial Statements for 2018 and appointment of the auditor for 2019.

RECOMMENDATIONS

The City Manager and Chief Financial Officer & Treasurer recommend that:

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

a. receiving the "Build Toronto 2018 Annual Report, forming Attachment 1 to this Report;

b. appointing PricewaterhouseCoopers LLP, Chartered Accountants, as the Auditor of Build Toronto for fiscal year 2019, and authorizing the Board of Directors of Build Toronto to fix the remuneration of the Auditor; and,

2. City Council direct the City Clerk to forward a copy of the Build Toronto 2018 Audited Annual Financial Statements and Audit Results Report, forming Attachment 2 to this Report, to the Audit Committee for information.

FINANCIAL IMPACT

There are no financial implications resulting from the implementation of the recommendations in this report. Build Toronto paid the City \$25 million in dividends in 2018.

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

DECISION HISTORY

On June 26, 2018, the portion of the City Council meeting where [EX35.9 Build Toronto- Annual General Meeting and 2017 Audited Financial Statements](#) was approved by Council, was considered the Annual General Meeting of the Shareholder for Build Toronto. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX35.9>

On May 22, 2018, City Council adopted [MM41.50 Remuneration for Public Directors of CreateTO, Build Toronto and the Toronto Port Lands Company](#), to amend Shareholder Directions for Build Toronto and TPLC so that public members of the CreateTO, Build Toronto and TPLC Boards are compensated for attendance at all three Boards up to the maximum retainer established by City Council, retroactive to January 1, 2018. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.MM41.50>

On December 5, 6, 7 and 8, 2017, City Council adopted [EX29.5 City-Wide Real Estate - Amendments to Municipal Code Chapter and Shareholder Directions](#), which amended Shareholder Directions for Build Toronto and the Toronto Port Lands Company in order to establish appropriate authority for the Toronto Realty Agency ("CreateTO") over Build Toronto and TPLC and their respective holding subsidiaries and activities, and to effectively implement the new real estate model approved by City Council in May 2017. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.5>

On July 4, 2017, that portion of the City Council meeting where [EX26.6 Build Toronto - Annual General Meeting and 2016 Audited Financial Statements](#) was approved by Council, was considered the previous Annual General Meeting of the Shareholder for Build Toronto. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX26.6>

On May 24, 25 and 26, 2017, City Council adopted [EX25.9 City-Wide Real Estate Transformation](#), which set out a new real estate service delivery model for City government that centralizes all real estate activities City-wide. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX25.9>

At its meeting on March 31, April 1 and 2, 2015, City Council approved recommendations in [AU1.7: Operational Review of Build Toronto Inc.](#) In the review, Toronto's Auditor General recommended that the City Manager review the Shareholder Direction to Build Toronto, and prepare a comprehensive City-wide real estate framework. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU1.7>

At its meeting on March 31, April 1 and 2, 2015, City Council approved PricewaterhouseCoopers 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](#)).

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

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](#)).

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.GM31.6>

On July 11, 2012, City Council adopted the requirement 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](#)).

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.19>

ISSUE BACKGROUND

City Council authorized the establishment of Build Toronto in 2008 pursuant to section 148 of the *City of Toronto Act, 2006*, and Ontario Regulation 609/06. Build Toronto was incorporated under the *Business Corporations Act (Ontario)* (OBCA) on November 13, 2008. The City is the sole shareholder.

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 the Build Toronto 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.

Section 6.8 of the Shareholder Direction to Build Toronto requires Build Toronto to provide an annual update to City Council, in addition to the requirement of the OBCA to hold an annual general meeting.

City-Wide Real Estate Model

On January 1, 2018, the City launched CreateTO, a new agency to lead the City-wide real estate delivery model adopted by City Council in 2017. This new model involves the operational consolidation of both Build Toronto and Toronto Economic Development Corporation (operating under the name Toronto Port Lands Company) through service agreements with CreateTO for specific real estate activities, including commercial development. Service agreements were also established between CreateTO and Build Toronto to support cost recovery for back office staff support.

Build Toronto entered into a shared services agreement with CreateTO (then the Toronto Realty Agency) for the provision of those services required for the operation of Build Toronto as set out in the Shareholder Direction, including accounting, risk management, tax, finance, record keeping, financial statement preparation and audit support; legal services; treasury functions; regulatory compliance; information systems; executive management; and corporate and other centralized services.

In December 2017, City Council adopted a recommendation to amend Build Toronto's Shareholder Direction which directed that Build Toronto shall not hire employees, other than its CEO, without the prior consent of CreateTO. Build Toronto therefore no longer reports executive compensation as all executives are also officers of and paid by CreateTO.

COMMENTS

1. Appointment of Auditor

The City's Auditor General from time-to-time 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, Corporations, and other programs and funds as set out in AU1.20 (2015).

As a result, PricewaterhouseCoopers LLP is to be appointed as the Auditor for Build Toronto for fiscal year 2019. The Board of Directors of Build Toronto will fix the annual remuneration of the Auditor.

2. Summary – Build Toronto 2018 Audited Financial Statements

Financial Results

Section 6.7 of the Shareholder Direction requires Build Toronto to deliver its audited consolidated annual financial statements to the Shareholder within 120 days of its fiscal year end. These documents are filed with the City Clerk's office. A summary of the 2018 financial results is provided in this section of the report.

As at December 31, 2018, Build Toronto had the following wholly-owned subsidiaries:

	Development of Real Property	Joint Arrangement for real estate development	Investment in Film Studios
Build Toronto Holdings One Inc.			•
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.	•		
Build Toronto Holdings (Westwood) Inc.	•		

Income Statement

Total 2018 net income (\$24 million) demonstrated a decrease over 2017 (\$28 million), primarily attributable to decreased 2018 net property sales of \$15.3 million (3 properties) vs \$32.8 million in 2017 (5 properties), offset by a net gain of \$11.1 million in 2018, relating to Build's interest in a joint venture at 10 York Street (vs -\$250,000 in 2017).

A summary of Build's audited consolidated income statement is as follows:

Build Toronto Inc. Audited Consolidated Statement of Comprehensive Income for the year ended December 31 (\$)			
	2018	2017	2018 over 2017
Revenues			
Property sales	28,922,458	57,561,660	
Cost of sales	(13,672,111)	(24,749,032)	
Net property sales	15,250,347	32,812,628	(17,562,281)
Rental revenue	3,647,526	2,079,344	
Property operating expenses	(1,949,835)	(1,362,404)	
Net Rental Income	1,697,691	716,940	

Total Net Revenues	16,948,038	33,529,568	(16,581,530)
Other Income			
Fee Income	1,409,979	854,652	
Interest Income	2,929,254	2,373,593	
Income from Equity Accounted Investments	11,613,372	274,006	
Gain (loss) on investment property	622,000	286,000	
Total Other Income	16,574,605	3,788,251	12,786,354
Expenses			
General & Administrative	7,634,306	7,670,886	
Depreciation & Amortization	56,931	164,547	
Interest Expense	1,523,412	1,052,387	
Other	24,184	425,157	
Total Expenses	9,238,833	9,312,977	(74,144)
Net Income and Comprehensive Income	24,283,810	28,004,842	(3,721,032)

Balance Sheet

As at December 31, 2018, Build had total assets of \$294 million, as compared to \$301 million in 2017. The decrease in total assets was primarily related to a reduction in loans receivable, and receivables from related parties (2018: \$40.4 million vs 2017: \$56.1 million), offset by an increase in cash (2018: \$81.4 million vs 2017: \$70.6 million). A reduction in real estate inventory (2018: \$111.9 million vs 2017: \$123.7 million) was offset by an increase in the value of Build's investment in a joint venture (2018: \$33.3 million vs 2017: 22.2 million).

Total liabilities as at December 31, 2018 were \$55.6 million, slightly less than 2017 (\$58.8 million) primarily relating to lower current liabilities (2018: \$25.2 million vs 2017: \$27.4 million). Build's balance sheet is summarized below:

Build Toronto Inc. Audited Consolidated Balance Sheet, December 31 (\$)			
	2018	2017	2018 vs 2017
Current assets	208,380,652	225,694,815	(17,314,163)
Non-current assets	85,878,201	75,304,759	10,573,442
Total assets	294,258,853	300,999,574	(6,740,721)

Build Toronto Inc. Audited Consolidated Balance Sheet, December 31 (\$)			
Current liabilities	25,120,729	27,426,050	(2,305,321)
Non-current liabilities	30,450,825	31,414,035	(963,210)
Total liabilities	55,571,554	58,840,085	(3,268,531)
Shareholder's equity	238,687,299	242,159,489	(3,472,190)
Total liabilities & shareholder's Equity	294,258,853	300,999,574	(6,740,721)

Capital Structure:

The company's capital structure is comprised of debt and shareholder's equity.

	December 31 2018	December 31 2017
Shareholder's equity	238,687,299	242,159,489
Debt	42,591,083	43,330,159
Total	281,278,382	285,489,648

Shareholder's Equity

As at December 31, 2018, Build had total Shareholder's Equity of \$238.7 million, a decrease over 2017 (\$242.2 million), as a result of a dividend paid to the Shareholder of \$25 million which exceeded (2018) net income of \$24.3 million, and a transfer of a promissory note to the Shareholder of \$2.8 million, upon Build's fulfillment of related obligations.

Build Toronto Inc. Audited Consolidated Statement of Shareholder's Equity for the year ended December 31 (\$)		
	2018	2017
Shareholder's Equity beginning of year	242,159,489	238,318,039
Net transfer of property from Shareholder	--	836,608
Transfer of promissory note to Shareholder	(2,756,000)	--
Net income	24,283,810	28,004,842
Dividends paid	(25,000,000)	(25,000,000)
Shareholder's Equity end of year	238,687,299	242,159,489

CONTACT

Meg Shields, Director, Corporate Policy, Strategic & Corporate Policy, 416.392.0523,
Meg.Shields@toronto.ca

Karyn Spiegelman, Senior Financial Analyst, Corporate Finance, 416.392.8894,
karyn.Spiegelman@toronto.ca

Michael Smith, Solicitor, Legal Services, 416,392.7245, Michael.A.Smith@toronto.ca

SIGNATURE

Heather Taylor
Chief Financial Officer & Treasurer

Chris Murray
City Manager

ATTACHMENTS

Attachment 1: Build Toronto 2018 Annual Report

Attachment 2: Build Toronto 2018 Audited Annual Financial Statements