

EX16.6



STAFF REPORT ACTION REQUIRED

Build Toronto – Annual General Meeting and 2015 Audited Financial Statements

Date:	June 14, 2016
To:	Executive Committee
From:	City Manager Deputy City Manager & Chief Financial Officer
Wards:	City-wide
Reference Number:	

SUMMARY

This report contains recommendations for the actions necessary to comply with the requirements of the Ontario *Business Corporations Act* (OBCA) for holding the Annual General Meeting of the Shareholder of Build Toronto Inc. (Build Toronto), including receipt of its 2015 Annual Review and audited Consolidated Financial Statements December 31, 2015, as well as the appointment of its auditor for 2016.

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 2015, and Build Toronto actions to add value to transferred properties to date.

RECOMMENDATIONS

The City Manager and the Deputy City Manager & Chief Financial Officer recommend 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 2016, and authorizing the Board of Directors of Build Toronto to fix the Auditor's remuneration;

- b. Receiving the Build Toronto 2015 Annual Review, forming Attachment 1 to this Report;
 - c. Receiving the Build Toronto Financial Report to the Shareholder (which contains its 2015 audited consolidated financial statements), forming Attachment 2 to this Report;
 - d. Receiving the Build Toronto Inc. 2015 Compensation Disclosure and Analysis, forming Attachment 3 to this Report; and
 - e. Receiving Build Toronto's 2015 Value Add Report to the Shareholder, forming Attachment 4 to this Report.
2. City Council request 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.

Financial Impact

Subsequent to their 2014 year-end close, Build Toronto issued a \$15 million dividend paid to the City in 2015. Subsequent to their 2015 year-end close, Build Toronto declared a \$25-million dividend payable in 2016. The 2016 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.

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

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

That portion of the City Council meeting on July 7, 8 and 9, 2015, where [EX7.12: Build Toronto - Annual General Meeting and 2014 Audited Annual Financial Statements](#) was approved by Council, was considered the previous Annual General Meeting of the Shareholder for Build Toronto and the 2014 Consolidated Financial Statements were received. Build Toronto's Strategic Direction 2015-2019 was attached to the report.

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.

At its meeting on March 31, April 1 and 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](#)).

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 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](#)).

ISSUE BACKGROUND

Build Toronto Inc. was established by City Council in 2008, with authorities under the *City of Toronto Act* (COTA) and incorporated under the Ontario *Business Corporations Act* (OBCA). The City is the sole shareholder. The mandate of Build Toronto 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 6.8 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.

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 2016. The Board of Directors of Build Toronto will fix the annual remuneration of the Auditor.

2. Key Build Toronto Achievements in 2015

Build Toronto has reported a number of key achievements in 2015, as described in their 2015 Annual Review which forms Attachment 1 of this Report. Their accomplishments include:

- \$8.3 million gross profit from property sales and a dividend payment of \$15 million in 2015, and a declared dividend of \$25 million to be paid in 2016 (more detail provided in Build Toronto 2015 Audited Financial Statements section below).
- An Official Plan Amendment for two properties on Tippet Road, transforming 5.6 acres of commuter parking into a new community with approximately 200 affordable homes integrated into a transit-oriented residential development.
- Leading the process, in partnership with the Waterfront Secretariat, to select the successful design-builder for the Fort York Pedestrian and Cycle Bridge project.
- Completed the sale of Ordnance Joint Venture Phase 2, which will see a new mixed use development and a 3.2 acre park connecting the growing King West neighbourhood to the waterfront.
- Breaking ground at 10 York Street, through Build Toronto's first joint venture partnership with Tridel, for a 65 storey residential development with 12 affordable housing units.
- An Official Plan Amendment and Zoning By-Law for the commercial portion of 411 Victoria Park Avenue, making way for a 19.7 acre mixed-use development remediating a former City landfill.

3. Build Toronto 2015 Audited Financial Statements

Disclosure of 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. This report provides a summary of the audited 2015 consolidated financial statements of Build Toronto and its 10 wholly-owned subsidiaries established for risk mitigation purposes.

- 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 2015 Financial Results

- Paid a dividend of \$15 million (based on 2014 operations, reported as a subsequent event in 2015)
- Net income was \$3.3 million – a decrease of \$11.5 million – as a result of a significant decrease in net proceeds from real estate sales.
- Total assets decreased by 5.1% to \$287.7 million, while total liabilities declined by 6.7% to \$53.7 million, and total shareholder equity decreased by 4.7% to \$234.1 million at year-end, as a result of the above changes (\$3.3 million net income, \$15 million dividend payment).

Consolidated Balance Sheet

Consolidated Balance Sheet as at December 31, 2015	2015	2014	2015 vs 2014 Increase/ (Decrease)	
	(\$ millions)			%
Total assets	287.7	303.1	-15.3	-5.1%
Current assets	245.6	270.7	-25.1	-9.3%
Non-current assets	42.1	32.4	9.7	30.1%
Total liabilities	53.7	57.5	-3.8	-6.7%
Shareholder's equity	234.1	245.6	-11.5	-4.7%
Total liabilities & shareholder's equity	287.7	303.1	-15.3	-5.1%

Total assets were \$287.7 million, including \$143.7 million in real estate inventory and \$14.9 million in investment properties. This represents a decrease of \$15.3 million (-5.1%).

- Current assets decreased by \$25.1 million mainly as a result of a reduction in real estate inventory as a consequence of completed sales transactions, and a reduction in cash and cash equivalents following an equity contribution to a joint venture.

- Non-current assets increased by \$9.7 million largely as a result of the equity contribution in a joint venture referenced above.
- Total loans receivable were \$33.4 million (\$37.8 million in 2014), owed by Pinewood Toronto Studio Inc. Of the loans receivable in 2014, the amount owed by Toronto Waterfront Studios Inc. was repaid in full during 2015.

Total liabilities were \$53.7 million, comprising:

- \$37.2 million in current liabilities
- \$16.5 million in non-current liabilities in environmental provisions.

Compared year over year, total liabilities decreased by \$3.8 million (-6.7%). A decrease in current liabilities by \$8.5 million was offset by an increase in the provision for environmental costs by \$4.7 million.

Total shareholder equity at year-end was \$234.1 million, a decrease of \$11.5 million (-4.7%) compared with a year ago, as a result of a \$15 million dividend payout during the year and the \$3.3 million net income for 2015.

Consolidated Statement of Comprehensive Income

Summary Consolidated Statement of Comprehensive Income for the year ended December 31	2015	2014	2015 vs 2014		
			Increase/ (Decrease)	%	
	(\$ million)				%
Real estate inventory:					
Sales	22.5	33.1	-10.7	-32.2%	
Cost of sales	-14.2	-11.2	-3.0	26.8%	
Profit from sale of real estate inventory	8.3	21.9	-13.7	-62.3%	
Investment property:					
Rental revenue	2.7	3.2	-0.5	-16.6%	
Property operating costs	-1.6	-2.5	0.9	-34.7%	
Net property income	1.1	0.7	0.3	42.7%	
Net gain from fair value adjustments to investment property	0.3	0.3	0.0	8.0%	
Share of net losses from subsidiaries	0.3	-0.2	0.4	-257.6%	
General & administrative expenses & others	-6.8	-8.6	1.8	-21.4%	
Operating profit (loss)	3.1	14.2	-11.0	-78.0%	
Net interest income/(costs)	0.8	1.8	-0.9	-53.0%	
Other	-0.6	-1.1	0.5	-44.2%	
Net income & total comprehensive income for the year	3.3	14.8	-11.5	-77.5%	
Equity - January 1 opening balance	245.6	215.4	30.1	14.0%	
Transfer of properties from shareholder & related parties	0.2	15.3	-15.1	-98.9%	
Dividend declared	15.0	0.0	15.0		
Equity - December 31 ending balance	234.1	245.6	-11.5	-4.7%	

In 2015 Build Toronto recorded a net profit of \$3.3 million, a decrease of \$11.5 million over 2014, resulting primarily from decreased revenue from real estate inventory transactions. The higher cost of sales of real estate inventory, despite a decline in sales revenue, is a consequence of higher capitalized costs incurred in bringing to market the properties sold.

Subsequent Events

The Board of Directors declared a dividend of \$25 million to be paid in 2016.

1. Executive Compensation 2015

Build Toronto has disclosed executive compensation information for senior management in 2015 Compensation Disclosure and Analysis, forming Attachment 3 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 3 and assured the City that there is no unauthorized release of personal information.

2. Value Add Report

Build Toronto carries out a number of activities to enhance the value of City properties transferred to it. The Value Add Chart 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 chart shows that the total financial value created as a result of Build Toronto activities to date is \$92.9 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.

3. City-Wide Real Estate Review

As Build Toronto's operations involve monetizing City and agency lands and facilitating City-building initiatives, the results of the City-wide Real Estate Review may impact Build Toronto. As such, the review of Build Toronto's mandate and establishment of a dividend policy as directed by Council will follow and be informed by the review results. Similarly, an update of Build Toronto's 5-year strategic plan was not seen as necessary in the context of pending results from the City-wide Real Estate Review. Build Toronto's Strategic Direction 2015-2019, attached to the Build Toronto 2014 Annual General Meeting report, remains relevant in the current context.

The results of the City-wide Real Estate Review are anticipated to be before Executive Committee at the same meeting as this report.

CONTACT

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SIGNATURE

Peter Wallace
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ATTACHMENTS

- Attachment 1: Build Toronto 2015 Annual Review
- Attachment 2: Build Toronto Financial Report to Shareholder, which includes the Build Toronto Inc. Consolidated Financial Statements December 31, 2015.
- Attachment 3: Build Toronto 2015 Compensation Disclosure and Analysis
- Attachment 4: Build Toronto's 2015 Value Add Chart to Shareholder