

### **Build Toronto - Annual General Meeting and 2017 Audited Financial Statements**

**Date:** June 5, 2018

**To:** Executive Committee

**From:** Interim City Manager and Interim Chief Financial Officer

**Wards:** All

#### **SUMMARY**

---

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 2017 and appointment of the auditor for 2018.

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 2017.

#### **RECOMMENDATIONS**

---

The Interim City Manager and Interim Chief Financial Officer 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 2017 Annual Report", forming Attachment 1 to this Report;
  - b. appointing PricewaterhouseCoopers LLP, Chartered Accountants, as the Auditor of Build Toronto for fiscal year 2018, and authorizing the Board of Directors of Build Toronto to fix the remuneration of the Auditor; and,
  - c. receiving the "Build Toronto Executive Compensation Disclosure 2017", forming Attachment 2 to this Report.

2. City Council direct the City Clerk to forward a copy of the "Build Toronto 2017 Audited Annual Financial Statements", forming Attachment 3 to this Report, to the Audit Committee for information.

## **FINANCIAL IMPACT**

---

Build Toronto paid the City \$25 million in dividends in 2017. On April 18, 2018, the Board of Directors declared a dividend of \$25 million, to be paid to the Shareholder in 2018.

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

## **DECISION HISTORY**

---

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 approved a new real estate service delivery model for the City government that centralizes all real estate activities City-wide, including all real estate strategy and portfolio planning, major building projects, developments, real estate transactions and facilities management.

<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.  
[\(EX21.19: Executive Compensation 2011 for Agencies and Corporations\).](#)

## **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.

## **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.

As a result, PricewaterhouseCoopers LLP is to be appointed as the Auditor for Build Toronto for fiscal year 2018. The Board of Directors of Build Toronto will fix the annual remuneration of the Auditor.

### **2. Key Build Toronto Achievements in 2017**

The Build Toronto Annual Report 2017, contains highlights on activities and achievements in 2017:

- Generated Net Income for 2017 of \$28 million, with total Net Income since inception (2008) of \$109.2 million.
- Invested approximately \$13.5 million of capital in on-going development projects.
- Value Creation of \$32.8 million, with approximately \$144.3 million to date.

The Annual Report notes that the majority of Build Toronto's longer-term development projects not only achieve long term financial goals, but also support City-Building Strategic Priorities: Engagement, Livable Neighbourhoods, Sustainability, Employment and Transit-Oriented Development. These development activities may include conceptual design, zoning, site preparation, partnering with best-in-class real estate organizations, environmental remediation, infrastructure planning, leasing and potentially, construction.

The Annual Report also notes that Build Toronto was a key participant in the City-wide Real Estate Transformation Initiative, and on January 1, 2018 staff of Build Toronto became employees of the new agency CreateTO. CreateTO will offer enhanced strategic planning, property management, oversight and financial services for the City's real estate portfolio. CreateTO will charge a services fee to Build Toronto to offset its operating costs.

### **3. Summary – Build Toronto 2017 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 2017 financial results is provided in this section of the report.

As at December 31, 2017, 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 2017 net income, at \$28 million, demonstrated an increase over 2016 (\$12.7 million) primarily as a result of increased net property sales. In 2017, Build had net property sales of \$32.8 million, as compared to \$18.7 million in fiscal 2016. In 2017, Build sold five properties for \$57.6 million on a gross basis.

A summary of 2017 audited consolidated income statement is provided in the table below.

<b>Build Toronto Inc.</b> <b>Audited Consolidated Statement of Comprehensive Income</b> for the year ended December 31, 2017			
	<b>2017</b>	<b>2016</b>	<b>2017 increase/ (decrease) over 2016</b>
<b>Revenues</b>			
Property Sales	57,561,660	50,291,228	
Cost of sales	(24,749,032)	(31,631,833)	
<b>Net property sales</b>	<b>32,812,628</b>	<b>18,659,395</b>	14,153,233
<b>Rental Revenue</b>	2,079,344	1,979,975	
Property operating expenses	(1,362,404)	(1,344,332)	
<b>Net Rental Income</b>	<b>716,940</b>	<b>635,643</b>	81,297
<b>Net Property Income</b>	<b>33,529,568</b>	<b>19,295,038</b>	14,234,530
<b>Other Income</b>			
Interest Income	2,373,593	1,517,816	
Fee Income	854,652	103,219	
Other Income	274,006	443,867	
Gain (loss) on investment property	286,000	(300,000)	
Total Other Income	3,788,251	1,764,902	2,023,349
<b>Expenses</b>			
Project Investigative Costs	346,589	--	
General & Administrative	7,670,886	7,273,890	
Depreciation & Amortization	164,547	146,391	
Interest Expense	1,052,387	625,340	
Financing Costs- environmental provision	78,568	356,999	
Total Expenses	9,312,977	8,402,620	910,357
<b>Net Income &amp; Comprehensive Income</b>	<b>28,004,842</b>	<b>12,657,320</b>	15,347,522

## Shareholder's Equity

Build Toronto had Shareholder's Equity of \$242.2 million as at December 31, 2017, demonstrating an increase of \$3.8 million over 2016, as a result of 2017 net income and net property transfers from the Shareholder, offset by a dividend paid to the Shareholder of \$25 million.

Subsequent to fiscal year end, on April 18, 2018, the Board of Directors declared a dividend of \$25 million, to be paid to the Shareholder in 2018.

The following table summarizes the Statement of Shareholder's Equity for Build Toronto for fiscal 2017, in comparison to 2016:

<b>Build Toronto Inc.</b> <b>Audited Consolidated Statement of Shareholder's Equity</b> for the year ended December 31, 2017 (\$000's)		
	<b>2017</b>	<b>2016</b>
<b>Shareholder's Equity beginning of year</b>	<b>238,318,039</b>	<b>234,057,953</b>
Net transfer of property from Shareholder	836,608	16,602,766
Net Income	28,004,842	12,657,320
Dividends paid	(25,000,000)	(25,000,000)
<b>Shareholder's Equity end of year</b>	<b>242,159,489</b>	<b>238,318,039</b>

### Balance Sheet

As at December 31, 2017, Build had total assets of \$301 million, demonstrating a \$4.8 million increase over 2016. The increase in total assets was due in part to a greater amount of cash & cash equivalents (2017: \$70.6 million vs 2016: \$51.4 million), offset by a lesser real estate inventory (2017: \$123.7 million vs 2016: \$141.2 million).

Total liabilities as at December 31, 2017 were \$58.8 million, slightly greater than 2016 (\$57.9 million) due primarily to an increased debt amount (+\$10 million), offset by a lower environmental provision (-\$9.4 million).

The table below summarizes and compares the balance sheet for 2017 and 2016:

<b>Build Toronto Inc.</b> <b>Audited Consolidated Balance Sheet</b> as at December 31, 2017 (\$000's)			
	<b>2017</b>	<b>2016</b>	<b>2017 vs 2016</b>
Current assets	225,694,815	231,699,265	
Non-current assets	75,304,759	64,502,042	
<b>Total assets</b>	<b>300,999,574</b>	<b>296,201,307</b>	4,798,267
Current Liabilities	27,426,050	48,181,662	
Non-current liabilities	31,414,035	9,701,606	
<b>Total liabilities</b>	<b>58,840,085</b>	<b>57,883,268</b>	956,817
Shareholder's equity	242,159,489	238,318,039	3,841,450
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>300,999,574</b>	<b>296,201,307</b>	

Subsequent to 2017 fiscal year end, under the provisions of a service agreement the employees of Build Toronto were transferred over to CreateTO, which commenced the provision of operating services for Build Toronto. This arrangement will be reflected in the financial statements of the entities going forward.

#### **4. 2017 Executive Compensation**

Build Toronto has disclosed executive compensation information for senior management as requested by City Council in Attachment 2 to this Report. 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 senior management have consented to the public disclosure of individual compensation information contained in Attachment 2 and assured the City that there is no unauthorized release of personal information.

#### **CONTACT**

---

Sandra Rodriguez, A/Director, Corporate Intergovernmental & Agencies Relations,  
[Sandra.Rodriguez@toronto.ca](mailto:Sandra.Rodriguez@toronto.ca), 416-392-3832

Karyn Spiegelman, Senior Financial Analyst, Corporate Finance,  
[karyn.Spiegelman@toronto.ca](mailto:karyn.Spiegelman@toronto.ca), 416-392-8894

Michael Smith, Solicitor, Legal Services, [Michael.A.Smith@toronto.ca](mailto:Michael.A.Smith@toronto.ca), 416-392-7245

#### **SIGNATURE**

---

Joe Farag  
Interim Chief Financial Officer

Giuliana Carbone  
Interim City Manager

#### **ATTACHMENTS**

---

Attachment 1: Build Toronto 2017 Annual Report  
Attachment 2: Build Toronto Executive Compensation Disclosure 2017  
Attachment 3: Build Toronto 2017 Audited Annual Financial Statements