

Toronto Community Housing Corporation - Annual General Meeting and 2019 Audited Financial Statements

Date: September 9, 2020

To: Executive Committee

From: City Manager and Chief Financial Officer and Treasurer

Wards: All

SUMMARY

This report transmits materials submitted by the Board of Directors of Toronto Community Housing Corporation (TCHC) to the City. No independent review or analysis has been performed by City staff.

This report recommends the actions necessary to comply with the requirements of the Business Corporations Act, Ontario (OBCA) to hold an Annual General Meeting of the Shareholder of Toronto Community Housing Corporation (TCHC), including receipt of TCHC's 2019 Audited Consolidated Financial Statements and appointment of the auditor for TCHC for 2020.

In light of the state of emergency that was declared in Ontario in response to the COVID-19 pandemic, the deadline to hold annual meetings of shareholders for OBCA corporations was temporarily extended through the addition of Part XIX to the OBCA. With the Ontario Declaration of Emergency having come to an end on July 24, 2020, the extended meeting deadlines for OBCA incorporated companies that were required to hold annual meetings on or before July 24, 2020 now have until October 22, 2020 to hold their annual meetings.

RECOMMENDATIONS

The City Manager and the Chief Financial Officer and Treasurer 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, and:

- a. receive 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 June 2, 2020 transmitting the Toronto Community Housing Corporation 2019 Annual Report and additional information, forming Attachment 1 to this report;
- b. receive Toronto Community Housing Corporation's 2019 Audited Consolidated Financial Statements for the period ending December 31, 2019, including the auditor's report dated April 29, 2020, forming Attachment 2 to this report;
- c. confirm the appointment of KPMG LLP, Chartered Accountants, as the auditor for Toronto Community Housing Corporation for fiscal year 2020 until the close of the next Annual General Meeting of the Shareholder or until a successor is appointed, at the fee provided in the City's agreement with that firm; and
- d. receive the Toronto Community Housing Corporation's executive compensation disclosure for 2019 included in section 4.1.1 of additional information in Attachment 1 to this report.

2. City Council direct the City Clerk to forward a copy of Toronto Community Housing Corporation's 2019 Audited Consolidated Financial Statements, forming Attachment 2 to this report, to the Audit Committee for information.

3. City Council, as Shareholder, direct the Board of Toronto Community Housing Corporation, in consultation with the City of Toronto's Chief Financial Officer and Treasurer, to bring forward a report on the impacts of COVID-19 on Corporation operating and capitals budgets and operations, detailing any modifications to their programs and initiatives to address COVID-19, to City Council through Executive Committee, by Q1 of 2021.

FINANCIAL IMPACT

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

TCHC's 2019 audited financial statements indicate a net deficiency of \$43.3 million (a decline of \$92.2 million over 2018), total assets of \$4.071 billion (an increase of \$182.8 million over 2018), and total liabilities of \$3.016 billion (an increase of \$223.6 million over 2018). Shareholder's equity decreased by \$40.7 million in 2019 to \$1.055.7 billion, and the value of TCHC's housing projects and capital assets increased by \$285.0 million to \$3.489.6 billion.

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

DECISION HISTORY

On June 29, 2020, City Council approved KPMG LLP, Chartered Accountants, as the Auditor for 2020 to 2024 for the City and certain City Agencies and Corporations, including Toronto Community Housing Corporation.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.AU5.7>

TCHC's previous Annual Shareholder Meeting, at which its 2018 Annual Report and Audited Consolidated Financial Statements were considered, took place at the City Council meeting of July 16, 2019.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.9>

On July 11, 2012, City Council approved a 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.

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

ISSUE BACKGROUND

Subsection 154(1) of the Business Corporations Act, Ontario (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 16, 2019.

Subsection 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 or until a successor is appointed, 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. In addition, the Shareholder Direction requires, or Council has directed, that TCHC report annually on a number of other items and submit its business plan (referred to in this report as TCHC's Strategic Plan) to Council.

TCHC's Board of Directors approved its Letter to the Shareholder, its 2019 Annual Report and additional information (Attachment 1), and 2019 Annual Consolidated Financial Statements (Attachment 2), at its meeting on April 27, 2020. TCHC's Board approved its 2019-2022 Strategic Plan at its meeting on July 31, 2018 (Attachment 3), which was previously received by City Council. TCHC reviews its Strategic Plan annually. The current Plan is under review and will be completed in 2021.

In light of the state of emergency that was declared in Ontario in response to the COVID-19 pandemic, the deadline to hold annual meetings of shareholders for OBCA

corporations was temporarily extended through the addition of Part XIX to the OBCA. With the Ontario emergency declaration having come to an end on July 24, 2020, the extended meeting deadlines for OBCA incorporated companies that were required to hold annual meetings on or before July 24, 2020, now have until October 22, 2020 to hold their annual meetings.

The date on which an OBCA corporation is required to hold its annual meeting of shareholders is based upon both the meeting date described in section 94 of the OBCA (within 15 months from the corporation's last annual meeting) and the financial statements required to be placed before the meeting (i.e., for the period that began immediately after the end of the last completed financial year and ending not more than six months before the annual meeting). For OBCA corporations with a December 31 year-end, this generally requires that a meeting be held by no later than June 30. Part XIX temporarily extends this deadline to October 22, 2020.

Under the temporary provisions of Part XIX of the OBCA, the directors of corporations must place before annual meetings the financial statements relating to the most recently completed annual period. The requirement that the financial information placed before an annual meeting pertain to a period ended not more than six months before the meeting is suspended. This clarifies that OBCA corporations holding their annual meetings by the extended deadline will be able to place their annual financial statements for the 2019 fiscal year before their shareholders at their 2020 annual general meeting.

COMMENTS

1. Appointment of Auditor

Every five years, the City's Auditor General conducts a competitive process to select an external auditor. On June 29, 2020, City Council approved KPMG LLP, Chartered Accountants, as the Auditor for 2020 to 2024 for the City, certain City agencies and corporations (including for the TCHC), and other programs and funds.

As a result, this report recommends that KPMG LLP be appointed as the Auditor for TCHC for the fiscal year 2020 and until close of the next annual general meeting or until a successor is appointed.

2. Key Achievements in 2019

The Letter to the Shareholder from TCHC's Chair of the Board of Directors and the President and Chief Executive Officer transmits the 2019 Annual Report and additional information (Attachment 1), which highlights key TCHC achievements in 2019 in relation to TCHCs corporate goals and objectives.

3. Summary – 2019 Audited Consolidated Financial Statements

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.

4. Highlights of 2019 Financial Results

\$43.3 million 2019 net deficit compared with \$48.9 million net income for 2018 - revenue growth continued to lag expenditure growth.

\$1.055 billion in shareholder's equity, a decrease of \$40.7 million from 2018.
 \$8.7 million contributed to the State of Good Repair Fund, established in 2011 to finance the capital repair needs of existing residential buildings.

TCHC Management is responsible for the preparation of TCHC's consolidated financial statements and results of operations. PwC is responsible for issuing an opinion as to whether the financial statements are free of material misstatement.

For the year ended December 31, 2019, PwC's opinion is that taken as a whole, the financial statements are free of material misstatement.

Balance Sheet

Table 1 below summarizes TCHC's consolidated balance sheet as at December 31, 2019 with comparative figures for 2018.

Table 1 - Summary Consolidated Balance Sheet as at December 31

	2019	2018 (\$ million)	Increase/ (Decrease)	%
Assets				
Current assets	280.1	401.5	-121.5	-30%
Receivables & Investments	302.1	282.8	19.3	7%
Housing projects & capital assets	3,489.6	3,204.6	285.0	9%
	<u>4,071.8</u>	<u>3,888.9</u>	<u>182.8</u>	<u>5%</u>
Liabilities				
Current liabilities	417.4	365.8	51.6	14%
Project financing	1,690.8	1,601.3	89.5	6%
Other Liabilities	907.9	825.4	82.4	10%
	<u>3,016.1</u>	<u>2,792.5</u>	<u>223.6</u>	<u>8%</u>
Surplus & share capital	<u>1,055.7</u>	<u>1,096.4</u>	<u>-40.7</u>	<u>-4%</u>
Total liab., surplus & share capital	<u>4,071.8</u>	<u>3,888.9</u>	<u>182.8</u>	<u>5%</u>

Total assets were \$4.071 billion, an increase of \$182.8 million (or 5%) compared with the previous year, resulting from:

- A decrease in current assets of \$121.5 million, primarily as a result of a reduction in cash/restricted cash balances used to repay a line of credit balance, reducing interest expense, and grants/loans receivable.
- An increase of \$285.0 million in housing projects and capital assets, due largely to significant additions in, and improvements to, lands and buildings carried out in 2019. An increase in receivables and investments of \$19.3 million.

Total liabilities were \$4.071 million, an increase of \$182.8 million (or 5%) compared with the previous year, resulting from:

- A \$51.6 million increase in current liabilities, due mainly to increases in a short-term bank loan and project financing.
- An \$89.5 million increase in long-term project financing consisting of mortgages, debentures and loans payable to the City, Infrastructure Ontario (IO) and others.
- An \$82.4 million increase in other liabilities, including a \$71.5 million increase in deferred capital contributions representing the unamortized amount of restricted grants received for the purchase of capital assets.

Statement of Operations

Table 2 - Summary Consolidated Statement of Operations Year ended December 31

	2019	2018	Increase/ (Decrease)	%
		(\$ million)		
Revenue				
Subsidies	232.5	235.3	-2.8	-1%
Rent	356.0	340.3	15.7	5%
Amortization of deferred capital contribution	58.3	49.4	8.9	18%
Parking, laundry and cable fees	19.0	18.4	0.6	3%
Investment income	11.5	9.6	1.9	20%
Joint venture income	2.8	15.1	-12.4	-
				82%
Other revenues	12.3	52.9	-40.6	-
				77%
Total revenues	692.3	721.0	-28.7	-4%
Expenses				
Operating and maintenance	348.3	318.4	29.9	9%
Municipal taxes	18.5	18.8	-0.3	-2%
Depreciation	198.3	178.4	19.9	11%

Interest	78.9	77.6	1.3	2%
Administration & other expenses	91.6	78.9	12.7	16%
Total expenses before unrealized losses	735.6	672.1	63.5	9%
Excess of revenue over expenses before unrealized	-43.3	48.9	-92.2	-189%
Unrealized gain/(losses)	0.0	0.0	0.0	
Excess of revenues over expenses for the year	-43.3	48.9	-92.2	-189%

**Table 3 - Consolidated Revenues for the year ended December 31, 2019
(Details for chart purposes)**

	2019	2018 (\$ million)	Increase/ (Decrease)	%
Revenue				
Subsidies	232.5	235.3	-2.8	-1%
Rent - Residential	340.1	324.9	15.2	5%
Rent - Commercial	15.9	15.4	0.5	3%
Authorization of deferred capital contributions	58.3	49.4	8.9	18%
Parking, laundry and cable fees	19.0	18.4	0.6	3%
Investment income	11.5	9.6	1.9	20%
Joint venture income	2.8	15.1	-12.3	-81%
Gain on sale of housing projects and other capital assets	6.2	48.6	-42.4	-87%
Plant and other revenues	6.0	4.3	1.7	40%
Total revenues	692.3	721.0	-28.7	-4%
Expenses				
Operating and maintenance	192.5	172.5	20.0	12%
Utilities	125.3	120.6	4.7	4%
Municipal taxes	18.5	18.8	-0.3	-2%
Depreciation	198.2	178.4	19.8	11%
Interest	78.9	77.5	1.4	2%
Community Safety Services	30.7	25.3	5.4	21%
Residential Services	14.4	13.3	1.1	8%
Corporate Services	70.4	63.1	7.3	12%
Plant and other expenses	6.7	2.6	4.1	158%
	735.6	672.1	63.5	9%
(Deficiency)/Excess of revenues over expenses*	-43.3	48.9	-92.2	-188.5%

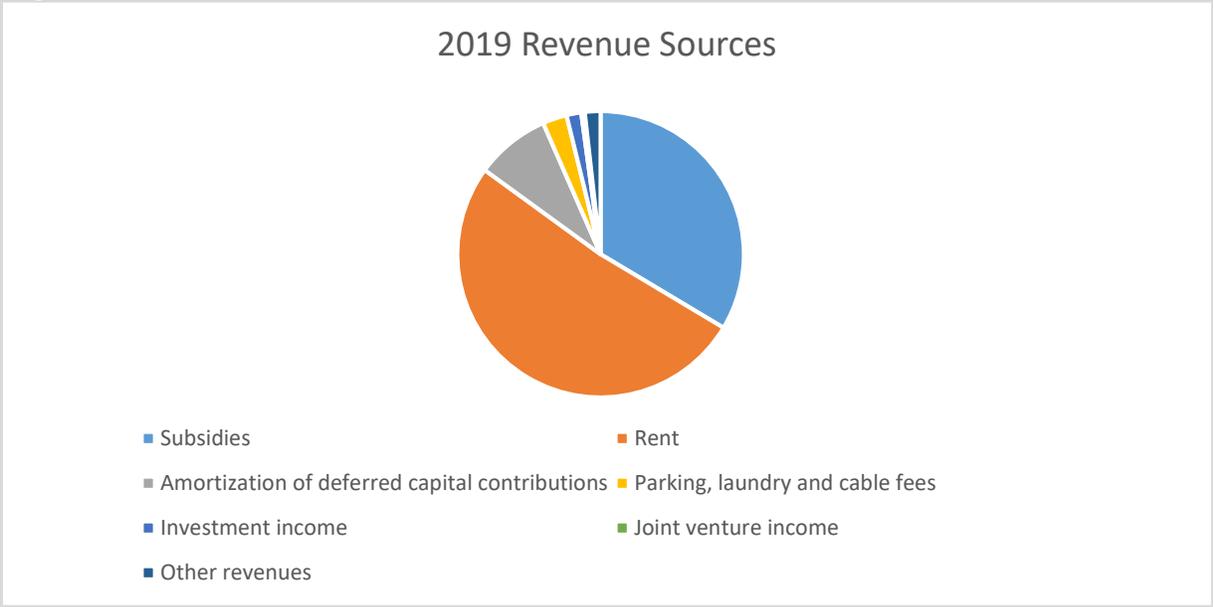
*Note: * Provided as per the ACFS to correct for rounding*

Total revenues in 2019 were \$692.3 million, a decrease of \$28.7 million (or 4%) from the previous year. Although 2019 rental revenue and the amortization of contributions made for state of good repair and redevelopment projects increased by \$24.7 million, a 6% increase over last year, significant decreases resulted in joint venture income (\$12.4 million, or 82%) and other revenues (\$40.6 million, or 77%), most significantly from a \$6.2 million gain on sale of housing projects as compared to a \$48.6 million in 2018.

Total expenses in 2019 were \$735.6 million, an increase of \$63.5 million (or 9%) over the previous year. Higher total expenses resulted largely from increases in operating and maintenance costs (\$29.9 million, or 9%), mostly due to additional staffing to support the program, depreciation expense (\$19.9 million, or 11%) and administration and other expenses (\$12.7 million, or 16%). Administration and other expenses includes a \$3.3 million impairment loss as a result of difference between the carrying value of properties held for sale and the transfer price (determined to be an amount that obtains proceeds for all transaction costs, discounted for state of repair for all Agency Houses, and compensation for outstanding mortgage balances of all Uninhabitable Houses as of June 30, 2019).

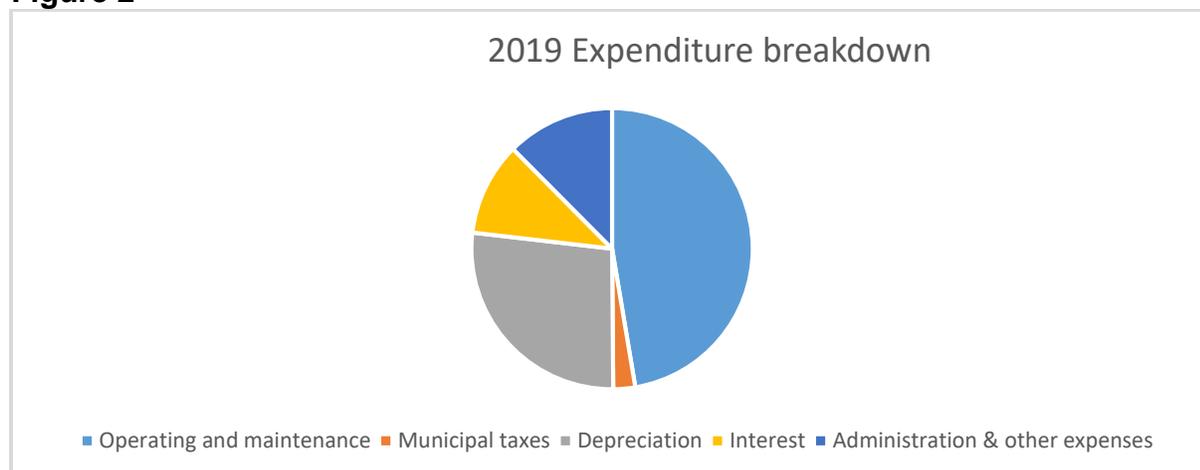
The share of revenues classified by broad categories is presented in Figure 1.

Figure 1



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

Figure 2



5. TCHC subsidiaries and joint ventures include:

Subsidiaries

- Don Mount Court Development Corporation (DMCDC)
- 2001064 Ontario Inc.
- Access Housing Connections Inc. (AHC)
- 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)

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)

6. Additional Reporting Requirements

TCHC is required by its Shareholder Direction and Council decisions to report annually on a number of items, including executive compensation. Executive compensation for TCHC's senior executives is included in Attachment 1 (Additional Information, Section 4.1.1), and a summary of additional Shareholder reporting requirements and summary of TCHC actions can be found in Attachment 1 (Appendix B).

TCHC submitted its 2019-2022 Strategic Plan and budget summary to the City, which is considered the Corporation's business plan, in compliance with section 10.1 of its Shareholder Direction (Attachment 3). City Council previously received TCHCs 2019-2022 Strategic Plan in July 2019.

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SIGNATURE

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City Manager

ATTACHMENTS

Attachment 1: Letter to the Shareholder dated June 2, 2019, TCHC's 2019 Annual Report and Additional Information

Attachment 2: Toronto Community Housing Corporation, 2019 Audited Consolidated Financial Statements, for the period ending December 31, 2019

Attachment 3: Toronto Community Housing Corporation, 2019-2022 Strategic Plan and 2020 Budget Detailed Summary