



# Corporate Report

NO: C008

COUNCIL DATE: April 30, 2007

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## COUNCIL-IN-COMMITTEE

TO: Mayor & Council

DATE: April 27, 2007

FROM: City Manager

FILE: 0112-03

SUBJECT: Surrey City Development Corporation (the "Development Corporation")

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## RECOMMENDATION

It is recommended that Council:

1. receive this report as information; and
2. authorize staff to proceed with further necessary actions toward having the Surrey City Development Corporation commence operations.

## INTENT

The intent of this report is to document the status of the Surrey City Development Corporation (SCDC) including the decisions that have been made in respect to the composition of the Board of Directors, Executive Committee and Officer positions, the draft Business Plan for the Corporation and further actions being taken to make operational the SCDC.

## EXECUTIVE SUMMARY

The Province has approved the incorporation of a Development Corporation by the City of Surrey with broad powers to advance the commercial, industrial, institutional and residential development of the City, either on its own, or in public or private partnerships. The Development Corporation may deal generally in real estate and property of all kinds and may borrow on the credit of the company or its assets.

## BACKGROUND

At a meeting on October 16, 2006, Council authorized staff to incorporate a Development Corporation for the City and at the same meeting approved the Articles of Incorporation for the Development Corporation (the "Articles") as the basis for an application to the Inspector of Municipalities. The Inspector of Municipalities has now issued a formal approval letter that allows for the incorporation of the Development Corporation by the City, the issuance of its shares to the City and the selection and appointment of a Board, Executive Committee and Officer positions. The Development Corporation was incorporated on April 24, 2007.

Part 7.1 of the Articles of the Development Corporation, attached to this report as Appendix "D", provides for the appointment by Council of its first directors. The Articles give Council the

discretion to set up an initial Board and to change the composition of the Board in the future if such action is deemed necessary.

## DISCUSSION

### **Comments on the Proposed Surrey Development Corporation**

Surrey has a unique combination of rapid population growth, rising property values, significant strategic land holdings and a geographically strategic location within the region. The City has an in-house Economic Development office. Council has indicated that it would like to pursue a Development Corporation that can generate a positive economic return for the City while achieving other objectives in support of the continued development of a “world class” City.

A Business Plan for the Surrey City Development Corporation has been approved by Council. This Plan is attached as Appendix “E”. The business plan forms the basic “blueprint” for the operation of the Development Corporation.

The specific objectives of the Development Corporation are to:

- Accelerate business-related development in the City;
- Act as a catalyst through its development activities to create market interest in the business areas of the City;
- Maximize the returns on surplus City-owned land through property rental income and/or capital appreciation;
- Generate an annual revenue stream to the City of Surrey from its profits realized through capital appreciation, leases and/or property management revenues that will meet or exceed “target private sector rates of return”;
- Generate an annual revenue stream to the City of Surrey from the property tax base that it will create through its business activities;
- Recommend strategic land acquisitions in support of the City’s vision for redeveloping areas of the City;
- Manage properties in a professional, ethical and conflict free manner ensuring compliance with legal requirements and best practices;
- Manage the property portfolio in a prudent manner in relation to property and portfolio risk exposures;
- Operate under sound control practices;
- Provide timely, accurate and understandable information to the Board and City Council on financial and other matters relating to the on-going operation of the Development Corporation; and
- Comply with all legislative requirements in relation to the operation of and reporting on activities of the Development Corporation.

To maintain its tax-free status under Canada Revenue Agency rules, at least 90% of the shares of the Development Corporation must be owned by the City. Based on the proposed business plan,

the City will be the sole shareholder. A minimum of ninety (90)% of the business activity of the Development Corporation must be within the municipal boundaries of Surrey. At this time, it is expected that all of the business activity of the SCDC will be within the boundaries of the City of Surrey.

Members of Council and City staff are not precluded from being members of the Development Corporation's Board. Unless there is a personal conflict of interest, there is no conflict between being a member of Council and being a member of the Board of a Development Corporation.

The City as sole shareholder of the Development Corporation must through its Council decide on the composition of the Board. The Board will be responsible for overseeing the business affairs of the Development Corporation in accordance with direction from the City as sole shareholder under a shareholder's agreement. The shareholder's agreement will require approval by the City on such matters as:

- the business plan;
- annual budget;
- expenditures and acquisitions over a stated amount;
- property sales/leases over a stated amount;
- borrowing controls/debt assumption;
- audit requirements; and
- appointments to the Board of Directors.

A separate report on the shareholders agreement and related partnering agreement is being forwarded to Council for consideration.

### **Board Composition**

The initial composition of the Board for the Surrey City Development Corporation will be as follows:

- The Mayor or designate;
- A Councillor;
- City Manager;
- President; and
- Five (5) independent members.

### **Board Determination**

#### **Eligibility Criteria for independent members**

The independent members of the Board should have a range of experience in real estate, property management, law, land development and financial management and each should have demonstrated general business acumen, personal integrity and independence of judgment. It is important that the independent members be chosen so as to minimize circumstances where individual members would be required to withdraw from discussions at the Board due to conflict of interest.

#### **Selection Process**

A Nominating Committee will provide recommendations to Council with respect to the selection of independent members to the Board. Council has determined that for the initial selection of independent members, the Nominating Committee will include the Mayor, two members of City Council, the City manager and the City solicitor. For

subsequent independent member appointments to the Board, the Nominating Committee will consist of the Chair of the Board, the Mayor, the President of the Development Corporation and two others to be selected by the Directors of the Board. Surrey City Council will make the final decision on all Board appointments.

### **Operation of the Board**

To ensure the effective governance of the Corporation, Council has adopted the principles and practices in the “National Policy 58-201 Corporate Governance Guidelines” and the Canadian Coalition for Good Governance publication titled “Corporate Governance Guidelines for Building High Performance Boards” to the extent that they are relevant to a “sole shareholder” public sector-held Development Corporation (both documents attached as Appendix “C”).

### **Executive Committee**

The Articles of the Corporation provide for the appointment by the Board of an Executive Committee, which must include the Chair, the President and such other persons as the Directors see fit. The initial Executive Committee will also include the City Manager and the Mayor. Certain functions and authority of the Board may be delegated to the Executive Committee, which will typically meet on a more frequent basis than the Board, to assist with the efficient day-to-day functioning of the Development Corporation.

### **Appointment of Officers**

The Articles of the Corporation provide that the Directors shall appoint a President or a President and Chief Executive Officer, a Secretary and such other Officers as the Directors may determine. The Development Corporation will have the following Officers:

- President or President and Chief Executive Officer
- Chief Financial Officer
- Corporate Secretary – City Solicitor
- Vice President, Development

### **Benefits to the City that Will Result from the Development Corporation:**

The following benefits will accrue to the City from the activities of the Development Corporation:

- It will act as a catalyst for new business development in the City that will create new jobs for Surrey residents and additional business property tax revenues that will assist in ensuring a strong financial future for the City;
- It will assist in ensuring that the City achieves optimal land and community value through the sale and/or lease of City-owned lands and buildings, which will provide additional revenues to the City to assist in providing enhanced services to Surrey residents;
- It will act to implement the vision that City Council has for strategic areas of the City such as the City Centre, town centres, etc.
- It will leverage the development of civic facilities and buildings to achieve other complementary public and private sector development/investment through partnership/joint venture arrangements.
- It will explore development opportunities by which the City and its citizens could benefit and take appropriate action to ensure that the City is apprised of such opportunities for consideration.

**Next Steps:**

1. A shareholders agreement and related partnering agreement has been prepared by the Legal Services Division for approval by Council, which documents the City's rights and obligations (as the sole shareholder) in relation to the on-going operation of the SCDC. A separate report will be forwarded for Council consideration in relation to these agreements.
2. A President/CEO is being recruited for the SCDC: This individual will have a broad range of land development, construction management, real estate and financial experience and will preferably have experience as a President and CEO of another similar Corporation. This individual once hired will be responsible for the recruitment of other positions in the SCDC.
3. Appoint two members of Council to the Nominating Committee and complete the identification of candidate board members from which Council will choose the five (5) independent members of the Board.
4. Council will need to appoint a Councillor to the Board.
5. The President and CEO once retained will be responsible for recruiting and recommending to the Council the officer positions of Chief Financial Officer, Corporate Secretary and Solicitor and Vice President, Development.
6. The SCDC annual budget will need to be prepared and approved by Council.
7. Council will need to appoint an auditor for the SCDC.
8. The first meeting of the Board will need to be held to complete the initial organization of SCDC.

It is expected that the SCDC will commence operations in the next few weeks.

**CONCLUSION**

It is recommended that Council receive this report as information and authorize staff to continue with further necessary actions to have the Surrey City Development Corporation commence operations.

Murray Dinwoodie  
City Manager

Attachs.      Appendix "A" – Board of Directors  
                  Appendix "B" – Executive Committee and Officers  
                  Appendix "C" – Corporate Governance Guidelines  
                  Appendix "D" – Articles of Incorporation  
                  Appendix "E" – Business Plan for the Surrey Development Corporation

## **APPENDIX "A"**

### **BOARD OF DIRECTORS:**

- Mayor or his/her designate
- City Councillor chosen from the members of Council at large
- City Manager
- President
- Five (5) independent members

## **APPENDIX "B"**

### **EXECUTIVE COMMITTEE:**

- Chair of the Board
- Mayor
- City Manager
- President

### **OFFICERS:**

- President or President and Chief Executive Officer,
- Chief Financial Officer
- Corporate Secretary – City Solicitor
- Vice President Development

## **APPENDIX "C"**

### **CORPORATE GOVERNANCE GUIDELINES**



**APPENDIX "D"**

**ARTICLES OF INCORPORATION**

APPENDIX “E”

# **BUSINESS PLAN**

FOR THE

# **SURREY CITY DEVELOPMENT CORPORATION**

**APRIL 2007**

## **Part 1 – THE ORGANIZATIONAL PLAN**

### **Description of the Business**

#### **Mission:**

The Surrey City Development Corporation (SCDC) exists to:

- Accelerate business-related and other development in the City;
- Act as a catalyst for creating market interest in the business areas of the City;
- Add significant value to City-owned real estate prior to its sale and/or lease;
- Recommend land acquisition in support of the City’s vision for strategic areas of the City;
- Generate an annual revenue stream to the City of Surrey from its profits realized through capital gains, leases and/or property management revenues that will meet or exceed “target private sector rates of return”; and
- Generate an annual revenue stream to the City of Surrey from the property tax base that it will create through its business activities.

#### **Business Model:**

The Surrey City Development Corporation will create value through the development (i.e., rezoning, subdividing and servicing) of City-owned land and will either sell the developed land to others to build upon or will create additional value by constructing buildings upon the land for the purpose of either selling or leasing the finished buildings. The Surrey Development Corporation will not own any real estate but rather the City will hold the real estate as bare trustee for the SCDC.

The Surrey City Development Corporation will focus primarily on “business designated” lands but may, where opportunities arise, also develop residential and/or institutional lands where the potential for capital gains and/or net profits from the development of such lands are projected or where other City objectives are met through the development of the land by the SCDC.

The Surrey City Development Corporation will analyze market opportunities, create relationships and will make recommendations to the City with respect to the acquisition of strategic parcels of land in the City for the purpose of allowing the Surrey Development Corporation to develop such lands to achieve its mission.

The Surrey City Development Corporation may enter into partnerships with other public sector and/or private sector entities in relation to achieving its mission.

#### **Strategy:**

The Surrey City Development Corporation will identify parcels of City-owned land (or parcels of land that should be acquired by the City) that can be rezoned, subdivided, serviced and/or built upon so as to achieve the mission of the SCDC. The SCDC will develop a real estate investment and disposal (“monetization”) strategy for endorsement

by the Board that will guide decisions about the development of land and the construction of buildings on land and whether the completed development will be sold or leased.

**Products:**

The Surrey City Development Corporation may be involved in the development and construction of buildings on City-owned lands for the purpose of creating commercial, industrial, business park, institutional and/or residential development.

**Location:**

The Surrey City Development Corporation will have offices that are located in the City of Surrey.

All of the business activities of the Surrey City Development Corporation will be focused on the development of City-owned real estate or real estate that is to be acquired by the City of Surrey located within the boundaries of the City of Surrey.

**Legal Structure:**

The Surrey City Development Corporation is a company incorporated under the *Business Corporations Act* of British Columbia. The Articles of Incorporation (attached as Appendix “A”) set out the objects of the company, which empower the company to engage in specified activities to realize its mission.

The Articles of Incorporation also require the SCDC to hold an annual information meeting that is open to the public to ensure that the community has an opportunity to observe the activities of the SCDC.

The City will hold all of the shares of the SCDC. As the sole shareholder, the City will exercise its shareholder decision-making powers through City Council under a shareholder agreement. The shareholder agreement will require approval by the City of:

- the business plan;
- annual budget;
- expenditures and acquisitions over a stated amount;
- property sales/leases over a stated amount;
- borrowing controls/debt assumption;
- audit requirements; and
- appointments to the Board of Directors.

The Board of the SCDC is responsible for overseeing the business affairs of the SCDC in accordance with direction from the City as sole shareholder under a shareholder agreement.

To assist in ensuring effective governance of the SCDC and effective operation of the Board the principles and practices in the “National Policy 58-201 Corporate Governance Guidelines” and the Canadian Coalition for Good Governance publication titled “Corporate Governance Guidelines for Building High Performance Boards” (both documents attached as Appendix “C”) will be followed so far as they are relevant to a “sole shareholder” public corporation.

### **Operating Principles:**

The following operating principles will be followed in the management of the Development Corporation:

- Manage properties in a professional, ethical and conflict free manner ensuring compliance with legal requirements and best practices;
- Manage the property portfolio in a prudent manner to minimize specific property and portfolio risk exposures;
- Operate under sound control practices;
- Provide timely, accurate and understandable information to the Board and City Council on financial and other matters relating to the on-going operation of the Development Corporation; and
- Comply with all legislative requirements in relation to the operation of and reporting on activities of the Development Corporation.

### **Management/Staff Structure:**

An organization chart for the Surrey Development Corporation is attached as Appendix “B”. The SCDC will be initially staffed with the positions described below:

- ***President and Chief Executive Officer:***
  - This position will be the senior management position in the SCDC. The person occupying this position will be responsible for:
    - the overall management of the business including its overall strategic direction, preparation of agendas and background information for Board meetings and Executive Committee meetings, development of annual work plans and related capital and operating budgets, development of operational policies and procedures, day-to-day operations management, human resources recruitment and management and budget and financial oversight and monitoring;
    - market analysis and opportunity identification in relation to the mission of the SCDC;

- communications and marketing for the purpose of business development; and
- communications with the City in relation to its interests as the sole shareholder of the business.

The person occupying this position will be a seasoned professional with experience in the private and/or public arena at the President and CEO level. They will possess knowledge of operations, marketing and finance as it relates to both development and real estate. The person will have experience with development, both civil and structural, a clear understanding of asset management, property management and subdivision development as well as industrial and commercial real estate.

- ***Vice-President, Development***

- This position will be responsible for:
  - the development of project specific “pro forma” statements consistent with the annual work plan and budget, presentation of projects for consideration by the CEO and the Board, overall management of development projects from the conceptual design stage through to project completion, project budget control, construction management and consultant management;
  - managing the sale and/or lease of property; and
  - property management.
- The person occupying this position will preferably have a professional designation (P. Eng., Reg. Arch., etc.) and will have significant experience in land development and construction management and preferably experience in property management.

- ***Chief Financial Officer/Controller***

- This position will be responsible for:
  - the development of the draft annual budget of the SCDC for consideration by the Board;
  - the development of policies and procedures in relation to the financial management, risk management, security, purchasing and information technology management of the SCDC;
  - setting up and maintaining the financial records of the SCDC;
  - establishing and maintaining an effective accounting system that will allow for monitoring on an on-going basis the financial position of the SCDC in relation to its annual budget and project specific allocations;
  - undertaking all appropriate actions to ensure compliance with all legal financial reporting requirements; and

- undertaking the payroll functions and other financial support services for the SCDC.
  - The person occupying this position will have a professional accounting designation (CA, CGA, CMA, etc.) and have experience in relation to the responsibilities of a Chief Financial Officer.
  - This position may not be full time or may have attached to it other development management duties that will provide the incumbent with full time responsibilities.
- **Administrative Coordinator**
  - This position will provide administrative and clerical support to the staff of the SCDC and the Board of the SCDC including:
    - Word processing;
    - Records management;
    - Telephone and email answering services;
    - Arranging meetings;
    - Minute taking;
    - Day to day office management; and
    - Other similar duties.
  - The person occupying this position will have general secretarial, clerical and minute-taking skills and experience and preferably will have experience as an executive assistant.
- **Other staff/contractors**
  - Other staff/contractors will be hired as required in support of the operation when required and for the term required.

All staff will be paid a stipulated monthly salary for their services. The contracts may provide for annual performance bonuses in relation to the achievement of annual objectives focused on the profitability of the operation.

### **Accounting and Legal Services:**

The City of Surrey, where appropriate, will provide general accounting and legal services to the SCDC. Auditing and specialized legal services will be undertaken on a contract basis with outside contracted professionals as needed.

## **Part 2: THE MARKETING PLAN**

### **General Overview of Marketing Strategy**

The staff of the SCDC will identify market opportunities for the development of land and buildings in the City of Surrey through:

- monitoring of regional/provincial/national real estate statistics and trends in the industrial/commercial sector and in consideration of real estate that is already held by the City;
- networking with industry representatives as such networking opportunities present themselves;
- marketing efforts to generate interest and demand for products that are or could be made available through the activities of the SCDC that fill a demand identified in the current market; and
- create opportunities to maximize value of assets.

Products made available through the activities of the SCDC will be marketed by various means including where appropriate contract real estate sales professionals.

### **Part 3: THE OPERATIONAL PLAN**

The Surrey City Development Corporation may take all necessary actions in relation to:

- Rezoning, subdividing and providing engineering services to City-owned land;
- Obtaining Development Permits for buildings for the purpose of adding value to the City-owned lands for which it is acting as the agent;
- Constructing buildings on City-owned land for which it is acting as the agent; and/or
- Leasing and property managing buildings on City-owned lands for which it is acting as the agent.

The SCDC will scan opportunities throughout the City and will determine where it is advantageous to the City to become directly involved in the development or redevelopment of lands so as to achieve the objectives for which the SCDC was established. The SCDC will make recommendations to the City in this regard from time to time.

### **Part 4: THE FINANCIAL PLAN**

The costs of operating the SCDC will be recovered as an expense against the sale and/or lease of land and buildings that will be developed and/or constructed by and subsequently sold and/or leased (property managed) by the SCDC.

The SCDC will not acquire land but rather the City will hold the lands as bare trustee for the SCDC. The SCDC will add value to the lands through the development and building process.

The initial costs for the start-up and early operations of the SCDC will be funded by way of an interest-bearing loan from the City of Surrey to be repaid over time from the proceeds of the activities of the SCDC.

### **Expected Targeted Rate of Return on Investments:**



For projects that the SCDC undertakes for the purpose of sale (i.e., recognizing a capital gain), a rate of return of 20% is expected based on the total amounts invested in the projects including the value of the raw land, the costs of approvals, engineering servicing, construction costs, legal work, consultant costs, development fees and charges, holding/interest costs, SCDC expenses, etc. A sample pro forma for a typical project is attached as Appendix C.

For projects that the SCDC undertakes for the purpose of leasing (i.e., recognizing an annual revenue stream), an average rate of return of 1.1 times the current market capitalization rate for similar product is expected based on the amount invested in the projects including the value of the raw land, the costs of approvals, engineering servicing, legal work, construction costs, consultant costs, development fees and charges, holding/interest costs, SCDC expenses, etc.

### **Annual Costs of SCDC Operations:**

It is estimated that the SCDC will have an annual operating budget of approximately \$650,000 to \$700,000 (2007\$) once it is fully up and running.

### **SCDC Start up Costs:**

To establish a place of business for the SCDC, it is estimated that \$75,000 will need to be spent on tenant improvements and office furnishings and equipment.

### **Working Capital for Projects:**

The City will either provide loans to the SCDC or underwrite a line of credit and borrowing limits for the SCDC for the purpose of financing the operation of the SCDC and for allowing the SCDC to undertake and maintain projects.

### **Profits to the City:**

The SCDC will remit all net revenues/profits from its operations to the City as and when the net revenues and/or profits are realized from any particular project and as requested by the City.