

Saskatoon Land Internal Audit Report

*For presentation to Standing Policy
Committee on Finance*

May 23, 2017



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Disclaimer

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Background and Scope

Background

The City of Saskatoon's City Council formalised its involvement in the land development business in 1954 by actively acquiring land for future development. Since that time, the City of Saskatoon (or the "City") has played an active role in developing Saskatoon communities. Among the core mandates of Saskatoon Land, with particular relevance to this internal audit project, are the following:

- Provide an adequate supply of residential, institutional and industrial land at competitive market values;
- Ensure timely and financially responsible acquisitions of all land requirements for various capital projects;
- Ensure sufficient long-term supply of future development lands;
- Provide returns at competitive rates of return on investment to allocate to civic projects/programs; and
- Operate on a level playing field with other land development interests in the City.

Internal Audit was requested to perform certain procedures related to Saskatoon Land, primarily for the period from January 1, 2015 to July 31, 2016. This project has been carried out subject to the Internal Audit Services Agreement dated January 1, 2015 between the City of Saskatoon and PricewaterhouseCoopers LLP.

Scope and Criteria

The scope of the Internal Audit (IA) engagement, as defined by the SPC on Finance, consisted of the following:

- To assess whether Saskatoon Land is adhering to policy concerning administration of lot draws, returned lots, maintenance of an Eligible Builder's List, and builder's adherence to time frames surrounding lot purchases and construction (i.e. 3-year build requirement).
- To analyse current conflict of interest guidelines for Saskatoon Land to assess whether adequate safeguards exist for Saskatoon Land employees to avoid and/or declare any real or perceived conflict of interest relating to builders and trades who work with Saskatoon Land.
- To analyse residential lot prices and Saskatoon Land's residential lot pricing process in an effort to assess whether Saskatoon Land is competitive and responding to the market or is influencing market conditions.
- To analyse Saskatoon Land's policies and procedures to assess whether they are equitable and whether Saskatoon Land has the proper degree of discretion in the administration of sales, returns and fees.
- To analyse the Privacy and Access to Information Policy that Saskatoon Land utilises to assess whether information that should be made public, as appropriate for a municipality, is being made public, for the sake of transparency for residents of Saskatoon.
- To analyse the current business and governance structure of Saskatoon Land to comment on the appropriateness of the current structure in place and to identify potential alternative business and/or governance structures that might add value to the City's land development efforts and assist in managing risk exposure.
- To conduct a risk assessment of the operations of Saskatoon Land to assess whether investments are timely, adequate and do not overexpose Saskatoon Land to unnecessary investment risk.

Executive Summary

The procedures performed for purposes of the Saskatoon Land Internal Audit Project were varied in nature and addressed a variety of elements of the operations of Saskatoon Land. The scope contained a range of inward-looking procedures dealing with compliance with policies and conflict of interest to more outward-looking procedures dealing with assessing the impact of Saskatoon Land's lot pricing on the broader Saskatoon market, comparing policies and financial reporting practices and business/governance structures in place against those in other municipalities, and conducting a risk assessment of the operations of Saskatoon Land. It bears noting that the scope of the project did not contemplate a fundamental examination of whether the City of Saskatoon should be in the land development and sale business or an examination of one of its core purposes with respect to residential lot sales, being "to assist in fostering competition and diversity in the home building industry in Saskatoon by ensuring fair and equitable allocation of City-owned lots to contractors".

Within each procedure IA identified recommendations and/or next steps for consideration for Saskatoon Land, the City of Saskatoon, and the SPC on Finance (for ease of reference recommendations are denoted in green font throughout the document):

- Procedure 1: Adherence to Policies – IA analysed compliance with four primary areas of policy contained within three City Council policies relating to Saskatoon Land, as well as areas of Saskatoon Land's internal processes designed to facilitate compliance with the City Council policies. Within those four primary areas of policy, including Saskatoon Land's internal processes, there were 19 specific sections examined and 22 specific tests used to examine those sections. As a result of conducting the 22 unique types of tests, there were 16 types of exceptions noted with compliance during the period from January 1, 2015 to July 31, 2016. Of these, there are items for which management appears to have knowingly made exceptions to policy to deal with particular circumstances (10 instances noted), and there are others for which the non-compliance appears to be the result of unintentional error (6 instances noted). As a result, twelve recommendations were made to both improve Saskatoon Land compliance in certain areas and to address certain items in policy with the SPC on Finance to ensure that policies are applied consistently going forward and that the SPC on Finance is comfortable with the discretion being exercised in the administration of the policies. On an overall basis, policies and procedures exist that are consistent with the overarching City of Saskatoon Council Policies that govern Saskatoon Land; however, there is room for improvement in the adherence to those policies and procedures and in defining the degree of acceptable discretion required to administer those policies and procedures.
- Procedure 2: Conflict of Interest – IA conducted interviews with individuals who have worked at Saskatoon Land between the dates of January 1, 2015 and July 31, 2016. Although no previously unresolved concerns with conflict of interest arose, IA has made two recommendations to increase awareness at Saskatoon Land with respect to conflict of interest and for which there are existing good practices in place at other municipalities.
- Procedure 3: Residential Lot Prices/Lot Pricing Process – IA analysed the residential lot pricing process in place at Saskatoon Land and the resulting residential lot prices through several lenses. IA notes that the significant presence of Saskatoon Land in the residential real estate market has an inherent influence on the prices in said market (i.e., as the owner of the largest market share it is inherently difficult to react to a market as opposed to leading that market). However, as a result of our analysis we observed no indicators that the residential lot prices of Saskatoon Land were inconsistent with other residential price trends within the City and furthermore, that all else being

equal, the performance and trends of the Saskatoon residential market were similar to the performance and trends of the residential markets in other comparable municipalities (i.e. no discernible direct impact due to the presence of Saskatoon Land).. Arguably the most meaningful method of analysis to determine whether Saskatoon Land negatively impacts the market is not possible - to compare a Saskatoon market with Saskatoon Land present to the same market in the absence of Saskatoon Land.

- Procedure 4: Assessment of Policies – IA analysed the extent to which policies in place at Saskatoon Land are equitable and the degree of discretion currently being exercised by Saskatoon Land in the administration of those policies. Overall, IA found that the policies and procedures in place are equitable in light of the overarching City of Saskatoon Council Policies that govern Saskatoon Land; however, three recommendations were made in both Procedures 1 and 4 with respect to areas where Saskatoon Land and the SPC on Finance should review to ensure equitability across the contractor base and/or eliminate or more clearly define appropriate discretion.
- Procedure 5: Privacy, Access to Information and Financial Reporting – IA analysed the extent to which Saskatoon Land and the City of Saskatoon are responding to Access to Information requests and achieving transparency in financial reporting. IA found that Saskatoon Land and the City of Saskatoon are responding to all Freedom of Information requests relating to Saskatoon Land. However, the level of transparency in the Saskatoon Land and City of Saskatoon financial reporting, while in compliance with the baseline requirements of accounting and financial reporting standards applicable to the City of Saskatoon, there is currently a low degree of transparency in financial and operational reporting. As a result, IA has made four recommendations.
- Procedure 6: Business and Governance Structure – IA analysed the business and governance structure in place at Saskatoon Land and considered it in light of the results of Procedures 1 through 5 and in light of available alternatives. The reporting focuses on the alternative of a municipal development corporation and examples of existing municipal development corporations in Western Canada. We have recommended that Saskatoon Land, the City of Saskatoon, and the SPC on Finance further contemplate this alternative. While the majority, if not all, of the recommendations in this report could be achieved in part or in full in the absence of a municipal land corporation, the creation of a municipal land corporation to house Saskatoon Land would assist with practically and meaningfully implementing several of the recommendations made in this report. It would create an increased level of independence from the City of Saskatoon and would require increased financial transparency and a separate governing Board with relevant expertise in place, which is currently not being achieved by having the SPC on Finance as the overseer of Saskatoon Land. Establishing a municipal development corporation is a significant undertaking and the cost and effort involved would need to be carefully weighed against the benefits, particularly in light of broader economic challenges the City is facing and governance models being studied in 2017.
- Procedure 7: Investment Risk – a report on this procedure has been provided under separate cover. In this report, IA notes that Saskatoon Land’s approach to risk management is consistent with other municipal land development agencies and general industry best practices and that Saskatoon Land’s returns are generally consistent with other entities, including private sector land developers. IA also noted that while Saskatoon Land implements risk management protocols that are generally consistent with industry best practices, it could implement additional protocols to further manage risk.

To form an overall conclusion based on the seven primary procedures would be an oversimplification based on the variety of areas analysed. Rather the focus is on the conclusion and/or recommendations in each of the seven distinct areas and the next steps based on the responses to IA’s recommendations.

Procedure 1: Adherence to Policies

Explanation of Procedure

This procedure was designed to assess whether Saskatoon Land is adhering to policy concerning:

- a) Administration of lot draws;
- b) Returned lots (resale in a fair and transparent manner and consistency of fees and penalties applied);
- c) Proper maintenance of the Eligible Builder's List including eligibility for lot draws, placement in tiers, and the process for removing and reinstating builders from and to the Eligible Builder's List, including probation periods; and
- d) Builder's adherence to time frames surrounding lot purchases and construction (i.e., 3-year build requirement).

Unless noted otherwise, the timeframe of examination for the procedures was January 1, 2015 to July 31, 2016. References to "builder" and "contractor" are used interchangeably. References to Reflex refer to the Reflex Land Development ERP system, which is a software package utilised by Saskatoon Land and is customised to the core requirements and business processes of land development. References to Posse refer to the Computronix Posse Land Management System, a browser based solution which automates workflow associated with building, planning, engineering, permitting, inspections, code enforcement, and other land management activities.

Within the documentation of findings related to Procedure 1, IA has denoted instances in which management appears to have knowingly made an exception to policy to deal with a particular circumstance as (KE) and instances in which the non-compliance appears to be the result of unintentional errors as (UE).

a) Administration of Lot Draws

i) City of Saskatoon Council Policies C09-033 and C09-006

In City of Saskatoon Council Policy C09-033 ("Sale of Serviced City-Owned Lands", Section 3.1 a) i) states that for residential lots, newly created lots can be sold to individuals and contractors through a public lot draw process in conformance with City of Saskatoon Council Policy C09-006 ("Residential Lot Sales – General Policy").

The purpose of City of Saskatoon Council Policy C09-006 is "to allow the City to be competitive in marketing City-owned residential lots". The policy states in Section 3 that "newly-created lots will, subject to the terms and conditions outlined C09-006, be sold to individuals and contractors through a public lot draw process." Saskatoon Land has a documented internal procedure in place to facilitate adherence to the lot draw process in C09-006, which includes details on segmentation of builders, incorporation of individuals into the process, scheduling of the lot draw and lot draw appointments.

There were two lot draws which occurred during the January 1, 2015 to July 31, 2016 period – Parkridge and Aspen Ridge. These lot draws were administered under different processes as the Aspen Ridge lot draw incorporated, for the first time, the segmentation of builders into Category 1 and Category 2 for purposes of the lot draw process.

- Policy C09-006 Section 3 requires that the draw be advertised twice in the local newspaper prior to the lot-draw taking place. The process for advertising the lot draws is that once Saskatoon Land determines when the lot draw is taking place, the information is provided to the Marketing department at City Hall for posting in the newspaper.
 - IA inspected communications from Saskatoon Land to Marketing and verified that proper procedure was being followed and that direction was provided to Marketing to advertise the lot draws in the Saskatoon Star Phoenix.
- Policy C09-006 Section 3.2 states that “The City will determine the number of lots which will be drawn for by both individuals and contractors”, and furthermore in 3.2 a) that “Individuals are entitled to purchase only one City-owned residential lot every three years” and in 3.2 c) that “Lots sold during the public lot-draw process are to be allocated on the ratio of 90% for Eligible Contractors and 10% for Individuals”. Note that Procedure 1c) will go into further detail regarding “Eligible Contractors”.
 - IA inspected the detailed listings of individuals purchasing lots through the Parkridge and Aspen Ridge lot draws. We noted no instances of individuals purchasing lots in both lot draws. IA inspected the overall detailed listing of purchasers for the Parkridge and Aspen Ridge lot draws and noted that the amount allocated to individuals is based on the 10% ratio outlined in policy C09-006. As many individuals that submit an application and meet any other criteria for eligibility will be allowed to participate, and are scheduled into the lot draw once every 10 draws.
- Policy C09-006 Section 3.4 states that “a minimum down payment of 13% of the purchase price together with all applicable taxes is required at the time of purchase”, that “the prime rate of interest, as set by the City Treasurer on the date of sale (i.e., the date that the receipt is issued), will be charged on the unpaid balance of the purchase price”, and that “the unpaid balance of the purchase price is due and payable in eight months from the date of purchase...if the outstanding balance is not paid in full at this predetermined date, the rate of interest will increase by another five percentage points and will be applied to the unpaid balance”.
 - IA inspected a sample of 25 purchases made during the lot draw process and outside of the lot draw process, as Section 3.4 is equally applicable in both cases. IA noted that an internal procedure exists within Saskatoon Land allowing for written extensions to be filed within the first 8 months, allowing for an additional 4 months to pay the outstanding balance. In this case, if there continues to be a lack of payment after 12 months, in order to receive an additional 4 months past the extended deadline (equating to 16 months since purchase), the purchaser is required to pay 5% of the total owing or all outstanding interest (whichever is higher) or face suspension. IA notes that these extensions are a long standing operating procedure of Saskatoon Land.
 - (UE) For the sample of 25 purchases inspected, there were three instances where the interest charged on the outstanding balance did not appear to be in accordance with C09-006. IA understands from Saskatoon Land that two cases were caused by system errors while the third instance was human error..
 - (KE) IA also noted two instances where there were discrepancies related to signed sales agreements and the required 13% of the total purchase price being paid up-front. Saskatoon Land has indicated to IA that they commonly accommodate builders who are unable to attend the lot selection appointment to call or email their selections, and that approximately half of their customers take advantage of this option and attend the office at a future date to execute the Agreement for Sale.

- > For lot sales in Kensington, Saskatoon Land indicated that a number of lots were not yet ready for possession at the time of sale, either due to utilities not being ready or lots not being fully serviced. Therefore, while certain lots may have been sold, possession was not transferred until a later date and at this point interest began to be charged.
- > For one specific contractor, our sample included two purchases made by the contractor in April 2015 and November 2015. In both instances, there were delays between the time of initial purchase and the time of both signing of the sales agreement and payment of the required 13% of the purchase price. There was numerous correspondence between Saskatoon Land and the contractor, indicating that if there was not timely resolution, the contractor may be disqualified from the Aspen Ridge lot draw in November 2015 and may face a year's suspension from the Eligible Builder's list. During this time the contractor in question participated in the Aspen Ridge lot draw and purchased lots over-the-counter. While Saskatoon Land indicated in its correspondence that ramifications for non-payment could include disqualification from lot draws and disqualifications from the Eligible Builder's list, these options were not pursued. Furthermore, this particular contractor had outstanding accounts at the time of participation in the lot draws and therefore should have been disqualified under policy regardless. See Procedure 1)c)i) for further details.
- ~ **RECOMMENDATION #1** - IA recommends that Saskatoon Land, following its responsibilities in Section 4.1 of C09-006 to "recommend changes to this policy, when required, to City Council through the Standing Policy Committee on Finance", propose further definition to Section 3.4 to avoid the need for discretion to be exercised by formally contemplating such circumstances and the proper action(s) to be taken regarding interest when they arise. This would include the matter of when to begin charging interest and also the extension to 16 months.
- ~ **RECOMMENDATION #2** - IA recommends that Saskatoon Land increase its diligence in ensuring that Council Policy C09-006 is adhered to regarding requirement to pay the minimum down-payment of 13% of the purchase price, together with all applicable taxes, at the time of purchase.

ii) Saskatoon Land Internal Procedure – Lot Draw Process

As noted in a) i) immediately above, Saskatoon Land has a documented internal procedure in place to facilitate adherence to the lot draw process outlined in City of Saskatoon Council Policy C09-006, which includes further details necessary to administer the lot draw including segmentation of builders, incorporation of individuals into the process, scheduling of the lot draw and lot draw appointments. Also as noted above in a) i), there were two lot draws which occurred during the January 1, 2015 to July 31, 2016 period – Parkridge and Aspen Ridge. These lot draws were administered under different internal processes at Saskatoon Land as the Aspen Ridge lot draw incorporated, for the first time, the segmentation of builders into Category 1 and Category 2 for purposes of the lot draw process.

Under the new process, first utilised for Aspen Ridge, large builders are defined as Category 1 if they have purchased more than an average of six lots per year over the last 5 years. As such, they are removed from the regular lot draw and required to select their preferred lots from a group of lots predetermined by Saskatoon Land. The number of predetermined lots for Category 1 builders in any given phase will be based on the percentage of total single-family lots that were purchased by Category 1 builders over the last 5 years.

As a result of the two lot draws in-scope for the internal audit project following different internal processes, IA performed separate testing on the lot draws to assess the process in place at the time of administering the lot draw was adhered to.

- For the Aspen Ridge lot draw only, our testing of the administration of the lot draw in accordance with Saskatoon Land's internal procedure for the lot draw process included the following:
 - (KE) IA examined the inclusion of builders as Category 1 based on purchasing more than an average of 6 lots per year over the last 5 years. We noted that builders with an average of at least 6 lots per year over the last 5 years were included as Category 1 builders. However, IA also noted that one builder with an average of only 5.8 lots per year (29 lots over a 5-year period instead of 30), was included in Category 1. For this builder, Saskatoon Land included them in Category 1 as the value of the lots they had purchased, on both a gross value and a weighted average basis, was higher than the Category 1 builder which had 30 lots over the 5-year period.
 - IA examined whether the lots selected were in accordance with the builder order determined by the weighted average builder ranking (no discrepancies noted) and that the number of predetermined lots for Category 1 builders is based on the percentage of total single-family lots that were purchased by Category 1 builders over the last five years. IA noted that the amount of lots to be allocated to Category 1 builders should have been 60 and the actual amount allocated was 54. The discrepancy is due to the fact that not all Category 1 builders participated in the lot draw, and as such the allocation total of the participating Category 1 builders was 54. In this instance, the under-allocation was inconsequential as only 30 lots were sold to Category 1 builders in the lot draw; however, for future lot draws the calculation process should be refined and fully documented.
 - **RECOMMENDATION #3** - IA recommends that the internal procedure be further refined to avoid the need for discretion in these instances going-forward, and also so that there be a clear and formal record of decisions that have been made in the past so that future application of the rule is consistent and there is not inconsistency from one lot draw to the next. In general, one of the challenges with having a highly regulated and defined process is that exceptions to the rule can arise, in which case discretion is required to be applied. In this case, although IA does not necessarily challenge the logic applied to include the builder which fell short by 1 lot, it is inconsistent with the new procedure as written.
- For both the Aspen Ridge and Parkridge lot draws, our testing of the administration of the lot draw in accordance with Saskatoon Land's internal procedure for the lot draw process included the following:
 - IA examined whether, for builders (Parkridge lot draw) and Category 2 builders (Aspen Ridge lot draw): the Eligible Contractors were placed in order as determined by the builder ranking; the lot draw allocation follows the logic of 10% individuals and 90% Eligible Contractors; in the first round no Eligible Contractor has selected more than one lot and in the second round that no Eligible Contractor has selected greater than 3 lots (or their maximum if lower); that no Eligible Contractors are purchasing lots in excess of their allocated maximum until all Eligible Contractors have reached their allocated maximum; and that once lots began to be purchased subsequent to all allocated maximums being reached, that any remaining lots were being purchased one at a time and following the originally determined ranking. We noted no discrepancies in the application of these elements of the lot draws.

- IA examined whether, for a sample of individual purchasers: an application form was submitted along with a certified cheque for \$3,000; Saskatoon Land has performed the check that the individual has not purchased a lot within the last 3 years; and only one application per household is received. We noted no discrepancies in the application of these elements of the lot draws.

iii) Summary of Results from Procedure 1a)

With respect to our testing of compliance with policy in relation to administration of lot draws, we noted three instances where the interest charged on the outstanding balance did not appear to be in accordance with C09-006 due to the gap between the sales agreement date and the possession date (UE), and two instances where there were discrepancies related to signed sales agreements and the required 13% of the total purchase price being paid up-front (KE). We also had comments on the process for determining a Category 1 builder and the determination of lots to be allocated to Category 1 builders. From these findings and comments we have three recommendations for Saskatoon Land, noted in green in above sections.

b) Returned Lots – Resales and Fees Applied

In City of Saskatoon Council Policy C09-006, 3.7 (“Cancellations”), it states that “when a cancellation occurs before the lease-option agreement has been signed, the purchaser’s down-payment and any taxes paid during the lease period will be fully refunded. When a cancellation occurs after the lease-option agreement has been signed, the purchaser will be charged rent at a rate of 1% per month of the selling price for the period during which he/she possessed the lot. The purchaser will receive a refund equal to the difference between the down-payment (including any taxes paid during the lease period) and the rent charged”.

Saskatoon Land also has a process document “Return of Lot – Un-Sell” which guides employees as to how to process a cancellation in the Reflex system. This document is written to assist the individual in properly placing an administrative hold on the returned lot as there is a 1-month period of time required prior to re-releasing the lot for sale. This period is necessary to allow for Saskatoon Land to properly process the required quit claim deed, request from the property tax assessor group the amount of property taxes owed for the possession period, request the property coordinator to perform a site inspection to ensure that the lot is in a sellable condition, and process the payment requisition. Once all of this is performed and the refund cheque is available for the contractor, the hold can be removed from the lot and placed back into inventory, at which time the website is updated.

- IA inspected a sample of 30 cancellations made during the January 1, 2015 to July 31, 2016 period to assess adherence to the requirements of C09-006 3.7 with respect to fees applied.
 - For the sample of 30 cancellations, we noted the following:
 - (KE) In two instances, contractors were assigned a lot during a lot draw based on telephone conversations and emails and disputed the purchases subsequent to the lot draw. As a result of the lack of a signed sales agreement being in place with respect to the purchase of the lot, Saskatoon Land processed the lot as a returned lot and charged only the \$500 processing fee, with no other fees or penalties applied. As a result, these lots that were eligible for purchase in the lot draw remained in inventory for months afterward (with one lot still being in inventory as of July 31, 2016).

- (KE) In two instances, contractors were delinquent in signing sales agreements with Saskatoon Land. In these instances, the contractors gained the benefit of having a lot allocated to them for a period of time without having signed a sales agreement, and then were not required to make the necessary penalty payment because of the lack of a signed sales agreement.
- (KE) In two instances, contractors were deemed to be in financial difficulty by Saskatoon Land as a result of concerns with the contractors' accounts receivable levels and therefore the contractors' potential inability to pay all outstanding accounts. Saskatoon Land initiated cancellation of sales agreements with those contractors and, due to the contractors' indicating an inability to return the lots based on the significant interest and penalties that would be required under policy, Saskatoon Land negotiated terms that would allow for the application of a significantly reduced financial penalty to each contractor while at the same time providing incentive for each contractor to sign a quit claim document. In advance of completing a quit claim, IA understands that Saskatoon Land seeks legal advice from the Office of the City Solicitor and that the necessary documents are handled through the City Solicitor. In the first case, the contractor's initial deposit was retained by Saskatoon Land; however, incremental fees and penalties were not charged. In the second case, the contractor's initial deposits (less processing fees, property taxes and interest), were returned to the contractor; however, incremental fees and penalties were not charged. For one of the contractors, an additional purchase was permitted to be made immediately prior to this occurrence, although as per Saskatoon Land this was permitted with the understanding that the other agreements had to be cancelled and a signed offer in place with the contractor's customer.
- > **RECOMMENDATION #4** - IA recommends that the practice of allowing contractors to participate in lot draws based on telephone conversations and emails be discontinued, or alternatively that a more formal acknowledgement of the purchase be required from the contractor so that there is no room for dispute subsequent to the lot draw. Note that our review of other municipalities in Procedure 4 indicated that all other municipalities reviewed required purchasers to be physically present to register for and attend the lot draw, and some but not all allowed for an authorised representative to be physically present on the purchaser's behalf. Although the internal procedure at Saskatoon Land for lot draw appointments as currently written allows for builders to phone or email their selections, there is intended to be follow-up performed to confirm that the lot being processed is in fact their choice. In addition to the challenges posed by the instances noted above, it detracts from the lot draw process as a whole as lots are removed from availability that may have been purchased by another contractor. Obtaining signed sales agreements and deposits at the time of purchase, as required by policy, would rectify this issue, as well as address the other issue noted above regarding contractors not signing sales agreements. This echoes recommendations #1 and #2.
- > **RECOMMENDATION #5** - IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.7 with respect to cancellations. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The instances of the allowances made above to initiate cancellations and negotiate fees and penalties are not addressed in policy and require significant discretion. A formal policy should be in place either disallowing these types of negotiations entirely or providing clear guidelines and approval limits if Saskatoon Land and the SPC on Finance wish to continue allowing exceptions to C09-006 3.7.

- For the same sample of 30 cancellations above, IA analysed adherence to the Saskatoon Land internal procedure designed to facilitate Saskatoon Land's proper administration of the return of lots.
 - For the sample of 30 cancellations, we noted the following:
 - (KE) There is discretion applied as to whether or not a site inspection is required prior to subsequent resale of the lot (i.e., if there is a quick turnaround between when the lot was sold and returned or if possession had not yet been granted). For approximately half of the cancellations, there was no record of a site inspection performed.
 - (UE) There was one instance where a returned lot was placed on hold by an eligible contractor prior to the website being updated with details of the newly available lot. Although the refund cheque had been properly processed and signed for by the eligible contractor that returned the lot, a new hold was permitted to be placed on the returned lot before updating the website.
 - > **RECOMMENDATION #6 - IA recommends that the rationale for non-performance of a site inspection be clearly documented by the appropriate Saskatoon Land representative. We believe that the exercise of discretion in this area is appropriate and that the decision-making process and criteria need to be clearly reflected in the respective files.**
 - > **RECOMMENDATION #7 - IA recommends that, prior to accepting any new hold or sale transactions on returned lots, Saskatoon Land staff ensure that the lot in question has been fully updated and posted on the website, at which point it is officially available for purchase by eligible contractors.**

i) Summary of Results from Procedure 1b)

With respect to our testing of compliance with policy in relation to returned lots, we noted six instances across three unique situations where the fees and penalties applied on the returned lots was not in accordance with C09-006 (KE) and one instance where there was a discrepancy related to the timing of the returned lot being released from administrative hold for resale (UE). We also had comments on the lot draw process stemming from the findings in this area of examination. From these findings and comments we have 4 recommendations for Saskatoon Land, noted in green above.

c) Eligible Builder's List

In City of Saskatoon Council Policy C09-033 (“Sale of Serviced City-Owned Lands”, Section 3.1 a) i) states that for residential lots, newly created lots can be sold to individuals and contractors through a public lot draw process in conformance with City of Saskatoon Council Policy C09-006 (“Residential Lot Sales – General Policy”).

The purpose of City of Saskatoon Council Policy C09-006 is “to allow the City to be competitive in marketing City-owned residential lots”. The policy states in Section 3 that “newly-created lots will, subject to the terms and conditions outlined in C09-006, be sold to individuals and contractors through a public lot-draw process” and that “any lots which are not sold at the completion of the draw will be sold on a first-come, first-served basis”. The policy further clarified in 3.2(b) that “the number of lots to be sold to an individual contractor will be governed by City of Saskatoon Council Policy No. C09-001 “Residential Lot Sales – Contractor Allocations”.

The purpose of City of Saskatoon Council Policy C09-001 is “to assist in fostering competition and diversity in the home building industry in Saskatoon by ensuring a fair and equitable allocation of City-owned lots to contractors”. The definition of a contractor is “a homebuilder who constructs complete homes for the purpose of resale”. C09-001 3.1 states that “The City will not sell lots to a contractor who does not meet the Eligibility Criteria and who does not provide sufficient information to satisfy the City that the criteria is met in spirit and in fact”. C09-001 3.2 further states that “The City reserves the right to determine contractor eligibility and to sell lots to only those who are in good standing under the criteria, remove any contractor from its eligibility list at any time, and determine the number of lots it shall offer to any contractor at any time”. Furthermore, C09-001 3.6 states that “Violations of this policy will result in the contractor being removed from the Eligibility List”.

Within C09-001 3.3, the criteria for eligibility for lot allocations are stated and formed the basis of our examination of this area. For a sample of 10 purchases made in the Aspen Ridge and Parkridge lot draws, as well as for a sample of 15 purchases of single-family lots made outside of the lot draw process during the period from January 1, 2015 to July 31, 2016, we analysed whether the Eligible Contractors purchasing the lots met all stated criteria as follows:

- C09-001 3.3(a) Relationship to Other Contractors: “No allocation will be made to any contractor or company known to have officers or shareholders in common with any other contractor or company otherwise eligible, until both or all contractors or companies so involved have designated only one of the contractors or companies as being the one eligible for allocations”. In order to administer this, when Saskatoon Land receives applications for new builders (which all include a requirement for a listing of corporate ownership), this information is validated against information publicly available from Information Services Corporation of Saskatchewan (ISC). Saskatoon Land compiles a listing of all companies and their ownership and a filter is completed to determine whether there is common ownership between any of the companies.
- C09-001 3.3(b) Business Tax/License: “The applicant must have paid a business tax or license fee for the purpose of operating a home building business in Saskatoon”. In order to administer this, a copy of the business taxes and/or license fee that is required to be submitted with the application is stored in the individual contractor files maintained by Saskatoon Land.
- C09-001 3.3(d) Purchase Requirement: “Contractors must purchase one lot every two years in order to maintain eligible status”.

- CO9-001 3.3(e) Mandatory Training: “Completion of the seven modules under the Certified Professional Home Builder Program, offered to both members and non-members of the Saskatoon & Region Home Builders’ Association (SRHBA), or a course(s) approved by the Director of Saskatoon Land”. As of July 2016, this is a new requirement for eligibility. For members of the SRHBA, this requirement is met once there is confirmation from the SHRBA that the modules have been completed. For non-members, a certification of completion can be supplied to Saskatoon Land as proof of compliance with the requirement. This requirement will be phased in over a two-year period.
- CO9-001 3.3(f) Safety Training: “Contractors must complete an approved safety training course approved by the Director of Saskatoon Land”. As of July 2016, this is a new requirement for eligibility. This requirement is met by supplying a certificate of completion to Saskatoon Land as proof that the training has been completed. This requirement will be phased in over a two-year period.
- CO9-001 3.7 Inventory: “Each Eligible Contractor is allowed to have a maximum of 40 lots purchased from the City in their current inventory. Inventory is defined as all lots that have not been completed to the backfill stage of construction”.
- CO9-001 3.8 Home Warranty: “Each Eligible Contractor is required to maintain membership in a City recognized Home Warranty program and to register and provide an individual home warranty certificate for a dwelling on each purchased lot”.
- CO9-001 3.10 Annual Eligible Contractor Application: “Eligible Contractors must file their annual application by February 28 in order to participate in Saskatoon Land activities for that year.”
- CO9-001 3.11 Insurance Coverage: “Each Eligible Contractor is required to have Workers Compensation and insurance coverage with a minimum of \$2 million liability insurance coverage on each build.”
 - (KE) IA noted one exception in its testing of the eligibility requirements detailed immediately above, which pertained solely to CO9-001 3.10 Annual Eligible Contractor Application, which states that “Eligible Contractors must file their annual application by February 28 in order to participate in Saskatoon Land activities for that year”. IA noted that one contractor had submitted the annual contractor form subsequent to the required deadline. Saskatoon Land indicated that when this contractor came off of probation a new application form was submitted that contained new contact information, which was not input into Saskatoon Land’s database. As a result of its error, Saskatoon Land concluded that the contractor had not received the 2016 application forms nor any of the subsequent reminders, and Saskatoon Land therefore permitted the contractor to purchase 3 lots during the timeframe that it technically would have been ineligible, as Saskatoon Land considered itself responsible for the error that had been made.

i) CO9-001 3.9 Outstanding Accounts

In addition to the criteria highlighted in the section immediately above, CO9-001 3.9 states that “Eligible Contractors are required to ensure that their accounts are in good standing. Any outstanding accounts will suspend the company from purchasing further lots over-the-counter and exclude entry into the proceeding lot draw.”

For the duration of the January 1, 2015 to July 31, 2016 period under audit, Saskatoon Land’s process for determining outstanding accounts was to, at the end of each month, manually scan the listing of lots on the Reflex system and review the listing of payment due dates. As lots are

identified that are approaching their due date, follow-up with individual contractors occurs in the form of letters indicating that the 16-month deadline is nearing and that, if surpassed, the outstanding account will result in suspension from participation in further purchases. The process for determining outstanding accounts was updated in August 2016 to rely on a suspension list that is being produced by the Reflex system to determine if contractors are eligible to purchase further lots. This represents an improvement from the manual process in place previously.

- For our testing of compliance with CO9-001 3.9 regarding outstanding accounts, we analysed a sample of 25 purchases made during the lot draw process and outside of the lot draw process, in coordination with an earlier test regarding CO9-006.
 - (UE) For approximately half of the purchases selected, there were outstanding contractor balances related to the purchase as of July 31, 2016. Based on the number of days outstanding between the date of purchase and July 31, 2016, all of those purchases which should have resulted in the contractor being included on the delinquency list as of July 31, 2016 were included. However, for one of those contractors, purchases had been made since the time of delinquency.
- Additional testing of compliance with CO9-001 3.9 regarding outstanding accounts was performed, which focused on the AR suspensions listings prepared monthly by Saskatoon Land and whether the items identified in those listings resulted in the appropriate suspension from further purchases during the months in violation of CO9-001 3.9.
 - (KE) During the January 1, 2015 to July 31, 2016 period, IA identified 5 contractors who made purchases of 19 additional lots through lot draws and/or over the counter sales while on the suspension list for outstanding accounts. While in some cases Saskatoon Land applied discretion, such as ensuring that a signed sales agreement was in place for homes on outstanding lots before allowing a further purchase to be permitted and requiring the payment of all outstanding interest such that only principal balances remain, according to the policy as written these purchases were not in compliance. Saskatoon Land noted to IA that it considers applying discretion in the enforcement of the outstanding account requirement and allowing for sales to take place to be beneficial for both Saskatoon Land and its customers as it provides Saskatoon Land with a lot sale and provides the customer with additional cash flow which it can use to pay down the balance owing. Saskatoon Land considers the use of discretion in these circumstances to be consistent with policy and City Council's priority and strategy to create a business friendly environment.
 - (KE) Through IA's review of the AR suspensions list and testing on payments and extensions granted, IA noted that there is currently a discretion exercised in the enforcement of procedures and significant leeway being provided to contractors in terms of timeframe to pay. There were instances of written requests from contractors for the 8-month to 12-month extension being received and approved outside of the extension period as well as late payment of the minimum payment required to be qualified for an extension from the 12 month period to the 16-month period. IA notes that in instances when payment was late, the extension period had been properly granted.
 - **RECOMMENDATION #8 - With the new non-manual system in place to track outstanding accounts, given currently policy as written IA recommends that Saskatoon Land adhere strictly to the requirements with respect to outstanding accounts and be diligent in suspending contractors from further purchases once the 16-month limit is reached, regardless of extenuating circumstances. Under current policy as written, our recommendation would be that no additional purchases be made without actual settlement of the outstanding account, as the commitment to settle an outstanding account is not equivalent to actual settlement of the account. If there is a level of discretion that the SPC on Finance is comfortable having Saskatoon Land**

exercise with respect to allowing additional purchases to contractors with outstanding accounts at the time of the proposed purchase, IA recommends that this be incorporated into existing policy or, if full discretion is desired, that this requirement be removed from policy altogether.

- RECOMMENDATION #9 - IA recommends that an examination of the outstanding account procedure and the enforcement thereof be undertaken, as much for the sake of finances/operations as adherence to policy. Each month there is an average of 15 contractors on the AR suspensions listing, and there are several contractors in frequent violation. The exertion of more rigour with respect to enforcement of the extensions as opposed to a rebuttable presumption that each contractor will take the full 16 months to pay will assist in this regard, as will more consistent application of the policy to suspend after 12 months as opposed to 16 months if the criteria for the 16-month extension is not met, including receipt of additional payments.

ii) Summary of Results from Procedure 1c)

With respect to our testing of compliance with policy in relation to the Eligible Builder's List, we noted seven instances where purchases were made by contractors not compliant with policy at the time of purchase, either as a result of an outstanding application or an account not in good standing (KE). We also had comments on the process regarding outstanding accounts and the enforcement of the policy in that area. From these findings and comments we have three recommendations for Saskatoon Land, noted in green in the above section.

d) Time Frame to Build Requirement

i) City of Saskatoon Council Policy C09-006 3.9

In City of Saskatoon Council Policy C09-006, 3.9 (“Time Frame to Build Requirement”), it states that “Purchasers are required to build a fully completed residence by obtaining a clear Final Building Inspection within three years, commencing upon the date of the Agreement for Sale”.

Additionally, there are specific clauses in 3.10(b) (“Enforcement of Residency and Time Frame to Build Requirements for Eligible Contractors”) that address the temporary removal of violators of this requirement from the Eligible Contractor Listing until the violation has been rectified in full and also provide three specific conditions under which an eligible contractor can receive a 1-year build time extension from Saskatoon Land.

ii) Saskatoon Land Internal Procedure - “Three Year Build Time Verification”

Saskatoon Land also has a process document “Three Year Build Time Verification” which guides employees as to how to verify compliance with the Time Frame to Build Requirement. The process, which is performed every other month, is intended to identify contractors that are within 6 months of the build time limit in order that notification can be provided by Saskatoon Land. We noted that Saskatoon Land had self-identified issues in attempting to automate this process, with the impact being that instances of violations were going undetected. During the period under audit, the process relied on a bridge reporting system between software programs to identify builders in violation of the build-time requirement. This attempt at automating the process was not successful as Saskatoon Land found that there were inaccuracies and deficiencies in the data.

iii) Final Building Inspections

Note that in order to verify the date of a clear final building inspection, IA obtained a print out from the Posse system that lists the types of inspections performed, the date of the inspection, and the status of the permit (i.e., closed or open). IA contacted a representative from the Building Inspection department to inquire regarding further documentation that might exist with respect to final inspection dates. We noted that the final inspector does not retain a signed and dated inspection report but simply indicates electronically in the system that an inspection was performed and the date thereof. We noted, via discussion with Saskatoon Land, that the first final inspection date listed on the report is the date used to determine whether the contractor is in compliance with the Time Frame to Build Requirement (i.e., substantially complete) and that at this time Saskatoon Land will also consider the nature of the deficiencies still existing (i.e., major structural). This requires discretion to be exercised by Saskatoon Land as often there are follow-up final inspections completed after the initial final inspection (i.e., Posse reports for a given site may contain multiple final inspection dates). Additionally, often there are multiple inspectors at a given site over time and individuals may document the inspections differently, making it difficult to differentiate the true, “clear” final inspection. And finally, there could also be inspection dates noted on the Posse report where a home builder was not present and hence no final inspection was actually performed on that date. As a result of the combination of these factors, by using the first final inspection date in Posse, the Time Frame to Build Requirement can be met by a contractor with the permit on the site still being designated as “open” and the building not fully complete.

Another issue stemming from the inconsistencies noted in the preceding two paragraphs is that warning letters are being sent out at times with inaccurate information, or for a lot where Saskatoon Land has accepted a building as being substantially complete based on the first final inspection being recorded in the system but the contractor is still receiving a letter indicating that there is a pending violation as the permit has not been closed. The warning letters are generated and sent automatically however the violation letters are manually produced by Saskatoon Land, therefore a contractor who inadvertently received a warning letter would not necessarily also inadvertently receive a violation letter.

iv) Testing of Compliance with C09-006 3.9

For our testing of compliance with C09-006 3.9, we analysed a sample of 55 purchases made during the period from January 1, 2010 to July 31, 2013 in order to validate compliance with the Timeframe to Build Requirement for the period from January 1, 2015 to July 31, 2016. For the sample of purchases, we noted the following:

- (KE) During the timeframe analysed, the date of the sales agreement is often not the same as the date of possession, in some cases up to a period of 7 months. When administering the Time Frame to Build Requirement, Saskatoon Land considers the requirement to begin from the later of the sales agreement date and the possession date. Saskatoon Land noted to IA that in its opinion this discretion is necessary as Saskatoon Land considers it unfair to hold a builder accountable to a build time requirement for the time period that they are not in possession of the lot, as often single family lots are allocated to builders by Saskatoon Land in advance of servicing completion, which means that the sale agreement is signed before they take possession of the lot.
- (UE) Further to the background provided related to complications with the manual process noted in d) ii) above, based on examination of the reports produced by Saskatoon Land to facilitate monitoring of the Time Frame to Build Requirement it appears that the process had not been conducted every other month, as there were more than 2-month gaps between certain reports produced. Additionally, some of the reports were generated for the incorrect date resulting in builders in violation not being included on the violation list or, more predominantly, builders in violation incorrectly being included on the violation list.
- (UE) Further to the background provided related to warning and violation letters in section d) iii) above, it appears from our examination of the date of the violation letters sent (for instances in our sample of purchases where there were violations) that the letters are not being sent out in a timely fashion.
- (UE) As a culmination of the factors noted above, there were instances noted during our sample where contractors were both inappropriately included and excluded from the listing of violations. In all but one instance, there were no ramifications in terms of non-compliance with policy (i.e., sale of a lot to an ineligible contractor). In that instance, there was a contractor with several lots in violation of the Timeframe to Build Requirement that was permitted to participate in a lot draw and ineligibly purchased eight lots. That same contractor was also in violation of the Outstanding Accounts requirement at the time of those purchases. Saskatoon Land has indicated to IA that it believes the instances of allowing contractors in violation to purchase lots were a result of errors in importing incorrect site identification numbers into Reflex as well as Posse permit record reports for which the system was indicating final inspections for secondary permits such as basement development, decks and secondary suites despite the primary dwelling permit remaining open.
 - **RECOMMENDATION #10** - IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.9 with respect to the Time Frame to Build Requirement. Saskatoon Land's responsibility under C09-006 is to "Administer the sale of City-owned residential lots in accordance with the terms and conditions set out in this policy". The discretion required to be exercised regarding inspection dates indicates that further clarification is needed within policy to ensure fairness and consistency in application of the Time Frame to Build Requirement (i.e., to clearly define when a building is considered complete by Saskatoon Land, including any types of outstanding deficiencies that are acceptable for purposes of enforcing this requirement). IA also recommends that either additional

coordination occur between Saskatoon Land and Building Inspection to ensure that there is proper application of policy with respect to “a clear Final Building Inspection” or that the responsibility for enforcing this requirement be removed from Saskatoon Land altogether and become the responsibility of the Building Inspection department.

- RECOMMENDATION #11 - IA recommends that Saskatoon Land implement a new procedure for monitoring and enforcing the Time Frame to Build Requirement. Based on the items noted above, it would be reasonable to conclude that the Time Frame to Build Requirement has not been adequately enforced during the period inspected due to the process implemented and the significant challenges that Saskatoon Land has faced in its attempts to prepare the report via an automated method. Although our preference would be that Saskatoon Land work with the software provider(s) and/or the City of Saskatoon Information Technology department on an automated solution to monitoring and enforcing the Time Frame to Build Requirement, we understand that attempts to do so during the period under audit were unsuccessful and that a new tracking system has been implemented within the software to facilitate monitoring and enforcing the Time Frame to Build Requirement.
- RECOMMENDATION #12 - IA recommends that Saskatoon Land, in accordance with 4.1(b) of C09-006, recommend changes to the policy to implement any needed changes to 3.9 with respect to allowing for the possession date to be used as the commencement date in place of the date of the Agreement for Sale.

v) *Summary of Results from Procedure 1d)*

With respect to IA’s testing of compliance with policy in relation to the Time Frame to Build Requirement, several instances were noted where discretion was applied that was not a direct interpretation of the policy as written, and overall IA noted issues with the internal procedure in place to monitor and enforce the Time Frame to Build Requirement which ultimately rendered the policy ineffective. Saskatoon Land has indicated that recent changes to the internal manual procedure to monitor build time requirements represent an improvement that will enable more effective enforcement of the requirement. IA also had comments on the process regarding building inspections and the degree to which it currently impacts interpretation of the policy by Saskatoon Land. From these findings and comments IA has three recommendations for Saskatoon Land, noted in green in the above sections.

Procedure 2: Conflict of Interest

Explanation of Procedure

This procedure was designed to analyse current Conflict of Interest guidelines for Saskatoon Land to assess whether adequate safeguards exist for Administration to avoid, and/or declare, any real or perceived conflict of interest pertaining to builders who deal with Saskatoon Land and their trades. IA also sought to obtain information regarding the extent to which individuals are required to formally declare a conflict of interest (or the absence thereof) during the year. To assist in these efforts, IA interviewed a cross-section of individuals employed during the January 1, 2015 to July 31, 2016 period across Saskatoon Land's various departmental areas.

a) City of Saskatoon Administrative Policy A04-006 “Employee Conflict of Interest”

Saskatoon Land follows City of Saskatoon Administrative Policy A04-006 “Employee Conflict of Interest”. The stated purpose of the policy is “to ensure that civic employees and officials are not placed in a position of conflict of interest and are not seen to be in a position of conflict of interest”. The policy then has 6 paragraphs in which it speaks to high-level instances of what may constitute a conflict of interest.

Policy A04-006 is particularly relevant to the more client-facing managers and staff at Saskatoon Land (i.e., those who interact with homebuilders and trades on a regular basis as a function of performing their job duties). Saskatoon Land has no more formal policies in place with respect to conflict of interest than does the City of Saskatoon itself.

One particular challenge that could arise for Saskatoon Land employees relates to how to conduct any work on their own personal property which might require one of the eligible contractors or a trade thereof. Practically speaking, an individual employed by Saskatoon Land would out of necessity be required to use one of the eligible contractors or trades that performs work with Saskatoon Land, as otherwise they might need to find a service provider from outside of the community. The issue in this case is more one of “not being seen to be in a position of conflict of interest”.

Another challenge is derived from the need for Saskatoon Land management and staff to perform business development while also being mindful of the highly regulated environment in which they work. This is not unlike the challenges faced by many professional services firms. It is logical that to be in the business of land development there is a degree of interaction required with homebuilders to ensure that Saskatoon Land is fulfilling its mandate, while also complying with some of the fairness principles and policies (such as Conflict of Interest) that govern the City of Saskatoon. These similar challenges do not exist to the same degree for the other private land development enterprises in the City of Saskatoon. The primary checks and balances in place for Saskatoon Land in this regard are the lot draw process, the eligible contractor's guidelines, and the tendering process in place for both a) lots falling outside of the lot draw and non-residential lots and b) purchases of services by the site preparation arm of Saskatoon Land. A04-006 2.6(a) and (b) does contemplate the “normal exchange of hospitality between persons doing business together” and “gifts which represent the normal exchange of gifts among friends, tokens exchanged as part of protocol.....such as a business lunch, are acceptable”.

b) Interviews Conducted

In conducting our interviews with current and former employees of Saskatoon Land, we noted the following:

- There was no known or communicated requirement to report on conflicts of interest, or the absence thereof, on a regular basis.
- There were no previously unresolved conflicts of interest detected during the period in question.
- There was a general awareness of the City's conflict of interest policy and instances of how it might be applicable to the day-to-day business of Saskatoon Land. Specific instances were provided relating to: awareness of A04-006 6(a) and (b) with respect to receiving gifts or benefits, not providing recommendations of builders when individuals call Saskatoon Land for advice, removing oneself from any decisions where the individual has specific connections to the decision at hand or could be personally impacted.

c) Recommendations

RECOMMENDATION #13 - IA recommends that a formal Employee Conflict of Interest policy specific to Saskatoon Land be developed. This policy would use the City of Saskatoon's Administrative Policy A004-006 as a template, but within each of the 6 sections of the policy could give more specific instances of applicable circumstances which could arise at Saskatoon Land. The existence of the policy would provide more certainty for Saskatoon Land employees of what precisely constitutes a conflict of interest and would work to eliminate any lack of clarity in this area that currently might exist. Saskatoon Land could refer to the code of conduct and conflict of interest policy in place at Calgary Municipal Land Corporation or Surrey City Development Corporation for examples (refer to Procedure 6 for further comments these municipal land corporations).

RECOMMENDATION #14 - IA recommends that subsequent to the Saskatoon Land conflict of interest policy being finalised, that it be presented formally to all Saskatoon Land staff. This should be supplemented by a formal annual declaration from each employee that they understand the policy and are conflict-free. Finally, at the bi-weekly team meetings that take place at Saskatoon Land, conflict of interest should be a standing item on the meeting agenda so that there is an open forum for management and staff to discuss potential conflicts of interest. In particular, this would provide an opportunity to discuss any work being done personally for Saskatoon Land management and staff by contractors and trades (both before and during) and also to discuss any business meetings taking place.

Procedure 3: Lot Prices/Lot Pricing Process

Explanation of Procedure

This procedure was designed to analyse the residential lot pricing process with an aim of assessing the degree of subjectivity in place for each element and the degree of documentation and fact-based evidence in place for each element. Additionally, IA utilised available market data from various sources, including private sales in Saskatoon, bids received on the open market in Saskatoon, and market data pertaining to other relevant municipalities, in an attempt to assess the correlation between the City's residential pricing and the Saskatoon/Saskatchewan market.

a) Residential Lot Pricing Process at Saskatoon Land

Saskatoon Land's residential lot pricing is based on both a) an assessment of current market conditions to determine comparable prices for similar parcels in the Saskatoon market and b) an assessment of the pricing required to earn a reasonable return based on costs. More specifically, Saskatoon Land's residential lot pricing is influenced by factors such as: servicing costs (annual increases or decreases to the approved prepaid servicing rates from year to year); investment return targets (current pricing must support the expected revenue required to deliver the current return that has been projected); location (i.e., west vs. east, proximity to significant natural areas or other amenities); and professional judgement (pricing that the respective land offering can bear in the current market).

Saskatoon Land prepares a "Request to Sell Property" (henceforth referred to as a "Request" for purposes of this report) to the SPC on Finance prior to the release of each new neighbourhood. Within the Request, the number of lots are outlined, as is the method of sale (i.e., lot draw then over-the-counter) and the authorization of the Director of Saskatoon Land to make minor adjustments to the approved pricing that maybe be necessary to account for changes in servicing costs and lots being returned. Each Request highlights the proposed price ranges in the lot draw.

When detailing the lot pricing in the Request, the range of lot sizes and types are described as is the general breakdown and unique features of the lots. The lot prices are determined based on an examination of current lot prices for comparable properties in the Saskatoon market. One inherent challenge in this process is that a significant number of the current lot prices for comparable properties in the Saskatoon market are those belonging to Saskatoon Land, due to its significant presence in the Saskatoon market. This will be commented on in further detail in section b) that follows. A base unit price per front metre is determined and is used to calculate the lot prices. Adjustments are then made to the base price to account for lot location and lot specific characteristics.

Saskatoon Land also prepares a "Financial Information Report" which provides information to the SPC on Finance on the financial projections of each development – the information is deemed highly confidential and remains in-camera. Each report highlights the total number of lots in the development, the total combined revenue anticipated to be generated, and the total expenses (which are comprised of levy costs, direct and off-site servicing costs, neighbourhood enhancements, and administration expenses). Area enhancement expenses for a typical development could include such items as: drainage/buffer landscaping, greenway landscaping, paved lanes, utility relocations, roadway infrastructure, streetscaping, neighbourhood fencing, maintenance, dry and wet pond enhancements, linear park irrigation, and additional area grading. Administration costs include marketing costs (including sales incentive rebates), land administration fees to Saskatoon Land, survey and design costs and property taxes. The total anticipated return on sales is provided in the report, both in terms of net dollars and as a return percentage.

b) Residential Lot Pricing Process – External Indicators

Comparatives available for Saskatoon Land include residential pricing received from the City Assessor of the City of Saskatoon (which IA understands to be publicly available information), current competitor land pricing through builder websites (i.e., for Brighton), and lot prices posted by other municipalities (particularly those of other municipalities with land development activities similar to Saskatoon Land, regardless of scale of those activities). Although there are certainly other economic factors impacting the lot prices being charged in other municipalities, and there are considerations for the type of neighbourhood being developed, these still provide a comparison point in order to consider the reasonability of lot pricing by Saskatoon Land.

For instance, using Aspen Ridge Phase II as an example, IA obtained a file from Saskatoon Land indicating an analysis of recent sales made by vendors in both Brighton and Rosewood in 2016, including the price per square foot, the price per front metre, the shape (i.e., reverse pie, pie, rectangle), the class (lane, park, traditional, buffer) and the average price per front metre and square foot per class.

With respect to Saskatoon-specific pricing, Section 3c) i) through c) vi) that follow capture analysis and comments with regards to comparatives available. With respect to other Western Canadian municipalities involved in land development, based on recent average lot prices in neighbourhoods in Edmonton (Laurel - \$167k and Oxford - \$172k) and Red Deer (Garden Heights - \$181k), Saskatoon's recent average lot prices in Parkridge (\$154k), Aspen Ridge - Phase I (\$147k) and Aspen Ridge – Phase II (\$160k) are comparable. Recent average lot prices in neighbourhoods in Lethbridge (Sun Ridge, Crossings and River Stone - \$95k) and Medicine Hat (Southlands and Ranchlands - \$91k) are significantly lower.

In terms of recent average lot prices per front metre at other Western Canadian municipalities involved in land development, information was available for Saskatoon, Red Deer and Lethbridge. The base lot price per front meter used for Parkridge was \$10,650 and for Aspen Ridge (Phase I) was \$11,500. For Aspen Ridge (Phase II) the minimum front meter price is approximately \$10,200 with the maximum front meter price being approximately \$14,800. In the Red Deer neighbourhood of Garden Heights, the average price per front meter was approximately \$11,500 and in Lethbridge the average price per front meter for the three recent neighbourhoods outlined above was approximately \$7,300.

A review of recent average lot prices in other Western Canadian municipalities at the present time would suggest, at a high level, that the lot prices being utilised by Saskatoon Land are reasonable. Sections 3c) i) through c) vi), that follow immediately below, also speak to this same type of reference point and conclusion based on more specific Saskatchewan and Saskatoon data.

c) Residential Lot Pricing Process – Market Comparisons

OAs a result of the significant presence of Saskatoon Land in the Saskatoon market, it is difficult to assess independent comparatives within the Saskatoon market without referring back to Saskatoon Land's own lot sales and this self-referencing presents an inherent challenge to the lot pricing process. Section 3a) immediately above detailed the process used by Saskatoon Land for lot pricing and the factors considered, while section 3b) immediately above commented on that lot pricing process and comparable pricing at other municipalities which have land development activities similar to Saskatoon Land. Sections 3c) i) through c) vi) that follow focus on the Saskatoon market itself, both in terms of its behaviour relative to other Western Canadian municipalities since 2010 and also in terms of lot prices within Saskatoon since 2010.

i) City of Saskatoon Residential Lot Market

In understanding Saskatoon Land’s lot pricing process, and more specifically to comment on whether Saskatoon Land is responding to the market or driving the market, the same inherent challenges noted above are applicable. As outlined below in Figure 3 c) i) 1), Saskatoon Land sold between 54% and 62% of all residential lots sold in the City of Saskatoon between 2010 and 2013. During 2014 and 2015, that dropped to 40% to 41%. During that same timeframe, as outlined in Figure 3 c) i) 2), the next largest developer was responsible for 16% (2013) to 39% (2015) during that same range of 2010 to 2015. The most recent year, 2015, was the most diverse as the sales by other developers in the marketplace exceeded Saskatoon Land’s (42% to 40%) while the other dominant developer in the marketplace had an additional 18%. This is in large part a function of the fact that overall lot sales, in terms of quantity, were significantly down from previous years; therefore, the impact of the individual sales by other developers had a more direct impact on the % of market share than it did in years in which the amount of lots sold was significantly higher.

Figure 3 c) i) 1)

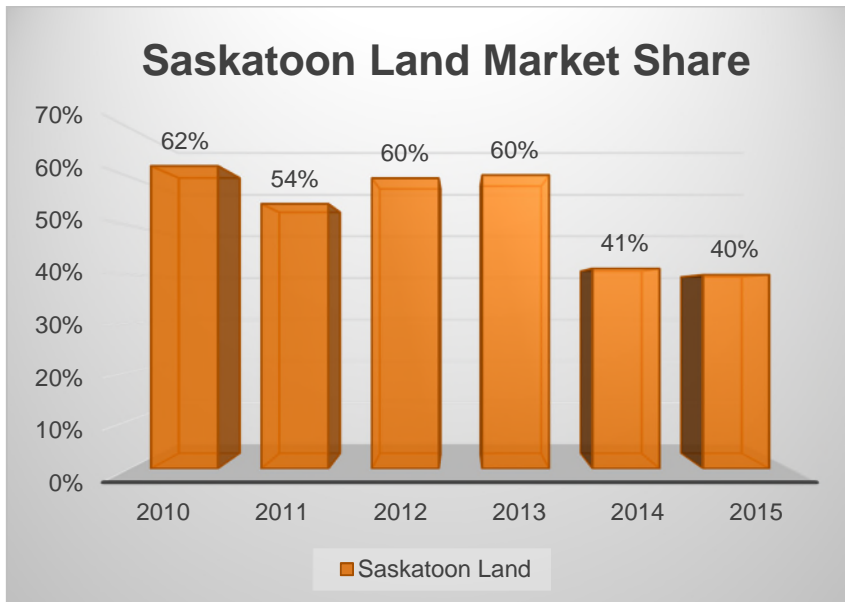
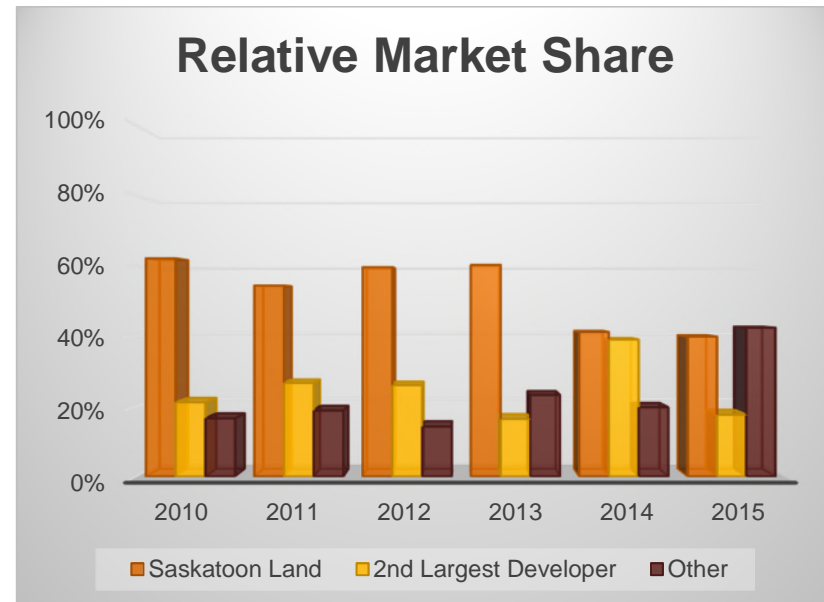


Figure 3 c) i) 2)



In having one individual entity within the marketplace responsible for the majority of sales in that marketplace, regardless of whether it is a municipal entity or otherwise, general economic logic would dictate that the dominant entity will inherently drive market dynamics. Whether intentional or not, and irrespective of policy in place to ensure competitiveness and responsiveness to the market, there is a degree to which Saskatoon Land, by virtue of its dominance in the market, will impact that market. There will be a degree of interplay to which competitors are jockeying for position and there will also be a degree to which competitors are following the prices being determined by Saskatoon Land.

The mitigation to that is the lot pricing process described in sections a) and b) immediately above and the diligence that Saskatoon Land undertakes to determine its pricing. In addition, there is underlying data available which can be used to assess the performance of the Saskatoon market and the degree to which it is impacted by Saskatoon Land's presence. Arguably, the most meaningful method of analysis to determine if there is a degree to which Saskatoon Land negatively impacts the market is not possible - to compare the Saskatoon market with Saskatoon Land present to the same market in the absence of Saskatoon Land. As this is not possible, IA assessed available market data.

ii) Market Factors and Measures: New Housing Price Index (NHPI) – 2010 to 2016

Per Statistics Canada, the New Housing Price Index (NHPI) is released each month and measures changes over time in the contractors' selling prices of new residential houses, where detailed specifications pertaining to each house remain the same between two consecutive periods. The survey also collects contractors' estimates of the current value of the land; these estimates are independently indexed to provide separate statistics for land versus the constructed home itself. The residual (total selling price less land value) represents the current cost of the structure and is independently indexed to provide the statistics for the constructed home. The NHPI is used by housing economists, universities and the general public to track and comprehend events and trends in this component of the construction sector. The information produced by the NHPI is of interest to the real estate industry, as well as building contractors, market analysts interested in housing policy, CMHC, and provincial and municipal housing agencies responsible for housing policy. The reference period is the time period for which the NHPI equals 100, which is currently 2007. The target population for the NHPI is builders in 21 metropolitan areas who primarily build single unit houses in such volume or in such fashion that they can report selling prices for comparable transactions. The total number of builders selected for each city represents at least 15% of the total building permit value of that city. A small portion is also determined through the use of "local market intelligence".

The NHPI statistics for Saskatoon indicate values in the range of 115 to 121 over the period from 2010 through to 2016 (up to August 2016). When looking at Saskatoon only, in **Figure 3) c) ii) 1)**, it indicates that while the NHPI for a house only has increased by approximately 2% over the 7-year period (109 to 113), the NHPI for land only has increased by approximately 9% over that same period (135 to 150).

In terms of the gap between the NHPI for house only versus land only (26.8 in 2010 compared to 36.8 in August 2016), both the gap itself - **Figure 3) c) ii) 2)** - and the growth in the gap - **Figure 3) c) ii) 3) and Figure 3) c) ii) 4)** - over the 7-year period are comparable to that seen in other municipalities. In terms of **Figure 3) c) ii) 2)**, which illustrates the gap itself, the most comparable municipality is Regina, which has a gap comparable to Saskatoon's (indicating similar discrepancies between the rise in the value of land for new homes and the rise in the value of the new home itself) and operates without a municipal land operation. Winnipeg and Edmonton have gaps as well, with Winnipeg's being less than that of Saskatoon's and Regina's and Edmonton's being almost non-existent. In terms of **Figure 3) c) ii) 3) and Figure 3) c) ii) 4)**, which illustrates the growth in the gap, Saskatoon's changes year-by-year and overall since 2010 are comparable to, and in some cases significantly less than, the other municipalities.

The combination of these figures would indicate that the pricing of lots, based on Saskatoon Land's lot pricing policies, relative to the pricing of homes, is consistent with the trends in other municipalities that lack a prominent municipal development entity.

Figure 3) c) ii) 1)

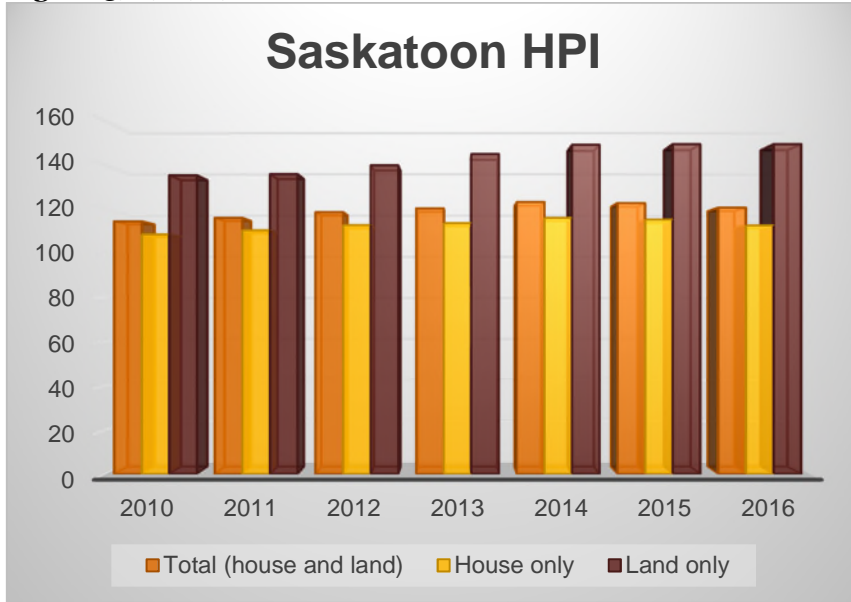


Figure 3) c) ii) 2)

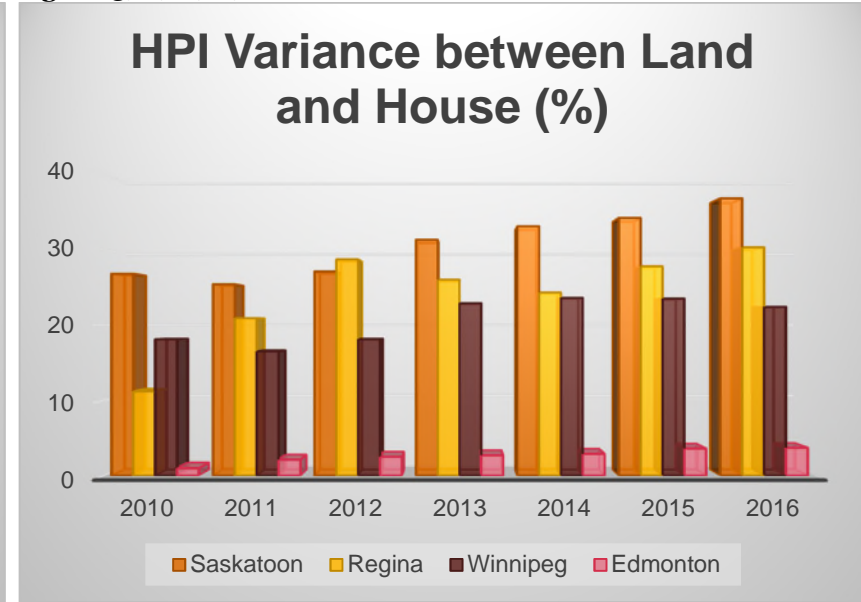


Figure 3) c) ii) 3)

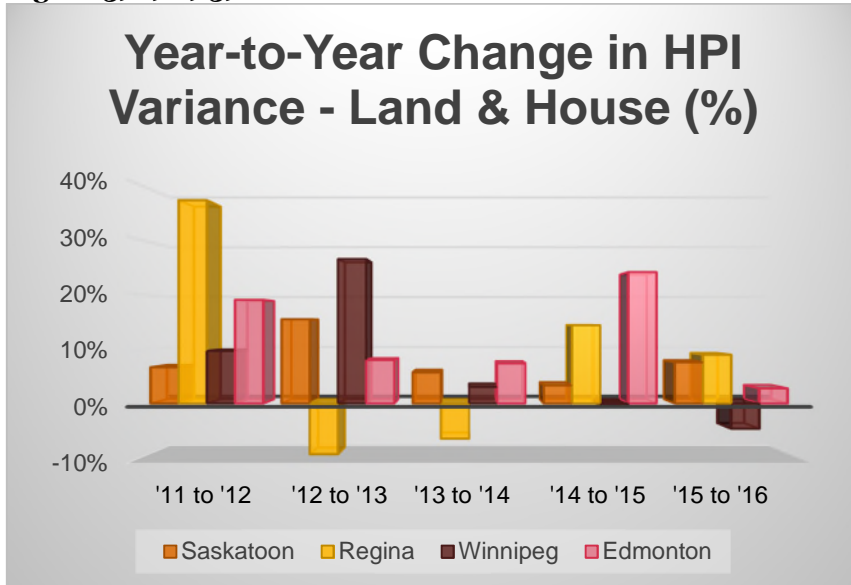
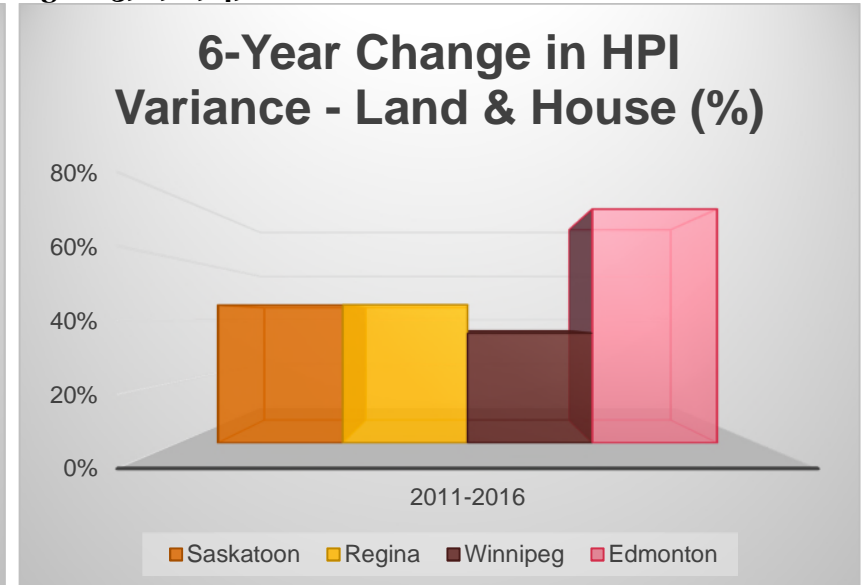


Figure 3) c) ii) 4)



iii) Market Factors & Measures: MLS Average Prices / CMHC Average Single-Detached

The MLS average price statistics indicate that the change in average prices in the Saskatoon market – **Figure 3) c) iii) 1) and Figure 3) c) iii) 2** – are comparable to those experienced in other municipalities (either within the reasonable range or in many instances lower) and the trends in the average prices of single-detached homes – **Figure 3) c) iii) 3) and Figure 3) c) iii) 4** – are also comparable to those experienced in other municipalities. Of course there are other economic conditions at play in each of these municipalities that are unique; however, all else being equal, this indicates that the Saskatoon market is experiencing market price changes consistent with other comparable municipalities which do not have a prominent municipal development entity.

Figure 3) c) iii) 1)

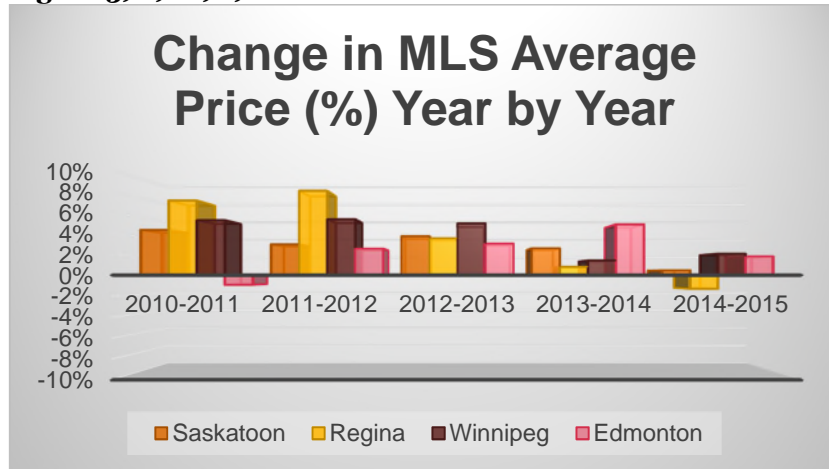


Figure 3) c) iii) 2)

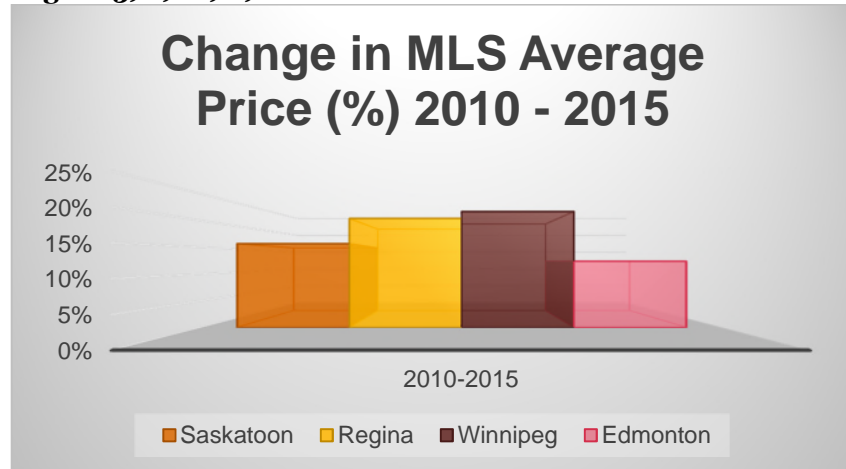


Figure 3) c) iii) 3)

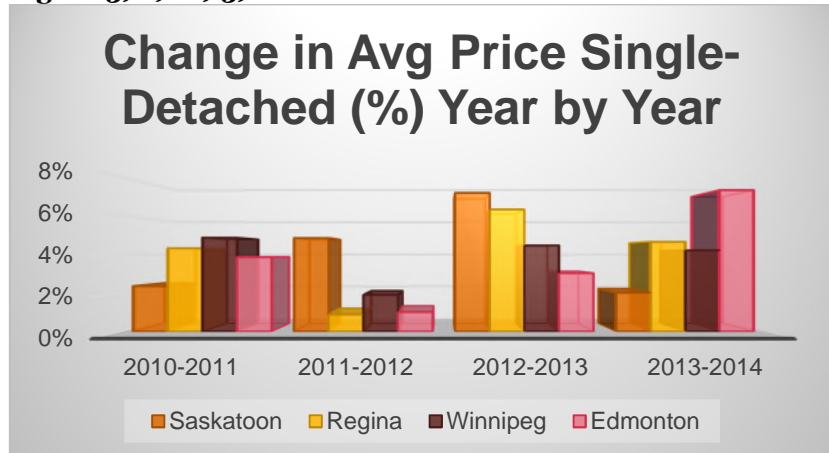
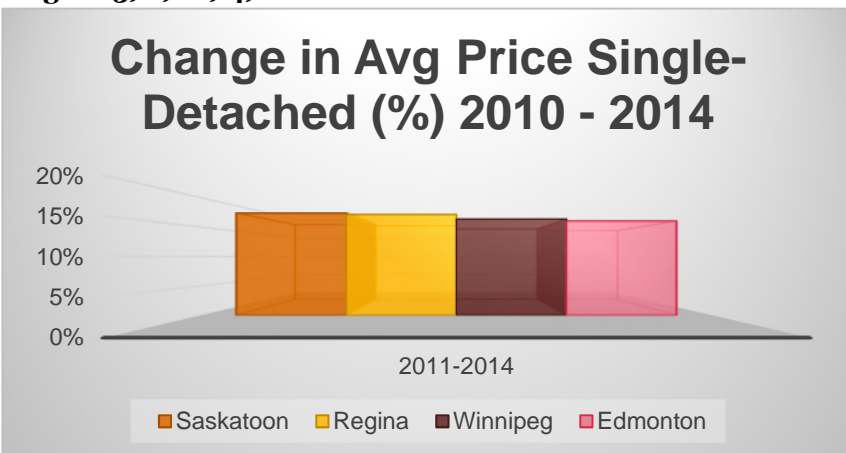


Figure 3) c) iii) 4)



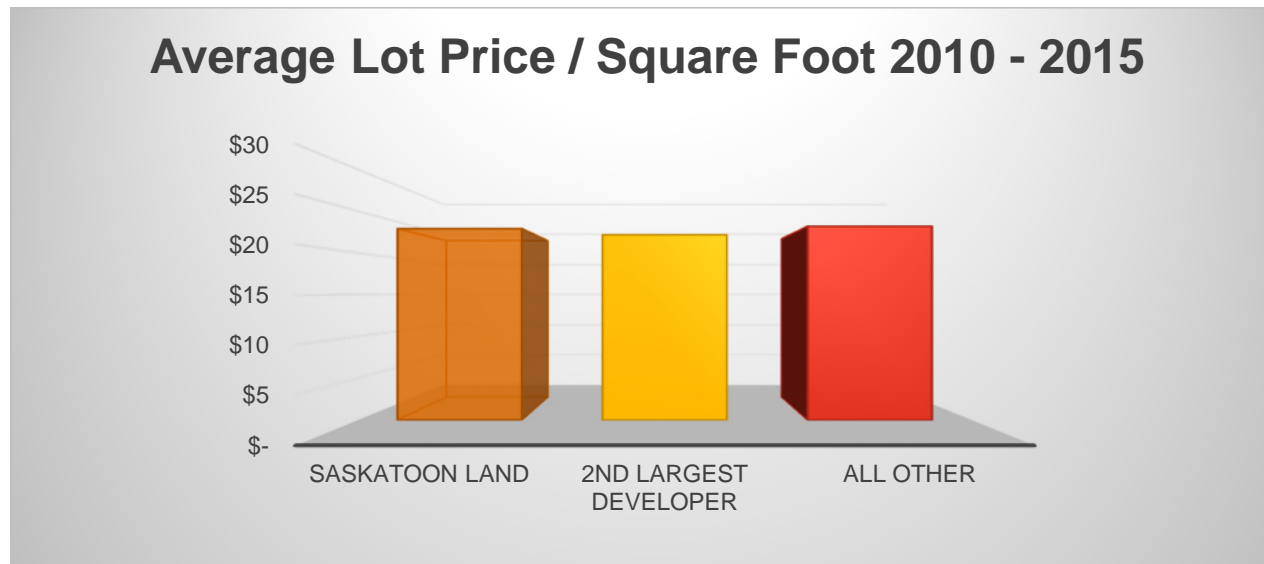
iv) Market Factors & Measures: Saskatoon Residential Lot Sales – 2010 to 2015

IA obtained, from the City Assessor for the City of Saskatoon, information on all residential lot sales occurring from January 1, 2010 through December 31, 2015. This information included the sale date, the sale price, the neighbourhood in which the lot was sold, the vendor and the size of parcel. From this information, IA was able to assess City of Saskatoon land sales by neighbourhood (on a per unit basis) to those of other vendors. It warrants repeating that there is a degree to which Saskatoon Land, by virtue of its significant presence in the market, will impact the market conditions, such that there will be some degree to which competitors are “jockeying for position” and there will also be some degree to which competitors are following or “riding” the prices being determined by Saskatoon Land.

Note that Saskatoon Land also leverages this same information as part of the process to determine fair market value. There is processing required to the raw data however, as lot frontages are factored in to determine the front metre price due to lot widths and types typically not being included in the City Assessor’s data. Saskatoon Land also removes sales that appear to be “below board”. Saskatoon Land also notes that the data has a time lag that is required to be factored into their consideration. Although the data identifies developer to builder land transactions, Saskatoon Land notes that sales prices used in these transactions may be slightly outdated for certain lots as payment terms in the related Sales Agreements may allow up to a year before the lots are paid out and titles transferred, in which case the sales data for those transactions will be a year behind.

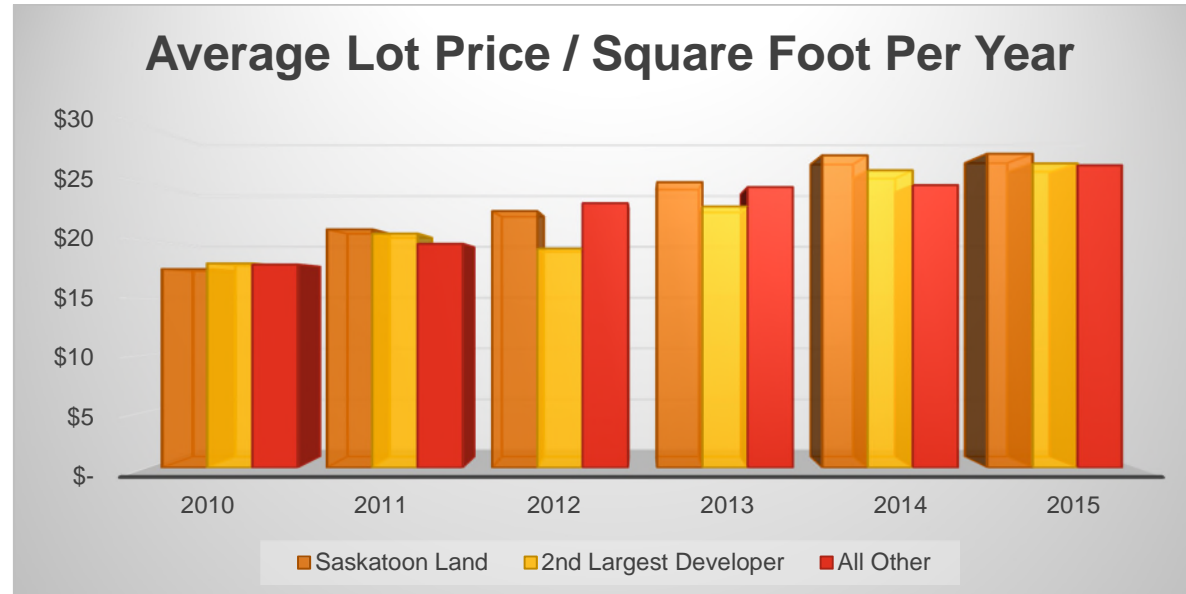
From an overall perspective, the average price per land unit over the 6-year period when comparing Saskatoon Land to the next largest developer to all other developers combined is comparable, as indicated in **Figure 3) c) iv) 1)** immediately below. Note that during this period Saskatoon Land represented 57% of all sales and the next largest developer 27%. The bottom 5% of all sales in the market were removed from the analysis to remove the impact of “one-off” sales in neighbourhoods with minimal sales activity which skewed the average price of the “All Other” category.

Figure 3) c) iv) 1)



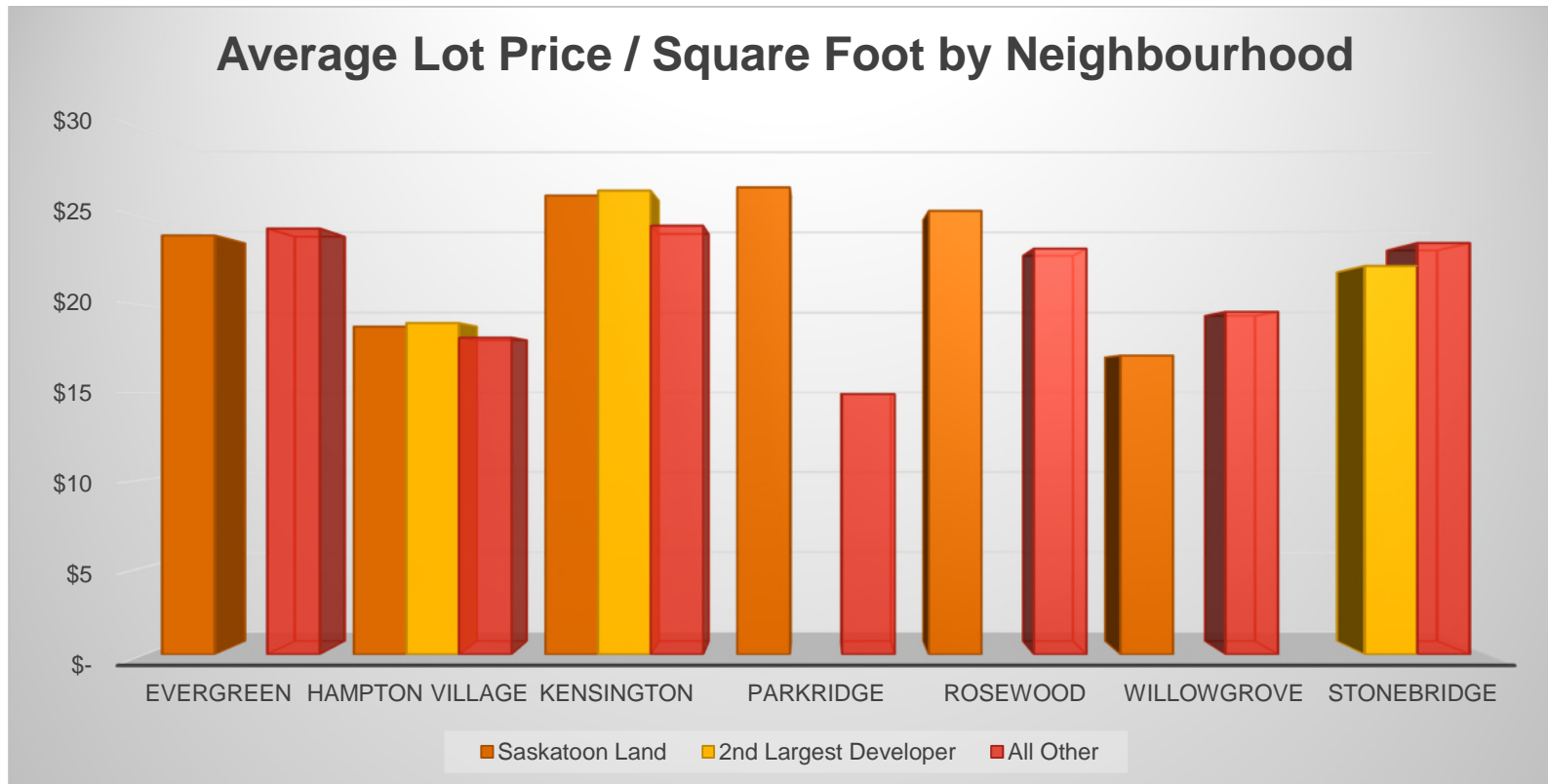
Note that when performing the same analysis within each year of the 6-year periods in **Figure 3) c) iv) 2)** below (and continuing to exclude the bottom 5% of all sales in the market, representing the least active neighbourhoods), while there is slight movement in the relative position of each category year-over-year, the same holds true in terms of comparable lot prices per land unit between Saskatoon Land, the next largest developer, and all other developers.

Figure 3) c) iv) 2)



Note that there are only two primary neighbourhoods where both Saskatoon Land and the next largest developer sold residential lots during the 2010 to 2015 period (Hampton Village and Kensington), and only one neighbourhood from which Saskatoon Land was absent (Stonebridge). In all neighbourhoods with the exception of Parkridge - as demonstrated below in **Figures 3) c) iv) 3) and 3) c) iv) 4)** - there was a fairly reasonable correlation between the average lot price per land unit for Saskatoon Land and the average lot price per land unit for other vendors in the neighbourhood. In Rosewood, the average lot price per land unit for Saskatoon Land was slightly higher than for all other vendors, whereas in Willowgrove the opposite was the case. The average lot price per land unit in Stonebridge, which preceded other neighbourhoods in the chart and from which Saskatoon Land was absent, is within the band of lot prices per land unit in other neighbourhoods. Of course there will be certain characteristics of the lot within each neighbourhood which impact lot price per land unit and there are characteristics unique to the neighbourhoods themselves, but when analysed at this level it would suggest that competitive market values are being achieved by Saskatoon Land, notwithstanding the inherent challenges noted earlier.

Figure 3) c) iv) 3)



And finally, when looking at the detail of each neighbourhood for the 2010 to 2015 period and comparing Saskatoon Land to the other significant developer(s) in the neighbourhood, with the exception of Parkridge - as demonstrated below in **Figure 3) c) iv) 4)** - there was a fairly direct correlation between the average lot price per land unit for Saskatoon Land and the average lot price per land unit for other vendors in the neighbourhood. The figures in parentheses indicate the percentage of lots sold in that neighbourhood attributable to the designated developer.

Figure 3) c) iv) 4) – note that in these figures, the designation “Other Major Developer” can refer to different developers dependent upon the specific neighbourhood.



* IA notes that for Parkridge, Saskatoon Land sold its lots in April 2015 through August 2015, while the other developer sold its lots between April 2010 and February 2012.

** IA notes that per Saskatoon Land, they had a high proportion of high-end lots in Rosewood. Per Saskatoon Land, in the Rosewood project Saskatoon Land’s holdings were best positioned to take advantage of higher-end custom homes; therefore, lots were designed to capture this market segment resulting in higher lot prices and higher returns.

v) Market Factors & Measures: Emerging Trends in Real Estate Report (2016 & 2017)

The Emerging Trends in Real Estate 2016 report (“ETRE 2016”), published by IA and the Urban Land Institute, stated that “Calgary and Edmonton – and, to a lesser extent, Saskatoon – aside, the outlook for Canadian real estate remains generally stable. The ripple effect of the slowdown in primary industry and utilities could cause slower growth across all sectors of the Saskatoon economy. Lower demand for housing is likely to slow residential construction, and commercial construction is likely to proceed cautiously as well. Real estate volumes are projected to shrink in 2016 from 6.1% to 3.3%, and this is expected to slow activity in finance, insurance, real estate, and other parts of the service sector”. In the Emerging Trends in Real Estate 2017 report (“ETRE 2017”), it included comments that “local construction activity dropped sharply last year, and is expected to fall – though much more modestly – again this year. The decline is almost entirely the result of softness in the residential housing markets; projects developed during the boom years are coming on stream and simply adding to unsold inventory. But the residential sector’s doldrums are balanced by ongoing solid performance in other sectors”.

According to the ETRE 2016 report, and in reference to the TD Economics “Canadian Regional Housing Outlook”, the average home price in Saskatoon is ranked 7 of 9 (i.e., the 3rd lowest among the 9 cities included in the analysis - Vancouver, Toronto, Calgary, Ottawa, Edmonton, Montreal, Saskatoon, Halifax, Winnipeg) at \$297,800 (up from \$287,500 in 2013). The update in the 2017 report indicates that of the 10 cities surveyed (Quebec City was added), Saskatoon saw the largest downward change in housing prices at negative 2.8%, with another decrease of 1.7% forecast for 2017 (which would be the 3rd highest downward change in the 2017 forecast).

However, also according to the ETRE 2016 report, the “price to income ratio” (ratio of the metro-area average home price to the median income) is ranked 4 of 9 (i.e., the 4th highest in that same group of cities) at 4.5:1 (down one point from 4.6:1 in 2013). In the ETRE 2017 report and based on the TD Economics “Regional Housing Report”, Saskatoon is ranked 4th again in terms of affordability, this time measured by mortgage payments as a percentage of average household income. According to the ETRE 2016 report, Saskatoon is ranked in the middle (i.e., 5 of 9 in 2016 and 6 of 9 in 2017) in terms of overall real estate prospects, which is a combination of investment opportunity, development opportunity, and housing opportunity. Saskatoon is ranked approximately 3 of 5 (or fair) in all 3 areas on a scale of 1 (abysmal) to 5 (excellent).

In terms of Saskatoon Land’s reaction to the above factors, while at the present time there have been no changes made to the price of existing residential lot inventory, there has been a hold placed on future planned servicing for 2017 to avoid further build-up of inventory levels.

vi) Market Factors and Measures: Summary and Conclusion

IA analysed the residential lot pricing process in place at Saskatoon Land and the resulting residential lot prices through several lenses. IA notes that the significant presence of Saskatoon Land in the residential real estate market has an inherent influence on the prices in said market (i.e., as the owner of the largest market share it is inherently difficult to react to a market as opposed to leading that market). However, as a result of our analysis we observed no indicators that the residential lot prices of Saskatoon Land were inconsistent with other residential price trends within the City and furthermore, that all else being equal, the performance and trends of the Saskatoon residential market were similar to the performance and trends of the residential markets in other comparable municipalities (i.e. no discernible direct impact due to the presence of Saskatoon Land). Although there are indicators that perhaps the degree to which lot prices are rising is not quite directly correlated with the overall trends in housing, the discrepancy is minor. Arguably the most meaningful method of analysis to determine if there is a degree to which Saskatoon Land negatively impacts the market is not possible - to compare the Saskatoon market with Saskatoon Land present to the same market in the absence of Saskatoon Land. As this is not possible, all of the available market data included in sections 3) c) i) through 3) c) v) was assessed.

Procedure 4: Assessment of Policies

Explanation of Procedure

This procedure was designed to analyse Saskatoon Land policies and procedures to assess whether they are equitable and whether Saskatoon Land has the proper degree of discretion in the administration of lot sales, returns and fees. In addition to considering the results of Procedure 1, IA compared policies and procedures in place at Saskatoon Land against those in place at other municipalities with land development activities.

a) Equitability and Discretion

The purpose of City of Saskatoon Council Policy C09-001 “Residential Lot Sales – Contractor Allocations” is “to assist in fostering competition and diversity in the home building industry in Saskatoon by ensuring a fair and equitable allocation of City-owned lots to contractors”. The design of the sale process, both lot draws and over-the-counter, requires the purchaser to be an Eligible Contractor with Saskatoon Land. The criteria for eligibility have been designed to ensure that, while a purchaser must demonstrate that they are capable of building homes with professional integrity and safety as a priority, there are limited restrictions on the number or size of homebuilders that can participate in the Saskatoon marketplace in order to ensure competition and diversity. This is in keeping with the intended purpose of Council Policy C09-001. Furthermore, the design of the lot draw process itself is driven from that City Council policy in terms of allocating lots to Eligible Contractors. For the most recent lot draw in 2015, a new tiered process was introduced (after stakeholder consultation) by which the most active Eligible Contractors were eligible to receive more allocations sooner in the process. This was introduced by Saskatoon Land in reaction to criticism received from high-volume builders as to the difficulty in being able to purchase desired lots in the preferred quantity and location through the previous lot draws held.

By instituting C09-001, City Council (through Saskatoon Land) have essentially designed an economic development initiative in which a variety of sizes of homebuilders can sustain operations in the Saskatoon marketplace as a result of Saskatoon Land’s lot draw process, in a fashion in which they may not otherwise be able to in the absence of Saskatoon Land. In this sense, while the practice of categorizing builders, and then permitting Category 1 and Category 2 builders to participate in the process of selecting residential lots, has received some criticism from members of the business community and from homebuilders, the policies and procedures in place at Saskatoon Land regarding the criteria for Eligible Contractors and the Contractor Allocations are equitable in that they are consistent with the design of Council Policy C09-001. A more restrictive policy in terms of eligibility requirements and the lot draw process would represent a fundamental shift from C09-001, as currently written, and would require Council and Committee direction.

In terms of discretion exercised with respect to the policies in place, IA has made specific observations and recommendations throughout Procedure 1 of this report where there is a need for Saskatoon Land to revisit their application of policy via internal procedures with the SPC on Finance to ensure that the discretion exercised is resulting in equitable application of the underlying policy. Within the Procedure 1 section of this report there are specific recommendations in each area that Procedure 1 analysed, including for lots sales and returns and fees, which address this point.

b) Comparison to Other Municipalities

Although the City of Saskatoon has a more prominent role in land development than exists in most other municipalities across Canada, the involvement of municipalities in land development is not uncommon. For example, for purposes of comparison IA utilised Edmonton, Red Deer, Lethbridge and Medicine Hat – other Western Canadian cities that have direct municipal involvement in land development and sales.

i) Illustrative Example – City of Lethbridge

As an illustrative example mirroring to some degree the City of Saskatoon's conscious role in land development since the 1950's, prior to 1968 the City of Lethbridge came into possession of parcels of land, often through tax recovery, and since 1968 the City of Lethbridge has increased its involvement in the physical development of Lethbridge through land banking ("assembly and accumulation of large areas of land and the holding of those areas for a period of time so that land can be converted from raw land to serviced lots for development in an efficient and systematic manner and according to market demand and to encourage the integrated layout and subdivision of sizeable tracts of land in one continuous operation") and land ownership and the development of City-owned land for urban use. In the 1970's, approximately 52% of all land developed for residential purposes was owned by the City of Lethbridge. In May of 1976, Lethbridge City Council passed a resolution "re-affirming its policy that it is, and intends to continue to be, in the land development business". The City of Lethbridge's stated reasons for land banking are to:

- to provide a supply of serviced land for development;
- to more directly influence development of land so as to achieve City policies in the development of Lethbridge as a whole;
- to have more direct influence in producing an attractive and efficient living environment through land ownership and development, achieved by neighbourhood and subdivision design and by influencing the types of development through conditions of sale;
- to provide competition to private developers and to keep the price of lots down; and
- to retain, for the public, the incremental value of land (the difference between the purchase price of raw land and the price of the same land sold as lots or parcels after deducting the costs of servicing, subdivision design, holding costs, etc.).

A report commissioned in 1977, and continuing to form the fundamentals of the City of Lethbridge's land development and sales activities today, recommended that the City of Lethbridge commit an annual supply of 25% to 50% of all land to be developed for residential purposes and at all times to have at least a 10-year supply of land in reserve. It also suggested that land be sold at a price lower than the current market value, thus reducing the housing cost for the ultimate home buyer.

ii) Comparisons and Recommendations

IA compared policies and procedures in place at Saskatoon Land against those in place at other municipalities with land development activities. Included below are examples of policies and procedures from other municipalities based on recent sales activity in those municipalities. IA noted that other municipalities have additional flexibility in that policies and procedures sometimes vary from year to year and even can vary from neighbourhood to neighbourhood, allowing the municipality to make adjustments at given points in time (for example, the elimination of construction completion deadlines for certain neighbourhoods in Red Deer). This may be practical in these other municipalities as a result of their land development and sale activities being less significant than those at Saskatoon Land. In our view, given the size and scale of Saskatoon Land's operations, the fashion in which Saskatoon Land operates is preferable in that there are specific overlying Council Policies to be complied with to ensure consistency from sale to sale and if there is a need for adjustment, Saskatoon Land can make that request to the SPC on Finance.

Comparisons of Saskatoon Land to Other Municipalities

Policy/procedure	Lethbridge	Medicine Hat	Red Deer	Edmonton	Saskatoon
Deposits and Other Related Fees	10% of lot value due at the time of lot selection plus “Design & Development Guideline” deposit to enforce the design and development guidelines.	10% of purchase price.	Application fee of \$5,000 is required to enter the lot draw, which applies to the purchase price but is forfeited if the applicant selects a lot but does not enter into a Land Sale Agreement. Security deposit of \$10,000 is required at time of Land Sale Agreement. Also an architectural security deposit, refunded upon final inspection and completion of landscaping.	Non-refundable qualifying deposit of \$5,000, refundable performance fees of \$15,000 and balance of 15% deposit.	13% of purchase price.
Timeline to Pay	Purchases must be completed within 90 days for individuals (120 days for builders) or 10% deposit is then forfeited and lot must be paid prior to permit.	Purchasers must pay the balance of the purchase price within 60 days of the Land Sale Agreement or deposit forfeited.	1/3 of the purchase price less application fee due within 15 days of completion of servicing, 1/3 within 4 months of sale, and 1/3 within 8 months.	Balance of lot price if due within 3 months and overdue payments accrue 18% interest in the outstanding balance.	Unpaid balance is payable 8 months from the date of purchase. First 8 months incur interest at the prime rate and after 8 months prime plus 5%.
Lot Returns	Not specifically contemplated in available policy and/or process documents.	Within 60 days of the Land Sale and deposit is forfeited to City. If return is in conjunction with another purchase, the 10% deposit will not be forfeited.	Entitled to refund of the portion of the purchase price paid under the agreement, less the greater of a) \$5,000 application fee or b) an amount equal to 10% per year of the total purchase price multiplied by the # of days elapsed from the date of the agreement OR option to re-purchase the property for 80% of the original purchase price and/or forfeit deposit.	Not specifically contemplated in available policy and/or process documents.	Charged “rent” at a rate of 1% per month of the selling price for period of possession. Refund is equal to the difference between the 13% down payment and the rent amount.

Time Frame to Build Requirements	Construction on the home must be completed within 12 months of purchasing the lot. Landscaping must be completed within 18 months of purchasing the lot to a standard consistent with the amenities and aesthetics of the applicable neighbourhood.	Construction must commence no later than 18 months from the date of the Land Sale or pay extension fees (advance payments ranging from 0.5% to 1.0% of the purchase price per month). If not, the Land Sale may be terminated. Construction must be completed no later than 30 months from the date of the Land Sale or pay extension fees of 0.5% per month.	Construction must commence within 12 months of the Land Sale. In order to start construction, the balance of the purchase price must be paid. If construction does not start within the required time frame, a refund is processed as per Lot Returns section above. Construction must be completed no later than 18 months from the sale date.	Construction must commence (i.e., footings and foundation) within 7 months of possession date. Construction must be completed within 15 months and inspection performed, at which point performance fee is returned to the purchaser.	Purchasers are required to build a fully completed residence by obtaining a clear Final Building Inspection within 3 years, commencing upon the date of the Agreement for Sale. Extensions may be granted for an additional 12 months provided that certain conditions are met.
Other	Lethbridge Land actively selects builders. Three specific builders were chosen for the Crossings development. 50% of lots were sold to selected builder group, with the remaining 50% publicly available.	No other items noted.	Any individual, business or charitable organization may make application to purchase a lot via lot draws. Contractors are required to have only a City of Red Deer General Contractor's License and a GST number.	No other items noted.	No other items noted.

From the comparisons noted in the table above, we note that Saskatoon Land may consider the following options based on practices in place at other municipalities:

- **RECOMMENDATION #15** – IA recommends that Saskatoon Land consider increases to the types (i.e., application fees, qualifying deposits, design/development/architectural deposits and performance fees) and amounts of deposits and related fees required in order to facilitate entry into the lot draw and/or the sales agreement itself.
- **RECOMMENDATION #16** – IA recommends that Saskatoon Land consider reducing the timeline to pay and/or the interest rates and/or the consequences of non-payment. Other instances were noted of much stricter timelines to pay in certain municipalities (i.e., 2, 3 or 4 months), much higher interest (i.e., 18%) and much stricter consequences of non-payment (i.e. forfeit of deposit and cancellation of sales agreement). IA notes that any tightening of the financial restrictions would have to be carefully considered as they might restrict the number of contractors able to purchase lots from the City of Saskatoon if too restrictive (although this policy could be used to strike a desirable balance in that regard). Additionally, current market conditions and payment terms being offered by major competitors could also factor into this policy choice. IA notes that this recommendation should be read in conjunction with recommendations #8 and #9 on page 14 regarding outstanding accounts.
- **RECOMMENDATION #17** – IA recommends that Saskatoon Land consider implementing changes to the lot return calculations, for example with reference to those utilised by the City of Red Deer.

The “Other” category noted in the comparison above was included to demonstrate the degrees to which the municipalities referenced are allowing contractors to participate in the land development activity in the municipality. For the City of Red Deer, any individual, business or charitable organization may make application to purchase a lot via lot draws with little in the way of prerequisites, whereas for Lethbridge Land, they are actively involved in selecting builders – Saskatoon Land falls in-between as it is open to any individual or business; however, there are more criteria for eligibility that the individual or contractor would be required to meet before being permitted to make a purchase.

Lethbridge Land indicates on its website, for its recent Crossings development, that it “is very selective when it comes to choosing builders in any of our communities...the builders we selected for Crossings are defined not only by their proven track record of excellence in design and environmental sustainability, but also by their vision”. In the Crossings development, three specific builders were chosen and 50% of the lots were sold to the selected group of builders and the remaining 50% were made available to the public. This provides the option for an individual to either purchase a lot directly from Lethbridge Land (and to then select a builder themselves) or to design and build a home with one of the pre-selected builders. The stated advantage of buying the lot directly from a pre-selected builder is being “assured the lot you choose will not need to go through the process of the lot draw”. The stated limitations of buying the lot directly from a pre-selected builder are needing “to build your home with the builder you purchased the lot from...this gives you less choice and flexibility...on the other hand, we select only the finest builders in our community and you can work closely with your builder to customize your home to fit your needs”.

We do not recommend that Saskatoon Land become actively involved in selecting builders, but note this with respect to Lethbridge Land as it is indicative of the varying degrees to which different municipalities are administering their land development activities. In this case, City of Saskatoon Council Policy C09-001 is quite contrary to the example provided above in terms of allowing for a high degree of contractors to participate in each development.

c) Summary of Results from Procedure 4

With respect to equitability and discretion, there are detailed comments provided in the recommendations in Procedure 1. Overall, IA found that the policies and procedures in place are equitable in light of the overarching City of Saskatoon Council Policies that govern Saskatoon Land; however, recommendations were made throughout Procedure 1 with respect to areas where Saskatoon Land and the SPC on Finance should review to ensure equitability across the contractor base and/or eliminate or more clearly define appropriate discretion in some instances.

With respect to comparisons to other municipalities, we provided one illustration of a municipal land development entity operating along similar lines as Saskatoon Land and formed three specific recommendations for Saskatoon Land to contemplate based on our examination of policies and procedures in place at other municipalities. In some cases, these recommendations also correspond to items noted during Procedure 1.

Procedure 5: Privacy, Access to Information and Financial Reporting

Explanation of Procedure

This procedure was designed to analyse the application of the Privacy and Access to Information Policy to Saskatoon Land to assess whether all information that should be made public, as appropriate for a municipality, is being made public for the sake of transparency for the stakeholders of Saskatoon Land - the taxpayers of Saskatoon. Saskatoon Land follows the “Local Authority Freedom of Information and Protection of Privacy Act” for accessing records held by the City of Saskatoon. Currently, financial reporting is limited to that contained within the Saskatoon Land “Annual Report” and within the City of Saskatoon’s “Annual Report”. The procedure will also take into consideration information made available publicly by other municipalities with land development operations.

a) Overarching Context Regarding Transparency

The comments in this section regarding transparency are taken in the context of the following:

- The City of Saskatoon indicates in its annual report and other published documents that it has an “ongoing commitment to accountability, transparency, credibility and clarity in financial reporting”, that it aims to “improve transparency and decision-making by providing City Council and citizens with more information about where City funds are used”, and that it is “open, accountable and transparent, particularly when it comes to the resource allocation and collection decisions we make”.
- The Government Financial Officer’s Association (GFOA) released a resource in February of 2006 titled “Conforming to Governmental Accounting, Auditing and Financial Reporting Standards” which relates primarily to the need to maintaining an adequate accounting system to enable municipalities to produce timely audited financial information. Overall the GFOA is committed to “transparency and reliability of public sector financial reports” and “promoting the highest standards of accounting, auditing and financial reporting”.
- The Cities Act – Chapter C-11.1 of the Statutes of Saskatchewan, 2002 - contains an overarching statement in 3(2)(d) regarding the overall purpose of the Cities Act being “to ensure that...cities are accountable to the people who elect them and are responsible for encouraging and enabling public participation in the governance process”. 155(1) of the Cities Act contains a requirement for an audited financial statement to be included in the public accounts that is prepared in accordance with Public Sector Generally Accepted Accounting Principles.

b) Local Authority Freedom of Information and Protection of Privacy Act

The “Local Authority Freedom of Information and Protection of Privacy Act” enables any person to apply for access to records containing information processed by or controlled by the City of Saskatoon. Written documents, computer records, photographs or information stored by any other means are accessible under the Act. The Act does exempt certain types of records from the application for access. For example, records that

contain personal information about another individuals, closed meetings of Council, and law enforcement investigations are not accessible. If access to a record or part of a record is refused, the Provincial Information and Privacy Commissioner can be asked to review the decision. If the Provincial Commissioner reviews the matter and there is still not satisfaction, the decision to refuse access to the record can be appealed to the Court of Queen's Bench.

IA obtained from the City of Saskatoon – City Clerk's Office information regarding Freedom of Information requests pertaining to Saskatoon Land. There were five such requests on file from the period January 1, 2012 to December 31, 2014, and there were none on file for either calendar 2015 or up to July 31, 2016. IA notes that all five requests on record were replied to with the information requested being provided.

c) Financial Reporting by Saskatoon Land and the City of Saskatoon

Currently, there are two available sources of financial and operational information regarding Saskatoon Land: the Saskatoon Land Annual Report and to a lesser extent, the City of Saskatoon Annual Report. The Saskatoon Land Annual Report includes details on sales plus selected information regarding the net proceeds on sales in selected new neighbourhoods for various City uses since 2007.

The City of Saskatoon Annual Report and the audited financial statements contained therein do not contain detailed financial information regarding Saskatoon Land. Within the audited financial statements, there is a line item for "Contributions from developers"; however, this line item reflects the net land sales (gross sales price less cost of land) and cost of land is not reflected separately in planning and development expenses. Saskatoon Land is a bit of an anomaly in the City of Saskatoon's financial reporting in that it is essentially a for-profit business, but since it is not separately incorporated and doesn't qualify as a government business enterprise, there is far less in the way of required reporting under PSAS than if that were the case. Procedure 6 will further explore this notion in terms of the structure of Saskatoon Land, both within the City of Saskatoon and from a governance perspective. If Saskatoon Land qualified as a government business enterprise, it would require its own separate financial statements and have further presentation and disclosure requirements within the City of Saskatoon's audited financial statements (i.e.; akin to the Library, Mendel, TCU Place, and SaskTel Centre). The fact that it is a for-profit operation that competes with other private enterprises in the City of Saskatoon would not (and does not) preclude it from having to apply the existing financial reporting requirements, despite the fact that there is sensitivity regarding items such as the margins on land sales, the cost of servicing, and the overall return on investment. In fact, one could argue that from a stakeholder's perspective it increases the importance of financial reporting in those areas and from the City of Saskatoon and Saskatoon Land's perspective, increased financial transparency could actually be beneficial in terms of demonstrating that it is "providing returns at competitive rates of return on investment" and "operating on a level playing field with other land development interests in the City".

Public Sector Accounting Standards (PSAS) require segment disclosures – the objectives of disclosing information regarding segments are as follows per PSAS 2700 "Segment Disclosures" Paragraph .05 (a) through (e):

- (a) Help users of the financial statements identify the resources allocated to support the major activities of the government;
- (b) Help users of the financial statements make more informed judgements about the government reporting entity and about its major activities;
- (c) Help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
- (d) Enhance the transparency of financial reporting; and

- (e) Help users of the financial statements better understand the performance of the segments and the government reporting entity.

There is significant room for professional judgement within PSAS regarding segmented reporting and the fashion in which segments are selected. The City of Saskatoon's current policy for segmented reporting does not include Saskatoon Land, however certainly could at Administration's discretion. One of the factors to be considered in identifying segments is the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government. The current basis for segmentation per note 1 of the audited financial statements is: capital and operating services for both utilities and the general City programs, plus information on the Library, Mendel, TCU Place and SaskTel Centre.

Examples are provided below of the financial reporting by peer municipalities with municipal land development activities that indicate a level of transparency in both the activities reported directly by the municipal land departments and by the municipalities themselves in their financial statements and annual reports that exceeds that current in place for Saskatoon Land. These examples specifically exclude municipal development corporations (which are addressed in Procedure 6) and focus only on municipalities with land development activities that are conducted within an unincorporated department/division/branch of the respective municipality akin to Saskatoon Land's position in the City of Saskatoon. The municipal development corporations discussed in Procedure 6 each have their own detailed annual business plans and full annual reports containing separately audited financial statements.

Financial Reporting at Comparable Municipalities

Municipality	Land Reporting	Audited Financials	Other Information
Edmonton	"Property Sales and Acquisition" annual report, which includes information on performance measures but lacks detailed financial data. However, the audited financials and other information contain significant financial data by which to evaluate the municipal land operations.	Includes "Land Enterprise" as segment, encompassing land development and municipal use property activities. This includes Edmonton's role as developer in the areas of acquisition, development and land sales activities. Within this segment is reported "User fees and sale of goods and services", which represents land sales as well as "Materials, good and utilities", representing the cost of land sold. These are distinguished from operating and capital developer and customer contributions.	Full detailed 10 page budget with detailed revenue, costs of land sold, expenses, strategic goals, cost drivers, service standards, performance measures and dividend rates outlined for stakeholders. Includes discussion of gross margin for external land sales and discussion of impact of timing and absorption and market trends on the margin and several other explanatory notes to assist the user of the financial information in understanding the financial position and results. Provides clarity on the split between land development activities and municipal use land.

Red Deer	An annual report on the land banking activities is prepared for City Council; however, it is not made publicly available.	<p>“Subdivisions, Land and Development” included as segment, which “reports activities related to the development of land and infrastructure for use by the City or for resale”.</p> <p>Within this segment is reported “User fees and sale of goods and services”, which represents land sales as well as “Material and supplies”, representing the cost of land sold. These are distinguished from operating and capital developer and customer contributions.</p> <p>Financial statements also include detail of land inventory split between residential and industrial and commercial and between land held which is ready for sale and land held not ready for sale.</p>	None noted.
Lethbridge	None noted.	<p>Provides information on land sales within broader “Development Services” segment, which includes “Economic development, planning, and public housing and land development”.</p> <p>Specific detail is included on the sale of land within revenue for the “Development Services” segment as well as the costs associated with those land sales within expenses for the “Development Services” segment.</p>	None noted.
Medicine Hat	Detailed “Land and Business Support” annual report includes KPI’s (i.e. ROI’s hurdle rates and cost of capital) and financial statements. Specifically discusses the ROI, hurdle rates and cost of capital achieved in comparison to target. Indicates that from 2013 to 2015 the municipality had 51% of the available zoned, serviced and subdivided single family and duplex lots available in Medicine Hat.	<p>Includes “Land and Properties” in segment information, encompassing land development and municipal use property activities. This includes Medicine Hat’s role as developer in the areas of acquisition, development and land sales activities.</p> <p>Also includes a detailed “Financial and Statistical” schedule dedicated solely to “Land and Properties” segment.</p>	None noted.

Calgary	<p>Office of Land Servicing & Housing (OLSH) produces a detailed annual report with specific governance tie-in to 100-year vision, 60-year municipal development strategy, 30-year transportation strategy, 10-year sustainability strategy, 10-year economic development strategy, and 10-year industrial land strategy.</p> <p>The annual report includes detailed performance measures, both operating and financial.</p>	<p>Land sales revenue is included in sales of goods and services and real estate services expenses are included in cost of goods sold.</p> <p>Full details of the separate municipal land development corporation's financial position and results of operations are included in the note disclosure.</p> <p>Disclosure of revenue by source clearly distinguishes real estate sales and expenses by function clearly distinguishes real estate services.</p>	<p>New capital planning process was developed to refine how OLSH projects flow from ideas to execution, ensuring transparency and that strategic objectives are being met. The process was designed to ensure sound decision making through increasing market knowledge, forecasting land inventory and identifying the latest trends or changing needs. The process takes into account OLSH's unique position of delivering environmental, social and economic benefits.</p>
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d) Conclusion and Recommendations

Saskatoon Land and the City of Saskatoon are responding to all FOI requests relating to Saskatoon Land. However, while in compliance with the baseline requirements of accounting and financial reporting standards applicable to the City of Saskatoon, the level of transparency in the Saskatoon Land and City of Saskatoon financial reporting does not appear to a) meet the City's own stated standards with respect to transparency or b) compare to the good practices in transparency, both operational and financial, in place at certain other similar municipalities. Based on the existing financial reporting in place, there is no ability for a user of the financial information to glean any information regarding the operations of Saskatoon Land beyond a) total sales of Saskatoon Land and b) operating costs of Saskatoon Land and, therefore, no ability to assess the financial performance of Saskatoon Land. In light of this, we recommend the following:

- **RECOMMENDATION #18** – IA recommends that, in light of existing PSAS guidance regarding segmented reporting and segmented reporting practices in place at comparable municipalities with land development activities, the City of Saskatoon examine their existing policy on segmented reporting to consider the inclusion of Saskatoon Land as a unique operating segment.
- **RECOMMENDATION #19** – IA recommends that, in light of existing transparency of land development budgeting in place at the City of Edmonton, the City of Saskatoon examine their existing budgeting to include further details on its land development activities.
- **RECOMMENDATION #20** – IA recommends that, in light of existing supplementary financial information produced by Land and Business Support in Medicine Hat and the Office of Land Servicing & Housing in Calgary, Saskatoon Land examine additional financial reporting that could be incorporated into its annual report to increase its transparency and meaningfulness to stakeholders.
- **RECOMMENDATION #21** - IA recommends that Saskatoon Land consider publishing the Eligible Builder's List on an annual basis, in a fashion that is publicly available, or more limited to the eligible builders group themselves. The recommendation is for an annual publication as opposed to a monthly publication as the list itself does not change during the course of a year, but rather is impacted by those builders who are suspended from the list by virtue of outstanding accounts or build times in violation of policy. These updates throughout the year could also be made available in a transparent fashion.

Procedure 6: Business and Governance Structure

Explanation of Procedure

This procedure was designed to analyse the current business and governance structure of Saskatoon Land to comment on the appropriateness of the current structure in place and to identify potential alternative business and/or governance structures that might add value to the City's land development efforts and best manage risk exposure.

a) Structures in Place

Currently Saskatoon Land is a department within the Asset & Financial Management division. Other comparable municipalities that have similar structures in place include:

- City of Edmonton (reorganized in 2016) – “Real Estate and Housing” department is in the “Sustainable Development” division;
- City of Red Deer – “Land and Economic Development” department is in the “Planning Services” division;
- City of Lethbridge – “Planning & Development Services/Lethbridge Land” department is in the “Development Services” division; and
- City of Medicine Hat – “Land and Business Support” department is within “Development and Infrastructure” division.

The inherent challenges in this arrangement (i.e., a for-profit municipal land development operation within the municipality's organisational structure are a) the avoidance of the appearance of, or actual occurrence of, conflict of interest with other City departments (i.e., Planning and Development) and b) the lack of a governing body that is fully knowledgeable in the subject area (i.e., a Committee comprised of individuals with no direct experience in land development or sales). The latter is problematic in terms of the lack of ability to challenge decisions made by the department and the inability for the department itself to be challenged and directed by the governing body to whom they report.

b) Alternative – Municipal Development Corporation

One of the primary methods of dealing with both challenges could be to create a municipal development corporation, a separate government business enterprise (akin to what is currently in place in the City of Saskatoon for the Mendel, TCU Place, and SaskTel Centre) with its own separate governing body (i.e., Board of Directors) and a less direct relationship with the City of Saskatoon. Examples currently in place in Western Canada are the Surrey City Development Corporation and the Calgary Municipal Land Corporation. The table below (beginning on the next page) provides pertinent details related to both of these municipal development corporations.

Municipal Development Corporations – Surrey and Calgary

	Surrey City Development Corporation (SCDC)	Calgary Municipal Land Corporation (CMLC)
Timeline and Incorporation Details	<p>Incorporated in 2007 – established on April 24, 2007 as a wholly-owned subsidiary of the City of Surrey.</p> <p>Province of British Columbia approved the incorporation in 2007 under the BC Business Corporations Act. Corporation classified as “other government organization” as not yet self-sustaining. Exempt from tax under 141(a) of Income Tax Act.</p> <p>City of Surrey exercises control as the sole shareholder through a partnering agreement and a shareholder agreement which outlines SCDC’s directives and authorities and the City’s involvement in the ongoing operation and governance of the corporation.</p>	<p>Incorporated on February 22, 2007 as wholly owned subsidiary of the City of Calgary. On July 5, 2007, pursuant to Alberta Municipal Government Act and Control of Corporation Regulation AR284/2003, the Provincial Minister of Municipal Affairs approved, via Ministerial Order 162/07, the City of Calgary as sole shareholder pursuant to Section 250(2) of the Municipal Government Act. The corporation is not taxable as 100% subsidiary of the City of Calgary.</p> <ul style="list-style-type: none"> • 2004 – Council directs administration to create strategy • 2005 – Council approves creation of special purpose vehicle and directs Administration to assist with formation including appointment of Board. • 2005 – Consultant hired to recommend appropriate governance/organizational structure. • 2006 – Appoint 4 individuals, including Chair, to the Board. • 2007 – Articles of incorporation signed and bylaw came into force; adopted Terms of Reference. • 2007 – Council as shareholder approved initial business plan and shareholder agreement signed.
Mandate	Broad powers to advance commercial, industrial, institutional, and residential development of the City, either on its own or in public or private partnerships.	To achieve the City’s objectives for urban densification and community renewal, infrastructure investment and place making. Guiding principles are to redevelop, implement and activate public infrastructure to meet the needs of the community and the City of Calgary as sole shareholder and manage the investment in land and infrastructure for optimal financial return.
Leadership	President and CEO / Chief Financial Officer	President and CEO, SVP Strategy and Business Development, VP Projects, Director of Finance and Corporate Services, Director of Marketing
Governance	<p>5 or 6 independent directors / 2 directors represented by City of Surrey officials (City Manager and Director of Finance).</p> <p>Appointment of Board is sanctioned through City Council.</p> <p>Separate governance committees for SCDC include Governance and Human Resources, Compensation Committee, Audit & Finance Committee.</p>	<p>8 independent directors & Mayor & President/CEO. Board of Directors are to have skills and experience in government relations, finance, legal, real estate, land development, engineering/construction, and communications/public relations.</p> <p>Separate governance committees for CMLC include Corporate Governance Committee, Audit Committee, Compensation & Human Resources Committee and Environment, Health & Safety Committee.</p>

	<p>Eligible Board candidates should have a range of experience in real estate, property management, law, land development and financial management. Property management includes real estate development, real estate financial/treasury, market knowledge, construction and project management, risk management, financial expertise and investment experience. Important that Directors are chosen so as to minimize circumstances where individual members would be required to withdraw from discussions due to conflict of interest.</p>	<p>“Calgary City Council has placed a great deal of trust in CMLC...CMLC recognizes that a sound and effective corporate governance system and a commitment to accountability and transparency are essential to its continued success. CMLC is committed to the principles of good governance and we employ a variety of policies and practices to manage corporate governance. The Board of Directors is responsible for the overall stewardship of CMLC, approves all significant decisions that affect the Corporation and reviews the results”.</p> <p>“The relationship between CMLC and the City of Calgary is governed by the Unanimous Shareholder Agreement. As sole Shareholder, the City of Calgary has the exclusive right to appoint the directors, appoint the auditor for CMLC, amend the articles of incorporation and write the bylaws of CMLC”.</p>
Public & Stakeholder Accountability	<p>Separately audited financial statements and annual report. “In our commitment to transparency, SCDC provides updates on ongoing projects, business matters, as well as financial results annually”.</p>	<p>“CMLC strives to achieve an optimum level of public and stakeholder accountability. The processes involved in achieving this level of accountability include: an annual general meeting, attendance at an annual meeting with the City of Calgary Audit Committee, a published annual report including audited financial statements, regular meetings with key stakeholders, regular informational open houses for the public at large, a multi-year corporate and financial plan, an annual business plan including budget and capital requirements, an annual marketing and communications plan and detailed accounting systems.”</p>
Code of Conduct	<p>Separate code of conduct exists for employees and directors that includes very specific and detailed conflict of interest policy, as well as explanations of what constitutes a conflict.</p>	<p>“CMLC has adopted a code of business conduct and conflict of interest policy. All employees sign an attestation indicating knowledge of and compliance with this code and policy”.</p>

c) Tax Considerations for a Municipal Development Corporation

As noted in the table above, both SCDC and CMLC are non-taxable entities. A municipal development corporation established as a municipally-owned corporation is exempt from corporate income tax under 149(l)(d.5) of the Income Tax Act to the extent that not less than 90% of the capital stock is owned by the municipality and at least 90% of the income earned by the corporation is derived from property within the geographical boundaries of the municipality. Although the City of Saskatoon would have to undertake research to ensure the outcome, based on the current activities of Saskatoon Land it would appear that a municipal development corporation for Saskatoon Land would be exempt from corporate income taxes.

d) Implications of Implementing a Municipal Development Corporation

The creation of a municipal land corporation would address many of the inherent challenges currently faced by Saskatoon Land as identified in section a) of Procedure 6 on page 43, in addition to assisting with the practicality and meaningfulness of implementing many of the recommendations contained within this report.

To be clear, for purposes of this report and considering what would be most impactful in terms of enhancing the governance structure of Saskatoon Land, managing risk exposure, and adding value to land development efforts, this report contemplates a municipal land development corporation that operates with a similar scope and mandate to the current Saskatoon Land department within the City's organizational structure and would encompass the City's entire land development operation. There is further ability to create separate and distinct municipal development corporations which are confined to single projects or development types, which is a separate matter entirely and beyond the scope of this report. City Administration has access to additional information and studies on the topic of municipal development corporations which, when supplemented by this report, will allow for further detailed consideration of this option by the Administration and the SPC on Finance.

Considering each of the Procedures conducted within this report, the creation of a separate corporation and governing body could have the following impacts:

- Procedures 1 and 4 (Policies) - would not inherently enhance the ability of Saskatoon Land to comply with policy, although it would allow for new thought to be put towards development of policy that is freed from the constraints of being a department of the City and allow for the business of Saskatoon Land to be conducted more comparably to the private land developers in Saskatoon. Put simply, Saskatoon Land would have the ability to operate with increased discretion and to make decisions that are more aligned with business needs than policy. Whether this is a pro or a con depends on SPC on Finance's opinion regarding whether increased discretion is a positive for Saskatoon Land.
- Procedure 2 (Conflict of Interest) - would not inherently increase Saskatoon Land's awareness of conflict of interest or ability to comply with conflict of interest requirements. However, although not specifically contemplated by this report, it would certainly reduce perceived or actual conflicts between Saskatoon Land and other related functions of the City of Saskatoon (i.e. Planning and Development).
- Procedure 3 (Lot Prices and Lot Pricing Process) – would allow for increased oversight of lot prices and the lot pricing process in general by having a qualified Board of Directors in place to challenge and direct the pricing being proposed by management. This would assist in bolstering the actual process in place and may also assist in addressing perceived issues in the community with the lot pricing that result from Saskatoon Land's current position as a department of the City.
- Procedure 5 (Financial Reporting) – would allow for, and in fact would require, increased financial transparency by Saskatoon Land including the production of a separate financial statement. The impact of implementing a municipal development corporation is perhaps greatest in this area.
- Procedure 7 (Investment Risk) – would allow for increased oversight of investment risk by having a qualified Board of Directors in place to assess the portfolio of holdings on a regular basis and challenge and direct management. This would assist in bolstering the actual

process in place and may also assist in addressing perceived issues in the community with the investment risk being undertaken by Saskatoon Land.

An overall benefit to the City and SPC on Finance of implementing a separate governing body for Saskatoon Land, aside from being able to pursue individuals for that Board that are uniquely qualified, is that it would then free up a significant portion of the SPC on Finance's agenda that is currently dedicated to matters involving Saskatoon Land.

At face value, perhaps the greatest potential challenges involved with pursuing a municipal development corporation are the recruitment of individuals with relevant experience and a lack of inherent conflict of interest (i.e. competing land developers in the Saskatoon market). This is a challenge that would not be unique to Saskatoon Land and is experienced by other municipalities that have gone in this direction. In order to overcome this challenge, there must be a willingness to recruit outside of Saskatoon, from elsewhere in the Saskatchewan market or outside of Saskatchewan. It is quite common for Boards to include one or several individuals not located in the city that the company is headquartered in or has its primary operations, and who belong to the Board by virtue of their relevant expertise in the company's industry.

e) Next Steps and Thoughts for the SPC on Finance

While the majority, if not all, of the recommendations in this report could be achieved in part or in full in the absence of a municipal land corporation, the creation of a municipal land corporation to house Saskatoon Land would assist with practically and meaningfully implementing several of the recommendations made in this report. It would create an increased level of independence from the City of Saskatoon and would require increased financial transparency and a separate governing Board with relevant expertise in place, which is currently not being achieved by having the SPC on Finance as the overseer of Saskatoon Land. Establishing a municipal development corporation is a significant undertaking and the cost and effort involved would need to be carefully weighed against the benefits, particularly in light of broader economic challenges the City is facing and governance models being studied in 2017.

As noted in the table above, it would typically require at least a 3-year period of time between the decision by the SPC on Finance and City Council to formally pursue this path and the ability to implement. During this timeframe, significant preparation would be required to ensure that the structuring of the corporation would continue to allow for non-taxation of profits, that adequate financial systems are in place to a) facilitate the transfer of all financial information from the City of Saskatoon to the municipal land corporation and b) allow for the municipal land corporation to properly and accurately account for its activities, and that a sufficiently qualified and independent Board of Directors would be available to serve in a governance role.

The ongoing discussions in the City of Edmonton regarding a potential municipal development corporation are relevant in that they demonstrate potential industry concerns with that model. However, there are elements of Saskatoon Land's mandate that present similar concerns regardless of whether the land development operations occur as a department of the City of Saskatoon or as a more independent corporation. A detailed cost/benefit analysis and consultation with industry will be necessary if Administration and SPC on Finance wish to seriously explore this option.

