



Municipal Development Corporation Governance Plan



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Corporate governance considerations

Governance refers to the processes and structures used to direct and manage an organization's operations and activities. It defines the division of power and establishes mechanisms to achieve accountability from the board of directors and management to the shareholder.

Good governance systems are designed to help organizations focus on the activities that contribute most to their overall objectives, use their resources effectively, and ensure that they are managed in the best interests of their shareholders.

The objective of good governance is to ensure that the organization achieves its objectives by being able to put forth its best efforts to implement its strategies and make the best use of its resources.

Board of directors

The formation, recruitment, and selection of the board of directors is one of the critical success factors in the development of a corporation.

Role & mandate of the Board

The corporate mandate that governs the Board of a for-profit entity is set out in the:

- Articles of Incorporation ("Articles")
- Unanimous Shareholders' Agreement ("USA")

Articles of incorporation

The Articles set out the classes of shares, restrictions on business, and some miscellaneous matters that govern the corporation. The Articles are filed with the Registrar of Corporations and are publicly available.

Unanimous shareholders' agreement

The USA defines the relationship between the shareholder and the Board, and in particular, the matters that will lie within the shareholder's decision making control. The USA is not filed with the Registrar nor is it required to be distributed unless the corporation is trading in securities. It can be amended from time to time by the shareholder(s). The corporation may elect to make this, and any other corporate document, public.

A USA restricts, in whole or in part, the powers of the directors to manage, or supervise the management of, the business and affairs of the corporation. Care must be taken in crafting USAs to ensure that they are not unduly restrictive on management so that the management of the corporation is unduly fettered, and the degree of desired shareholder oversight. The shareholder's role is typically to receive the corporate financials, appoint the auditor, and elect/appoint the Board of Directors. USAs are normally used to impose a requirement of shareholder concurrence on larger matters such as fundamental changes to the corporation's business, large scale acquisition or dispositions or major changes to internal governance, reporting or accountability.

Internal corporate documents

These documents are supplemented by internal corporate documents which further outline the mandate, mission, values and terms of reference, as well as internal accountability, for the corporation. Internal documents include:

- a form of Board charter that informs the Board's decision-making, sets out the roles and responsibilities for the Board members and may establish the corporation's internal committee structures and membership
- Delegations of Authority that define management's powers and decision-making authorities and reporting requirements
- terms of reference for sub-committees
- codes of conduct and ethics for the Board and management
- bylaws that set out the procedures governing meetings, quorum and other procedural matters

Board responsibilities

- ensure the development and implementation of strategic direction for the corporation's survival and prosperity
- manage the corporation, including management oversight to ensure that management is acting ethically and within the scope of delegated authorities, as well as performing efficiently
- follow the corporation's mission, values and codes of conduct and ethics
- take steps to ensure that the Board and the corporation are meeting legal standards of conduct - avoiding conflicts of interest and conducting business in a legally acceptable manner
- recruit and select the management team, measure performance and provide oversight to managerial direction, including review of items such as succession planning and enterprise risk management
- ensure that the corporation has met appropriate standards of financial and ethical behaviour;
- report to and be accountable to the shareholder and any regulatory or other bodies governing the corporation's business and conduct
- ensure that the Board has full information upon which to base Board decisions which must be made in the best interest of the corporation
- produce audited annual financials and other regular reporting as required by the legislation and the USA

Example skills matrix

As a wholly owned subsidiary of the City of Edmonton, the MDC's board of directors requires a skillset that acknowledges their special role as directors of a private company with public

accountability. The skills matrix includes a list and description of Professional Director Skills, Industry Specific Skills, and Interpersonal Skills:

Skill	Description
Professional Director Skill Risk and Compliance	Identify key risks to the organization related to each key area of operations. Ability to monitor risk and compliance and knowledge of legal and regulatory requirements.
Professional Director Skill Financial & Audit	Experience in accounting and finance to analyze statements, assess financial viability, contribute to financial planning, oversee budgets, and oversee funding arrangements.
Professional Director Skill Strategy	Ability to identify and critically assess strategic opportunities and threats to the organization. Develop strategies in context to policies and business objectives.
Professional Director Skill Policy Development	Ability to identify key issues for the organization and develop appropriate policy parameters within which the organization should operate.
Professional Director Skill Technology	Knowledge of IT Governance including privacy, data management and security.
Professional Director Skill Executive Management	Experience in evaluating performance of senior management, and oversee strategic human capital planning. Experience in industrial relations and organizational change management programs.
Industry Specific Skill Local Real Estate Knowledge	The MDC is a geographically focused entity and real estate is inherently geo-specific. Board members should have sufficient familiarity and experience with the Edmonton real estate market.
Industry Specific Skill Real Estate Development	Previous experience in the development of real estate. The skill could be further divided into asset classes (Residential, Industrial, Commercial, Retail)
Industry Specific Skill Leasing	Knowledge of leasing practices, contracts, and effective marketing of properties.
Industry Specific Skill Real Estate Finance	Experience with financing real estate deals with varying levels of complexity. Good industry contacts and proven track record of putting together large deals.
Industry Specific Skill Real Estate Project Management	Previous experience with managing real estate development projects on an end-to-end basis from land acquisition to post construction disposition.
Interpersonal Skill Leadership	Make decisions and take necessary actions in the best interest of the organization, and represent the organization favorably. Analyze issues and contribute at board level to solutions.
Interpersonal Skill Ethics and Integrity	Understand role as director and continue to self-educate on legal responsibility, ability to maintain board confidentiality, declare any conflicts.

Interpersonal Skill Contribution	Ability to constructively contribute to board discussions and communicate effectively with management and other directors.
Interpersonal Skill Negotiation	Excellent negotiation skills, with the ability to drive stakeholder support for board decisions.
Interpersonal Skill Crisis Management	Ability to constructively manage crises, provide leadership around solutions and contribute to communications strategy.
Diversity & Experience Gender Diversity	Equal gender and diversity representation to reflect the public nature of the corporation and ultimate accountability to City residents.
Diversity & Experience Age Diversity	Age diversity should be considered to bring different perspectives to board discussions and succession planning.
Diversity & Experience Previous Board Experience	The board's directors should have extensive director experience and preferably have completed formal training in governance and/or risk management.

Board members

The ideal number of board members is a number that is neither too small nor too large for effective decision making and also covers the skill matrix to a sufficient degree. The number of directors will also be limited by the number of qualified applicants. As the MDC will embark with a small scope and limited number of properties, we recommend that the initial number of directors be set at 5 directors to balance coverage of the relevant skills as well as provide a diversity of viewpoints and experience.

The board chair is responsible for running the board smoothly and effectively. His or her duties typically include managing relations between board members, maintaining open communication with the chief executive officer and high-level executives, representing management and the board to the general public and shareholders, and maintaining corporate integrity. A chair is elected from the board of directors. We recommend that the Chair be separate from the CEO in order to maintain clear reporting and accountability lines.

The USA may require that a non-voting liaison be appointed to attend board meetings to ensure that the municipal context and rules are addressed by the board and to ensure that the board is aware of City work that will have a bearing on corporate competitiveness and shareholder views.

Board committee structure

Committees help the board become more effective, allowing closer focus, oversight, and monitoring of selected areas. Boards may opt for committees that focus on areas of interest to the company or the board. More specifically, committees:

- Permit the board to handle a greater number of complex issues in a more efficient manner, by allowing specialists to focus on specific issues and provide detailed analysis back to the board
- Allow the board to develop subject-specific expertise on the company's operations, most notably on accounts, risk and internal control
- Enhance the objectivity and independence of the board's judgment, insulating it from potential undue influence of managers and controlling shareholders

Board committees must be defined and ultimately ratified by the board as necessary to fulfill its mandate. To align with best practices, we recommend the board to consider the following committees:

1. Corporate Governance and Human Resource Committee

This committee is comprised of the board chair and directors and exists to evaluate the corporate strategy, mission, values, legal matters, and high level governance issues. It will also be responsible for the Human Resources Function for the MDC including recruiting, hiring, evaluating and setting the compensation of the CEO and senior staff. It should be chaired by a member with a strong governance background.

2. Audit and Risk Management Committee

The audit committee should meet at minimum after every audit and then as needed to discuss any issues with the audit and implement recommendations arising from audits. The audit committee works with the auditors to ensure proper accounting methodology and reporting, provide due consideration of potential conflicts, and take a higher level view of enterprise risk management. Given the high level financial functions associated to this committee, it is recommended that the chair be a Certified Public Accountant (CPA) in addition to auditing experience and credentials.

3. Real Estate Investment Committee

The purpose of this type of committee is to consider all aspects of corporate investment as a vehicle to secure the corporation against risks, manage portfolios and consider financial growth strategies. This committee should be chaired by a Real Estate professional with experience and credentials relating to different asset classes in real estate development and investment.

Risk management

The MDC will face a significant number of risks and will require detailed risk analysis and risk planning.

The following is a high level summary of the most prominent risks the MDC is likely to face along with a high-level description of a potential mitigation strategy.

Risk Area	Risk Detail	Mitigation Strategy
Core Activities	Real estate development is inherently a risky venture. The MDC will take on a level of risk when performing activities in the real estate development value chain. When participating in joint ventures, the MDC will further increase its risk.	Some of this development risk can be reduced by taking smaller equity interests in development projects managed by private sector participants. However, the share of risks and profits needs to be aligned so the less risk that the MDC is willing to take, the less potential profits they will be entitled to. In addition, staggered transfer of land over several years will mitigate some of the development risk facing the MDC.
Financial	The MDC and the City are exposed to financial risk that occurs because of the risk associated with the real estate industry. There is the potential for the	Best practices in planning and re-planning along with strong financial reporting process will assist in further reducing the potential financial risks

MDC to lose money that it has invested in core activities and property value uplift.

associated with the MDC. Maintaining lean operating budgets and prudent re-investment strategies can help to minimize this risk.

Governance	The MDC will be an arms-length entity of the City an independent professional board of directors guiding strategic business decisions. Appropriate types and levels of insurance will help mitigate risks. There is always a risk in a sole shareholder and political environment, for issues unrelated to the corporate entity to take precedence.	The use of best practices and a thorough independent review of governance processes by both the City and outside experts will be used to mitigate governance risk. Adherence to and enforcement of governance policies through regular audits will be necessary to ensure controls are effective. Clear division of roles for shareholder, directors and management, and clear reporting structures will also help mitigate risks.
Market	There is always a risk that the real estate market will experience a downturn and both the level of demand and / or market pricing will decrease.	A mix of asset classes and strategies will help to diversify market risk. Appropriate levels of leverage and other financial risk management controls will also help to further insulate the MDC from market volatility.
Business relationships and structures	While entering into business relationships with private developers can assist in allocating risk to the developer, there may be a liability for the other entity's actions.	Great care must be taken in preparing agreements governing relations with outside entities to ensure that risks are properly allocated and appropriate types and levels of insurance are used to offset risks. Other types of equity investments, such as preferred shares with a defined rate of return may be used. In addition, using a variety of business structures for different projects will help in diversifying some of the inherent risk in working with a single or small group of collaborators.
Political	The potential financial challenges or objections from the development industry could create political risk for the elected officials that supported the creation of the MDC. Ministerial approval is required to establish a for-profit entity.	The development of a strong communication plan and good communications with the private sector and government is necessary to manage political risk. Transparency and openness of policies, financial performance, and governance processes will help to assuage perceived conflict. Consideration of appropriate ventures and business structures (such as non-profit corporate structures and limited opportunity purchase strategy) could be considered by the board to allay this risk.
Reputational	The MDC will only be as good as its last project. Negative performance either financially or from a public engagement perspective could seriously impact the	A well-developed communication and engagement plan along with aggressive risk mitigation will help the MDC maintain

MDC's social license.

a good reputation in the public eye.

Policies, procedures and systems

Once the Board has developed its overall strategy, among their first implementation activities will be to establish policies and procedure for all key business activities; the following policies and procedures provide an initial framework:

1. Governance, risk management and compliance issues;
2. Privacy and disclosure policies
3. Human resource management including preparation of a succession plan;
4. Procurement of goods and services (and this must align with public sector requirements such as trade agreement compliance);
5. Investors' relations including but not limited to general investor awareness, complaints and communication, etc.;
6. Marketing;
7. Accounting policies and procedures;
8. Capital expenditure, planning and control;
9. Investments strategy and policy;
10. Borrowing policy;
11. Delegations of authority from board to management;
12. Dividend policy;
13. Policies governing involvement of private sector participants in corporate projects;
14. Board, Employee and Consultant Code of Conduct and Conflict of Interest Policy
15. The corporate social responsibility (CSR) initiatives and other philanthropic activities including donations, charities, contributions and other payments of a similar nature;
16. Audit cycles and objectives;
17. Health, safety and environment; and
18. Fraud and whistle blower policy.

Reporting requirements

As a City owned corporate entity the shareholder is the municipal corporation. The municipal corporation is represented by City councillors acting as representatives for the shareholder. Although municipal corporations make their decisions at shareholder and board meetings, in the same manner as any other corporate entity, City owned corporations (with one limited exception) are subject to the provisions of the Freedom of Information and Protection of Privacy Act (Alberta) and the requirements of provincial and federal trade agreements, such as the New West Partnership Trade Agreement (NWPTA). As such, the corporation must legally maintain a high degree of transparency. It is recommended that the board and management initiate routine disclosure of all important company documents including constating documents (the Articles and USA), policies, governance structures, business strategies, annual management discussions and analyses ("MD&A") consisting of an overview of previous year operations and an outline of future goals and approaches for the upcoming year, annual audits and financial reporting to easy access to key corporate information by the public.

Dividend policy

A clearly stated dividend policy will help to alleviate pressures to pay dividends even if prudent investor considerations suggest that a dividend should not be paid.

The Shareholder should have no expectations of any dividends being declared in the initial years of operations, as the MDC will likely incur operating losses, not profits, at its outset. In order to meet legal liquidity requirements and financing confidence, no dividends can be paid until a point

in time where the company generates sizeable profits. Re-investment in projects would be preferable to payment of a dividend unless there is a substantial amount of cash assets available for this purpose. While no specific yearly dividend target should be set, an internal dividend policy will be developed by the MDC board in collaboration with the Shareholder. A dividend policy need not provide for specific amounts but rather can provide some general parameters for the board to work within. This will allow the board to use sound business judgement regarding the exact amount and timing of dividends.