Special Council Report:

Olympic Village Project Update

February 18, 2009

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Agenda

- Recap
- Update on Fortress Loan
- Interim Financing Arrangements
- Rating Agencies
- Plan for Future Financing
- Update on Construction

Olympic Village Project

1,100
total units

250
social housing units

Plus:

- community centre
- Salt building*
- childcare facility

850
market units

120
rental units

730
market sales units

Development funded by City
Developer: Millennium
**other developer*

Development funded by external lender
Developer: Millennium

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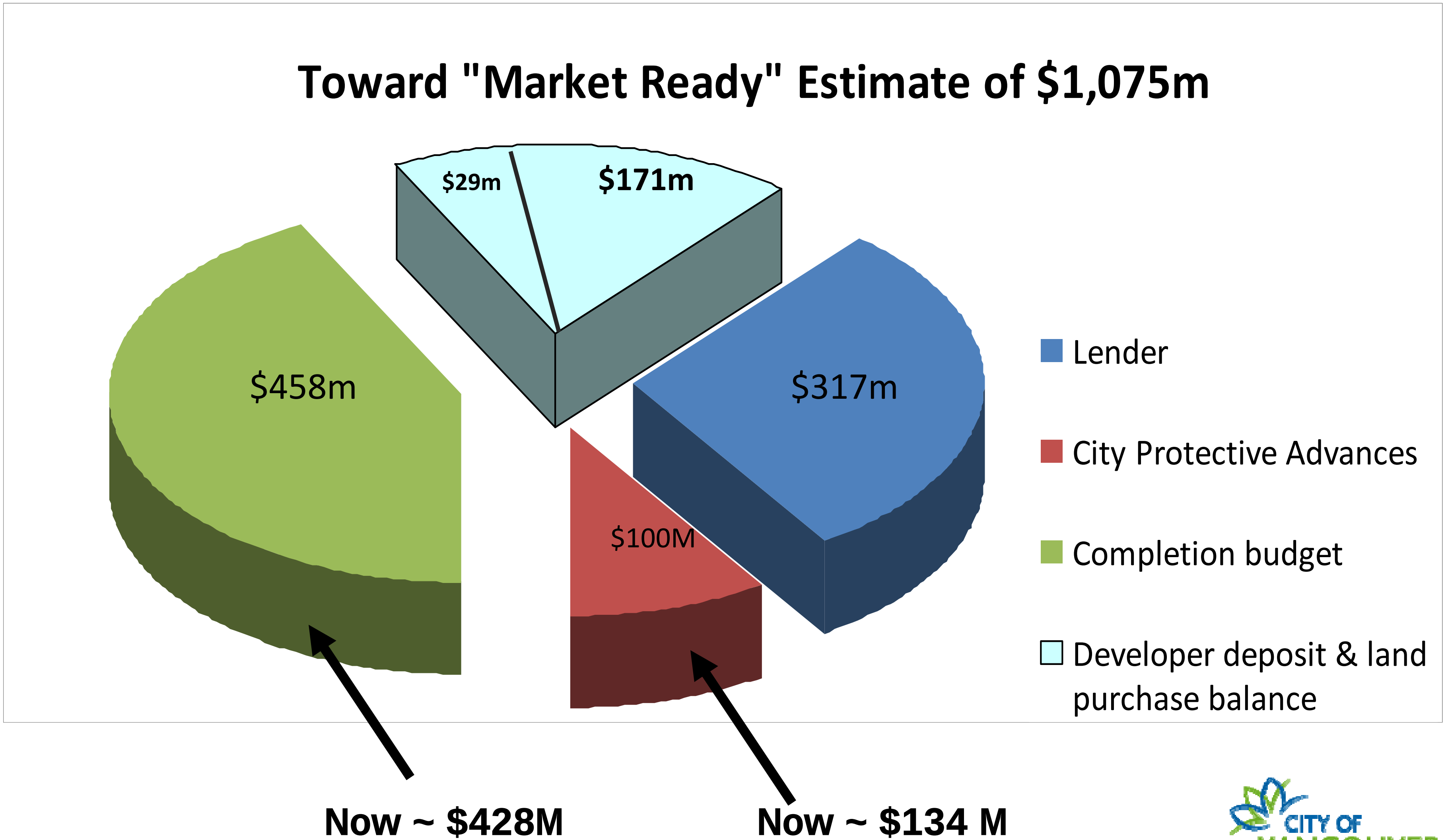
Funding Source of Estimated Costs to Market Completion (as of Jan. 9, 2009)



Olympic Village Financing Options

Financing Options

1. “Restructured” $665M Option

- Higher financial City Guarantee ($590M)
- Completion guarantee stays
- Interest rate 11.5%
- High prepayment penalties
- No guarantee that Fortress would continue to flow funds

2. “Standstill” Option

- Completion guarantee stays
- Interest rate on $317 million 9.5%, no further funding
- High prepayment penalties
- City raises balance of financing estimated at $400 million

3. “Take Out” Option

- City purchases the Fortress loan
- City raises financing to complete estimated at $700 million
- Interest rate based on city’s credit rating
- Completion guarantee and financial guarantee to Fortress extinguished

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Fortress Arrangement

- January 17, 2009 - legislation passed re: charter authority to borrow
- January 22 - Council authorized the City Manager to negotiate Option 3 (Take Out)
- Rationale:
  - Project financing could be provided at lower interest costs with city covenant
  - Currency and interest rate risk between US lender and Canadian borrower eliminated
  - City's security on the project enhanced
  - Likely the only option to ensure project completion in the current difficult financial market climate
  - Fortress completion guarantee and financial guarantee extinguished
  - Allows focus on "Olympic-ready" commitment

Negotiations Steps: Fortress Loan Buy-out

- **January 22, 2009:** permission from Council to negotiate buyout
- **January 29 – February 4, 2009:** negotiations with Fortress in person, by phone, email
- **February 5, 2009 :** outline for buyout approved by Council
- **February 10, 2009**: co-lenders approved
- **February 11, 2009**: Council approved interim facility for buyout
- **February 13, 2009**: interim facility arranged with BMO
- **February 16, 2009:** funds placed in escrow
- **February 17, 2009**: documents executed; COV by-law passed
- *February 18, 2009 10:00h funds transferred to Fortress in New York*

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Fortress "Take Out" Terms

- Negotiations completed:

Principal Amount	$317,423,813	
Prepayment Fee	$4,000,000	
	$321,423,813	
Fees / Credits	($1,929,578)	
Net Transfer	$319,494,235	Net Payment to Fortress
Potential Hedge Gain	$1,000,000 - $1,500,000	
Miscellaneous Expenses	$100,000	

- Prepayment Fee: allows lender to recover "interest" lost by early prepayment of loan
  - Nov 2008: Fortress claimed $56M
  - February 3, 2009: Fortress entered negotiations at $19M
  - Final Agreement: $4M (less than 2 months interest)

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Rating Agencies

Standard & Poor's

- Current rating at AA+
- City on *CreditWatch*

Moody's Investor Services

- Current rating at AAA
- Rating outlook has been changed from "stable" to "negative"
- Confirmation report pending

Possible Impact of "Take Out" Option

- Moody's: rating *could* change from AAA to AA3
- S&P: rating *could* change from AA+ to AA –
- Credit ratings will be reviewed following successful resolution of Village financing

Financing Arrangements

City engaged Ernst & Young to advise on appropriate funding strategy

- Interim and longer-term strategy
- Arrangement of financing package to complete project

Interim strategy for Fortress "buy-out" and ongoing construction financing:

- Bank of Montreal provided a flexible, short-term bank facility to enable the transaction:
  - **Up to $400 million**
  - **Funds provided at** *prime plus 25 basis points* **- 3.25%**
  - **Revolving and flexible**

Loan "purchase" funded by:

- $90 million draw on interim bank facility
- $240 million "investment" of City working capital

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City – Millennium Relationship

- City has “purchased” Fortress loan and is now a lender to Millennium under the existing documents
- Interest terms of the loan will be renegotiated
  - City to be compensated for financing costs
  - premium to be included in revised interest rate on loan to compensate for costs and risk
- Assignment of loan provides City with enhanced security

Financial Planning: Scope of work

- City of Vancouver engaged Ernst & Young to assist with the Olympic Village Financial Arrangements
- The initial scope of work is an assessment of financing options available to the City in order to fund the Project to completion
- The assessment includes:
  - Review of the term sheets received to date from major banks and identification of key implications for the City
  - Review the City's Olympic Village funding needs and available working capital
  - Assessment of financing alternatives available and a recommended strategy and road map

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Estimate Of Current Financing Requirements

Current estimate of the total financing requirements to complete the Project is approximately $690 million, comprised of the following:

Item	**$ Millions**
Fortress loan repayment	$322
Remaining construction advances (includes Feb-09 draw)	$292
Interest and financing (estimated)	$76
TOTAL	**$690**
Estimated available working capital as at February 2009	**$330**

Assessment Criteria for Financing Options

The following criteria, which reflect the City's overall objectives, have been used to assess each of the financing options:

Criteria	Key Objectives
Cost / Value for Taxpayer	• Minimize total funding cost and provide value to the taxpayers
Impact on Credit Rating / Market Appetite	• Minimize impact on City's credit rating • Maximize market interest in the funding
Flexibility	• Meet immediate requirements, while maintaining flexibility for future borrowings/ operations
Openness / Transparency	• Demonstrates to the taxpayer and public that the City has undertaken appropriate due diligence on the option

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High-level Financing Options Going Forward

- Option A – Interim External Funding plus Follow-on Financing
- Option B – City Working Capital plus Follow-on Financing
- Option C – Single Financing
- Option D – Combination of Option A and B

Initial Observations and Conclusions

- City's cash and overall financial position remains very strong
  - Sufficient working capital (and other investments) provide City with the flexibility to consider all financing options
  - Ability to use working capital to maximize value to the City
- One committed offer of finance for $400 million (with $60 million operating line) was immediately available
- The City has time and flexibility to ensure it has a well thought out and transparent funding process
- City should consider interest rate risk mitigation strategies
- Funding proposals received up to now may not be reflective of current City covenant / security being offered
- Strong demand still exists for highly rated, government-quality debt among institutional lenders and banks

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Next Steps

- Overall, initial assessment indicates that the preferred option for buy-out of Fortress is Option D (use City working capital with interim external funding plus follow-on financing)
  - City has sufficient working capital to help repay Fortress loan and March / April 2009 construction advances
  - City would then conduct a funding competition for the financing required
  - Best value to the City and most defensible option
  - Significant market interest exists for similar funding opportunities
- Implement funding competition (RFP) immediately for long term financing
- Develop longer-term work out plan for SEFC site
- Undertake comprehensive briefing of rating agencies

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Construction Update

- City has owners' representative/project manager working on site with Millennium as of February 3, 2009
- Parcels 2,3,4,5,6 are aligned with VANOC schedule
- Parcels 9 and 10 are very tight:
  - Trade acceleration bonus in place
- Parcel 11 (community centre) – plan being revised
- Parcels 5, 9, 10 still have incomplete exterior glazing
- Increased workforce being brought on site
- Developer and general contractors are committed to delivering for VANOC