Special Council Report:

Olympic Village Project Update

February 18, 2009

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Tim Philpotts, Senior Vice President, Ernst & Young Advisory Inc.
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

850 market units

120 rental units

730 market sales units

Plus:
- community centre
- Salt building*
- childcare facility

Development funded by City
Developer: Millennium

*other developer

Development funded by external lender
Developer: Millennium
Funding Source of Estimated Costs to Market Completion (as of Jan. 9, 2009)

Towards "Market Ready" Estimate of $1,075m

- $458m
- $171m
- $29m
- Now ~ $428M
- Now ~ $134M
- Lender
- City Protective Advances
- Completion budget
- Developer deposit & land purchase balance
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
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
Fortress “Take Out” Terms

- Negotiations completed:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Principal Amount</td>
<td>$317,423,813</td>
</tr>
<tr>
<td>Prepayment Fee</td>
<td>$4,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$321,423,813</strong></td>
</tr>
<tr>
<td>Fees / Credits</td>
<td>($1,929,578)</td>
</tr>
<tr>
<td><strong>Net Transfer</strong></td>
<td><strong>$319,494,235</strong></td>
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- 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)
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
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
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
Current estimate of the total financing requirements to complete the Project is approximately $690 million, comprised of the following:

<table>
<thead>
<tr>
<th>Item</th>
<th>$ Millions</th>
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<tbody>
<tr>
<td>Fortress loan repayment</td>
<td>$322</td>
</tr>
<tr>
<td>Remaining construction advances (includes Feb-09 draw)</td>
<td>$292</td>
</tr>
<tr>
<td>Interest and financing (estimated)</td>
<td>$76</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$690</strong></td>
</tr>
<tr>
<td>Estimated available working capital as at February 2009</td>
<td>$330</td>
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The following criteria, which reflect the City’s overall objectives, have been used to assess each of the financing options:

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