



# Southeast False Creek and Olympic Village Development Update

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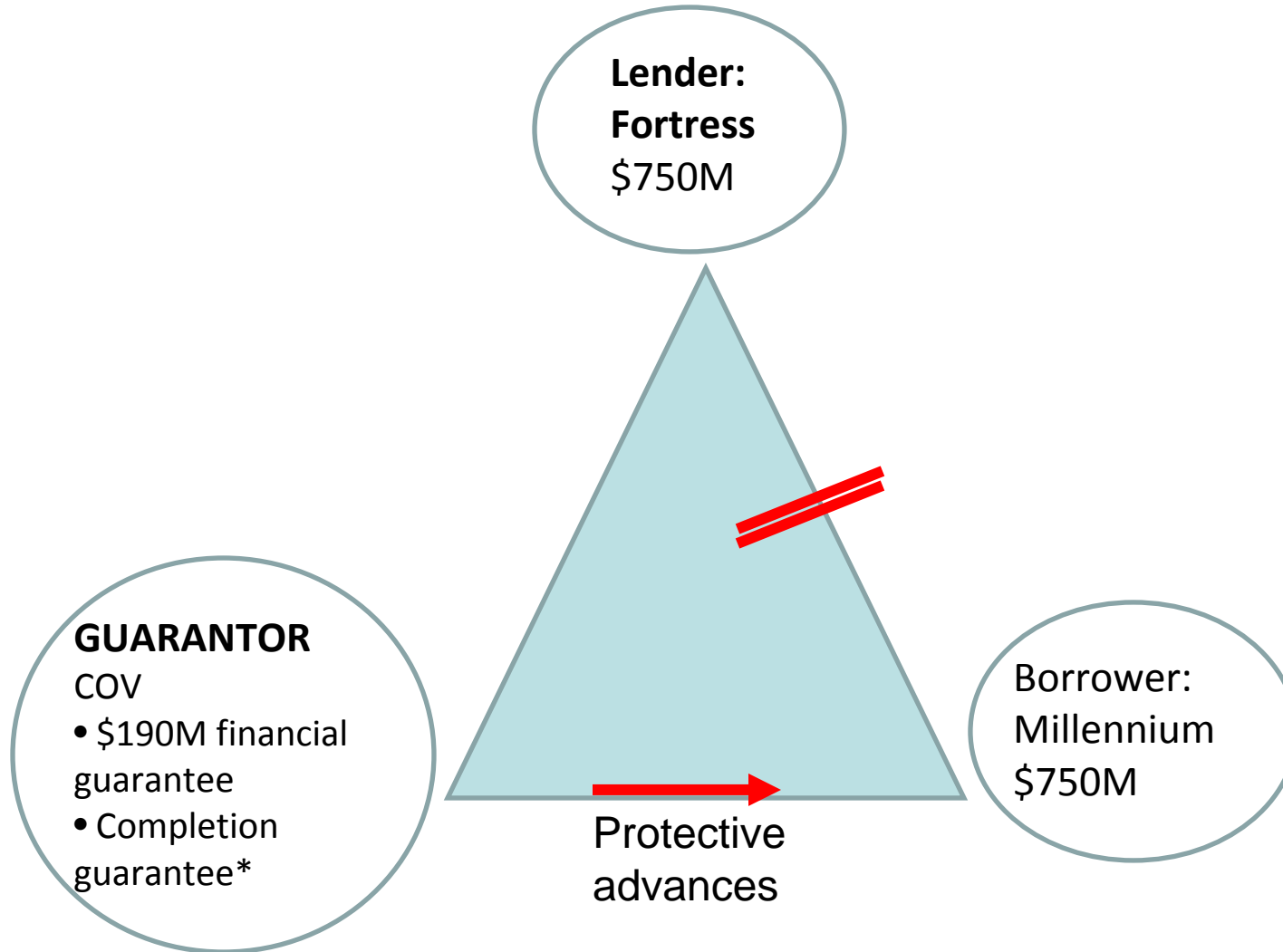
# Overview of Presentation

- Brief recap of project
- City Projects Update
  - Schedule
  - Budget
- Millennium Water Update
  - Schedule
  - Project Financing - Loan Amendment
  - KPMG Report (January 2009)
- Events Planned for Site

# SEFC: Key Milestones to Jan 9/09

2002	2006	June – Sept. 2007	May - August 2008	Sep 2008	Oct. 14, 2008
<p>Multi-party agreement</p> <p>City commits to build Athletes Village</p>	<p>Developer agrees to purchase &amp; develop land for \$200M</p> <p>City retains title to land until after Games</p>	<p>Developer arranges financing for \$750M</p> <p>City Council approves:</p> <ul style="list-style-type: none"> <li>• \$190M financial guarantee</li> <li>• completion guarantee*</li> </ul>	<ul style="list-style-type: none"> <li>• Developer's loan out of balance</li> <li>• Cost overruns</li> <li>• Pre-sales on target</li> </ul>	<p>Lender advises no further funding for project</p>	<p>City Council authorizes up to \$100M to pay three construction draws:</p> <ul style="list-style-type: none"> <li>- Oct. 15</li> <li>- Nov. 15</li> <li>- Dec. 15</li> </ul>

# Status of Loan - December 2008



# Financing Options December 2008

## "Standstill" Loan \$317M

- COV Guarantees:
  - Completion guarantee
  - \$190M
- interest rate ~9.5% (or higher)
- If a decrease in COV credit rating below A/A2: loan default
- requires market financing of balance of loan (\$400M)

## Restructured \$665M Loan

- COV Guarantees:
  - Completion guarantee
  - \$590M
- interest rate ~11.5% (or higher)
- Decrease in COV credit rating below A/A2: requires further cash deposits
- still requires market financing of balance to complete project to market readiness (\$56M)

# COV Charter Amendment

January 18, 2009

- Legislature amended *Vancouver Charter* to provide authority for the City to assist with the financing for the Olympic Village

# Status of Project - December 2008

## Construction schedule:

Significantly behind key milestones/ VANOC concerned

No firm project schedules from general contractors or developer

Multiple consultants attempting to develop project schedule

No processes for direct communication amongst developer, general contractors, consultants and COV

Prolonged processes for change order decisions

## Project budget:

project in default due to cost overruns

No regular budget update from developer

No regular budget update from Project office

Multiple consultants attempting to firm up project budget

# Key Actions Taken

## Personnel:

Tidball Projects appointed COV oversight agent on site

New SEFC project office lead: Bill Aujla

Financial analyst added to project office

Roles of COV Consultants clarified and duplication eliminated

Additional external legal and financial advisors put in place

## Processes:

Weekly meetings with developer, general contractors, consultants, Tidball, and COV project staff

Firm budget development and regular updates, risk identification and projections;

Tight change order oversight and enhanced process for decisions

Strict oversight of all construction draws by COV






# City Projects Update

# City Projects - Schedule Update

- **Affordable Housing - generally on schedule:**
  - **Parcel 2 Affordable Housing**
    - Handover to VANOC October 1 (one month early)
  - **Parcel 5 Affordable Housing**
    - On Schedule; Handover to VANOC planned for December 3
  - **Parcel 9 Affordable Housing (Net Zero Building)**
    - Schedule tight for November 1 handover to VANOC; requires continued monitoring due to complexity of building
- **Civic Centre**
  - Missed handover date of July 31; new date negotiated with VANOC - November 1 - on track but careful oversight required
- **Salt Building**
  - Scheduled to be on time for October 31 substantial completion

# City Projects - Schedule Update

- Infrastructure Projects:

-  Soil Remediation - Complete; All parcel Environmental Certificates of Compliance received
-  Waterfront - open to public but currently completing remaining work items adjacent to buildings; anticipated to be complete by October 31
-  Park Space "Hinge Park" - completing by October 31
-  Village Plaza - completing by October 31
-  Utilities and Streetscapes - all utilities and streetscapes on track with exception of Walter Hardwick Avenue between Parcels 9 and 10

# City Projects - Budget Update to September 30 2009

- Affordable Housing Budget 
  - Budget Approved by Council \$110M
  - Money Spent to Date \$ 95.7M
  - Projected expenditure \$110M
  
- Civic Centre Budget 
  - Budget Approved by Council \$ 36M
  - Money Spent to Date \$ 30.8M
  - Projected expenditure \$ 36M

# City Projects - Budget Update to September 30 2009

## Salt Building

- Budget Approved by Council \$15M
- Money spent to Date \$12.4M
- Projected spend to completion \$15M

## Infrastructure Projects

- Budget Approved by Council \$160M
- Money spent to Date \$119.5M
- Projected spend to completion \$160M

# City Projects: Budget and Schedule Risk Mitigation

- Over last 6 months – steps taken to mitigate budget overruns and schedule risks, including scope changes, design simplification, delay of work until post Olympics:
  - “Triangle Park” next to inlet deferred
  - Parcel 5 Open Space deferred
  - Docks for non-motorized boating facility deferred
  - Design changes made to streetscapes, park and plaza features to reduce costs
- Currently only change orders for regulatory issues and building code requirements permitted

# Millennium Water Update - Schedule

## Handovers to VANOC

-  **Commercial Spaces** - Handed over to VANOC August 1
-  **VANOC Food Service Site (SEFC East Property)** - Handed over to VANOC September 8
-  **Parcel 2 Handover** - Handed over to VANOC October 1 (one month early)
-  **Parcel 5 Handover** - On schedule for December 3 handover to VANOC
-  **Parcels 9 & 10** - Schedule tight for November 1 handover:
  - Close monitoring by City
  - Subject to acceleration program by Developer
-  **Suites within Buildings** - ~420 units of ~1100 total units within the development (including Affordable Housing units) have been inspected, approved and locked down by VANOC

# Millennium Water – Financing Update

## Loan Amendment

Steps taken to reduce financing costs for SEFC project:

- February 2009 – City negotiated purchase of Fortress Loan
- Since February, City has:
  - arranged financing through a syndicate of Canadian Chartered Banks;
  - issued a debenture;
  - commenced a commercial paper program
- Interest savings to January 2011 compared to Fortress loan \$90M - \$100M



# Millennium Water - Financing Update

- **March 2009** - COV/Millennium commenced negotiations on loan amendment
- **Goals of amended loan:**
  - Optimize stability of project financing and construction schedule
  - Provide incentives for completion for “Athlete Ready” by November 1, 2009
  - Provide flexibility on term to optimize return on investment for COV
- **March 2009 - September 2009** COV and external financial/legal advisors engaged in discussions with Millennium
- **September 11, 2009** - loan amendment signed by COV and Millennium

# Millennium Water Amended Loan Agreement - Key Features

## 1. Interest Rate Reduction

- Interest rate
  - higher of: Prime + 5% or Cost of funds + 5%
  - Interest floor: from Fortress ~9.4% to COV 8%
- Interest rate reduction with successful completion of "Permanent Facilities" to "VANOC ready"
  - Higher of: Prime + 4% or Cost of funds + 4%
  - Interest floor: 7%
- Retroactive interest rate reduction with Early Repayment of Loan and Land Purchase Price
  - August 2010 - prime/cost + 2%
  - January 2011 - prime/cost + 3%
  - August 2011 - prime/cost + 3.5%
  - January 2012 - prime/cost + 3.75%

Note: these interest rates are retroactive to date of Loan amendment

# Millennium Water Amended Loan Agreement - Key Features

## 2. Exclusive Use Period Interest Rate

- During exclusive use: Prime + 2%.

## 3. Loan Maturity Date

- From Fortress date of January 3, 2011 to December 31, 2012
- Option for 6 month extension to June 30, 2013

## 4. Paydown Requirements

- By August 31, 2010 - loan balance reduced by total of \$200M
- By January 3, 2011 - loan balance reduced by total of \$275M
- By August 31, 2011 - loan balance reduced by total of \$425M
- By January 3, 2012 - loan balance reduced by total of \$500M

# Millennium Water Amended Loan Agreement - Key Features

## 5. Prepayment Fee / Repayment Fee

- eliminated

## 6. City's Expenses Related to the Loan

- All City costs related to the Loan (except for the City's construction oversight) to be reimbursed to the City

## 7. Bonus for On-Time Delivery:

- \$250,000 for each Parcel (2, 3, 4, 5, 6, 9, 10 and 11) delivered to City by applicable deadline
- \$1M if all Parcels delivered to the City by their respective applicable deadlines

# Millennium Water - Construction Budget (Excluding Land Purchase Price of \$200M)

## Comparison to Projections in January 2009

- Projected "Market Ready" Budget \$875M
  - To end of Fortress Loan Jan 3 2011
- Current projected "market ready" \$873M
  - To Jan 3 2011
  - Includes \$22M of operating expense as outlined below

## Projections based on amended Loan terms

- Projected "Market Ready" budget \$850M
  - To September 1 2010
- additional operating budget to end of loan \$146M
  - September 1 2010 - Jan 1 2013
  - Based on longer sales trajectory and covers Millennium Water financing, marketing, operating (i.e. strata fees, management/oversight, etc.)
  - Contains an interest contingency to protect against rising interest rates

# SEFC Project - KPMG Report

- KPMG was engaged by City Council in December 2008 to provide comments on:
  - the status of the Southeast False Creek Development
  - the City's guarantees and other commitments related to the Fortress financing
  - City's related financial exposure
- Data examined up to January 19, 2009
- Draft public report delivered to COV City Manager in March 2009
- Draft public report held due to ongoing negotiations with Millennium related to loan amendment (finalized September 15 2009)
- Final public report can now be released with signed loan amendment

# KPMG Report Overview

- Report analyzed data from 2002 (starting with Vancouver Athletes Village Agreement) to January 19, 2009
- Report reviewed:
  - History of SEFC development - both City projects and Millennium Water development
  - Commitments related to 2010 bid
  - Procurement process to select developer
  - Financing arrangements following successful bid by Millennium
  - Actions taken by Fortress leading to cessation of loan advance payments
  - Actions taken by COV prior to December 8, 2009
  - Status of Project at mid January 2009 with regard to: schedule, budget, financial risk, completion risk
  - Projected risk profile for COV
- Report did not review financing decisions taken by COV in February 2009 and March 2009 or any subsequent action

# Key KPMG Observations

## COV Action

### KPMG OBSERVATIONS

### COV ACTION

- Construction Schedule and Budget:
  - Multiple consultants; lack of timely reporting; confusing advice; duplication of effort
  - Several issues needing attention by developer to ensure project delivery
- Reporting to City Manager and Council:
  - Implementation of enhanced financial analysis of overall SEFC budget
  - more frequent reporting required to City Manager and Council

- Construction Schedule and Budget:
  - Consultants streamlined; duplication of QS eliminated
  - Experienced industry construction manager instituted as oversight agent on site, with regular reporting on schedule, risks, intervention strategies
  - Close oversight and resolution of issues requiring action; weekly meetings instituted with general contractors, consultants, developer, COV oversight agent, project office
- Reporting to City Manager and Council:
  - Senior financial analyst added to COV SEFC project office
  - Weekly reporting and discussion with City Manager re: schedule, budget, change orders, emerging issues/risks, contingencies
  - Frequent reporting to Council on progress of loan negotiations and emerging issues



# Key KPMG Observations COV Action

## KPMG OBSERVATIONS

- Financial Oversight:
  - Need for more in depth analysis of security provided by Millennium to COV
  - Need for assessment of financial risk to COV of prolonged holding of Millennium Water units beyond 2010
- COV Processes:
  - Reassessment of the City's approach to RFP evaluations

## COV ACTION

- Financial Oversight
  - For loan amendment: in depth due diligence on the security and financial capacity of the developer
  - Loan terms optimized to address soft real estate market and mitigate risk of longer term hold of units
- COV Processes:
  - Comprehensive review and implementation of procurement as part of VSR
  - Senior procurement specialist hired

# SEFC Project Planned Events (Tentative)

- October 8 - COV Luncheon for 82 ambassadors from 2010 Olympic/Paralympic participant countries - at Salt Building and Civic Centre (Parcel 11)
- October 9 - COV/VANOC Ceremony for Parcel 2 Handover (Media Event) - at Parcel 2 Market Building
- October 15 - VANOC Olympic Medal "Reveal" Ceremony - at Civic Centre (Parcel 11)
- November 4 - COV/VANOC Village Handover - at Village Plaza