

Executive Committee

<p>Meeting No. 8</p> <p>Meeting Date Monday, April 30, 2007</p> <p>Start Time 9:30 AM</p> <p>Location Committee Room 1, City Hall</p>	<p>Contact Patsy Morris, Committee Administrator</p> <p>Phone 416-392-9151</p> <p>E-mail pmorris@toronto.ca</p>
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Additional Communications/Reports

EX8.2a Remuneration and Expenses of Members of Council and of Council Appointees to Local Boards and Other Special Purpose Bodies for the year ended December 31, 2006

(April 24, 2007) memo from Councillor Doug Holyday

Communications

(April 24, 2007) memo from Councillor Doug Holyday - EXSupplementary2007-ex08-2a (<http://www.toronto.ca/legdocs/mmis/2007/ex/comm/communicationfile-1203.pdf>)

EX8.3a Toronto Community Housing Corporation 2007 - 2009 Community Management Plan

(April 16, 2007) memo from Pat McKendry, TCHC Tenant

EX8.16	ACTION		Ward: 28
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Staff Assessment of the Proposed “First Waterfront Place” Commercial Building Development

Confidential - A proposed or pending acquisition or sale of land for municipal or local board purposes

(April 25, 2007) report from the City Manager and the Deputy City Manager and Chief Financial Officer

Recommendations

In accordance with Council's shareholder direction to the City of Toronto Economic Development Corporation (TEDCO), which requires Council approval of all leases in excess of 20 years, the City Manager and the Deputy City Manager and Chief Financial Officer recommend to Council that:

1. Council determine whether it wishes to consent to the lease agreement proposed by the Board of Directors of TEDCO as detailed in the report from the President and Chief Executive Officer of TEDCO and summarized in the confidential attachment;
2. should Council consent to the lease agreement, the following conditions be approved with respect to project financing:
 - a. the City's construction loan to TEDCO not exceed \$132 million;
 - b. the construction loan be secured by a first charge on the land and improvements comprising the project, the assignment of all tenant leases, including the lease with the lead tenant, and other security normally granted to a construction lender of a project of this nature;
 - c. the construction loan be advanced with an interest rate of 5%, paid monthly, as funded by the development budget;
 - d. all costs associated with the City's financing be included in the project's development budget including external legal and consulting fees;
 - e. the construction loan be advanced on a cost-to-complete basis with all cost overruns funded by TEDCO;
 - f. the construction loan be advanced based on monthly progress draws certified by the project architect, as applicable, and the President and Chief Executive Officer of TEDCO;
 - g. TEDCO be required to provide quarterly status reports to City Council and monthly status reports to the Deputy City Manager and Chief Financial Officer during construction, the form of which will be agreed upon by TEDCO and the City;
 - h. Altus Helyar or other quantity surveyor selected by the City be the project monitor;
 - i. in the event that long-term financing of the project by a third-party lender is not available or permitted, the City provide first mortgage financing to a maximum of \$132 million;
 - j. the terms of the City long-term financing be consistent with the financing terms that would otherwise be available for the project from a recognized commercial

mortgage lender for a non-recourse loan having a twenty (20) year term and a thirty (30) year amortization, save and except that the rate of interest be equal to the greater of the City's cost of debt and 5.5%;

- k. TEDCO be authorized to fund its equity contribution of \$10 million from the TEDCO Environmental Reserve Fund; and
 - l. any other term that is deemed by the City Solicitor and the Deputy City Manager and Chief Financial Officer to be in the interest of the City;
3. the capital investment in the proposed TEDCO project be financed through the following means:
- a. a construction loan to be temporarily financed on a short-term basis through the City's own-source cash flow, temporary borrowing by issuance of promissory notes or a combination of both sources of funds, to be determined by the Deputy City Manager and Chief Financial Officer;
 - b. a long-term financing, if required from the City, financed through the issuance of debenture(s) with a term not exceeding thirty years, or through a withdrawal from the Strategic Infrastructure Partnership Reserve Fund, if necessary; and
4. the City Solicitor in consultation with the Deputy City Manager and Chief Financial Officer and the President and Chief Executive Officer of TEDCO determine what information contained in the confidential attachment may be publicly released following the execution of the final agreements related to the project.

Financial Impact

The Board of Directors of TEDCO has requested that the City provide it with construction financing, and potentially permanent financing, of \$132 million in order for TEDCO to proceed with the project. Table 1 provides a summary of the proposed project financing.

Table 1 Summary of First Waterfront Place Capital Financing (\$ millions)	
Loan from City	132.0
TEDCO Equity Contribution (inclusive of land)	15.0
TWRC Contribution	12.5
Total	159.5

Currently, Section 9 of the City of Toronto Act (1985) prohibits TEDCO from borrowing funds from any source other than the City of Toronto. In the spring of 2006, Council approved of TEDCO's request to seek a change in the legislation. However, the Province has yet to amend the legislation.

In any event, it appears unlikely that any such amendment would result in third-party permanent financing for this project. Upon completion, the project's loan-to-value ratio is expected to be in excess of 90%. A third-party lender will likely only advance financing up to

75% of the value of the building. Either the City or TEDCO or a third-party investor will be required to increase the overall equity investment in the project in order to attract third-party permanent financing for the project.

If, for whatever reason, TEDCO is unable to secure external permanent financing, the City will have to extend its financing to TEDCO over a thirty-year period that will start when the project is complete and begins to generate rental revenue (Q4, 2009). The primary source of repayment for this permanent financing will be revenues generated by the project. In the event that there is a shortfall in available revenues, this shortfall is expected to be funded through other TEDCO revenues or assets as determined in an agreement to be negotiated between TEDCO and the City prior to the disbursement of the funding.

According to an analysis carried out by the City's real estate advisors, it is estimated that the project will generate sufficient net revenues to repay the City's loan and generate a return on TEDCO's equity investment. However, the project faces a number of risks that may impact on actual performance. These risks are described more fully in the confidential attachment to this report.

Credit Rating Implications

The financing of the building through the issuance of short- and long-term debt will increase the City's gross amount of outstanding debt even though it is being issued on behalf of TEDCO. It is anticipated that the debt will be considered self-liquidating since it will be funded by a portion of the leasing payments and will not affect the City's credit rating.

However, if for any reason the future cash flow generated by the project is no longer able to cover the debt charges, there could be a negative impact on the City's operating budget and its Credit rating unless the situation is rectified.

Capital Financing Strategy

The City Solicitor advises that currently there is a technical issue with the Financial Activities regulation to the City of Toronto Act, 2006 (O. Reg. 610/06) as it relates to the City's borrowing powers.

Prior to the City of Toronto Act, 2006 coming into force, Toronto (and all other municipalities) had the legal authority to borrow for a municipal purpose. Under the *Municipal Act, 2001*, as it was amended at the end of 2006, all Ontario municipalities other than Toronto (Toronto now being governed by City of Toronto Act, 2006 rather than the Municipal Act) continue to have that same power to borrow for a municipal purpose.

However, the City's power to borrow under the Financial Activities Regulation is narrower than the City's previous borrowing authority, i.e., for the purpose of obtaining long-term financing of any capital work of the City.

The difference between the old and new authority is relevant to the proposed financing for TEDCO in relation to First Waterfront Place. The First Waterfront Place project will be a capital work of TEDCO, not a capital work of the City. Despite the fact that the City is the sole

shareholder of TEDCO, and the First Waterfront Place project is an important one for Toronto, the building will not be a capital work of the City.

It is the intention to first utilize the equity contributions of TEDCO and the TWRC and then finance the construction loan on a temporary basis by using own-source cash flow until permanent debenture financing is required. It is anticipated that approval of the requested change to the regulation discussed above will be received in a few months. However, in the unlikely event that Provincial approval related to the debenture authority is not received prior to completion of construction, it is recommended that the Strategic Infrastructure Partnership Reserve Fund (which includes waterfront purposes) be utilized as a funding source for the permanent financing.

Summary

The purpose of this report is to provide Executive Committee and Council with staff's assessment of the financial, planning and economic development implications associated with the "First Waterfront Place" (the "project") commercial building development proposed by the City of Toronto Economic Development Corporation (TEDCO).

It is estimated that the total development cost for the project will be approximately \$159.5 million. The Board of Directors of TEDCO has requested that the City provide it with construction financing, and potentially permanent financing, of \$132 million, in order for it to proceed with the project.

Staff have retained the services of real estate advisors, Sannek Associates Inc. (Sannek), to provide a financial assessment of the potential risk and returns associated with the proposed City contribution to this project. According to Sannek's assessment, the project is likely to yield a financial return that is lower than would be acceptable for a private investor given the project's risk profile.

However, First Waterfront Place is not just a land development project; it is an investment by the City in its waterfront. A lower-than-market rate of return should be weighed against the other benefits that will be achieved by this project. By securing the first large employer for this area, the project will make the East Bayfront substantially more attractive for other potential employers. This will increase the value of other lands to be used for commercial development. It will also help to achieve the overall goal of a live-work environment on the waterfront with its associated transportation and environmental benefits.

In addition, this project will achieve certain specific planning goals such as creating a buffer between the continued industrial land use on the Redpath Sugars Ltd. site to the west and the proposed residential land uses to the east.

Background Information

Staff Assessment of the Proposed "First Waterfront Place" Commercial Building De
(<http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3318.pdf>)

16a Project Symphony Recommendations and Financial Assessment of the Proposed Development on the East Bayfront

Confidential - The security of the property of the municipality or local board

(April 20, 2007) report from the President and Chief Executive Officer, Toronto Economic Development Corporation

Recommendations

The TEDCO Board of Directors and TEDCO Management recommend that Council adopt the confidential instructions to staff in Confidential Attachment 1.

Financial Impact

This project requires construction financing from the City of Toronto of up to \$132 million (including construction financing at an interest rate of 5% per annum) and potential permanent financing upon completion of the building. The financial proforma analysis is based on an approximate total project cost of \$ 156 to \$162 million yielding a rate of return of approximately 8.0 to 8.5% IRR.

Property tax revenues as a result of this project will rise by approximately 25 times (i.e. 2500%). The City's share of new incremental realty taxes generated is projected to be \$42 million over 20 years in nominal dollars. After deducting the proposed tax abatement of \$18 million, the City would still earn \$24 million in new realty taxes over 20 years (nominal dollars). City Council has declared the East Bayfront and West Donlands as areas for the use of financial initiatives to attract employment related users.

The Deputy City Manager and Chief Financial Officer will provide a separate report on the financial analysis of this project.

Summary

This report provides an overview of the business agreements, financial arrangements and business case for the City of Toronto participating and backstopping certain financial obligations to allow TEDCO to proceed with the development of "Project Symphony", a major, first in, employment use within the East Bayfront Precinct. This report has been approved by the TEDCO Board of Directors.

Background Information

Project Symphony Recommendations & Financial Assessment
(<http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3253.pdf>)