WHISTLER

REPORT | CLOSED MEETING ADMINISTRATIVE REPORT TO COUNCIL

PRESENTED:	December 1, 2020	**REPORT:**	20-121
FROM:	Corporate and Community Services	**FILE:**	4530
SUBJECT:	WDC PARCEL A PROJECT PLAN UPDATE		

COMMENT/RECOMMENDATION FROM THE CHIEF ADMINISTRATIVE OFFICER

That the recommendation of the Director of Finance be endorsed.

RECOMMENDATION

That Council receive Administrative Report 20-121 “WDC Parcel A Project Plan Update”, and

That Council direct staff to include the $10 million Unsecured Credit Line requested by WDC within the 2021 year of the draft RMOW 2021-2025 Five Year Financial Plan that will be considered by Council later this month, and

That Council direct staff to prepare Unsecured Credit Line Agreement documents, including relevant terms and conditions to outline the repayment structure and associated schedule, as well as the new credit line’s relationship to the existing WDC liability, and

That Council direct staff to return to an upcoming regular council meeting as soon as is possible for further Council consideration of the Unsecured Credit Line Agreement.

REFERENCES

Appendix “A” – WDC Parcel A Project Plan

Appendix “B” – Current WDC Board of Directors Membership

Appendix “C” – WDC responses to clarifying questions on Parcel A

Appendix “D” – Background on Cheakamus Crossing I Financing

PURPOSE

A $10 million credit line has been requested of the RMOW by the Whistler 2020 Development Corporation (WDC) to enable progress on the Parcel A Employee Housing project. This credit line precedes the outcome of a BC Housing grant application, which has significant impacts on how the project takes shape, including the size of interim financing required and the nature of the housing product ultimately delivered (rental versus ownership units). This new credit line would bring the total amount owing from WDC to RMOW, under three different financing agreements, to $18.4 million. The purpose of this report is to:

1) summarize background context relevant to the current decision including the role of the RMOW in the project,
2) summarize RMOW staff's present understanding of the Parcel A Project Plan,
3) outline the financial risks inherent in this work including the range of potential outcomes,
4) identify important future decision points and points at which the outcome path narrows as the work proceeds, and
5) Seek Council direction on the preparation of an agreement for an unsecured credit line between the RMOW and WDC

Background and Historical Context

Recent History of Delivering Resident Housing Projects

Council has identified Employee Housing as one of three important Focus Areas. This support takes multiple different forms, and has recently been informed by extensive work by the Mayor's Task Force on Resident Housing. Recent Council outcomes in support of employee housing expansion include:

1) Endorsed guidelines to allow private development of multi-family employee housing on private lands. Guidelines were endorsed by Council in December 2017 and a process was endorsed by Council on April 24, 2018 to facilitate employee housing development on private lands. As a result of this process, one rezoning application has been completed for 20 employee housing units, with a further five rezoning applications that are currently under review.

Extensive work has been undertaken by the RMOW in recent years to support municipal wholly owned, subsidiary corporations Whistler 2020 Development Corporation (WDC) and Whistler Housing Authority (WHA)[1]

2) RMOW Council has deployed resources in support of WDC's continued development planning and preliminary site clearing work on Parcel A[2] . On November 17, 2020, WDC appeared in a Delegation before Council to present the corporation's current development strategy and to provide some additional detail around the Parcel A project planning. More extensive detail can be found in the September 2020 Project Plan prepared by WDC and attached as Appendix "A". WDC provided additional information at the request of staff, these are attached as Appendix "C".
3) RMOW is actively supporting the expenditures on Parcel A by transferring the full municipal share of MRDT OAP (Municipal and Regional District Tax – Online Accommodation Provider) revenues to the WDC on a quarterly basis.[3]

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[1] Additional information on subsidiary corporations can be found at www.whistlerhousing.ca (WHA) and in the historic council reports for WDC

[2] WDC Development Permit 1760 - WDC Parcel A on September 15, 2020

[3] RMOW was granted the ability, with the approval of the province, to deploy MRDT OAP funds in support of Employee Housing, starting in 2019. These transfers are governed by the MRDT OAP Contribution agreement, dated August 26, 2019, as endorsed by Council at the Regular Meeting on September 3, 2019. Since this agreement went into effect $214,145 has been transferred under this agreement. The current RMOW budget anticipates that another $630,607 of MRDT OAP will flow from RMOW to WDC through the agreement end date of Dec 31, 2021. Because of the COVID-19 pandemic, both amounts are substantially lower than was anticipated at this time last year.

4) RMOW extended interim financing to WHA in 2017 in support of construction on new buildings. Three of these buildings are now occupied and one anticipated to be complete in early 2021. The interim financing was fully repaid in 2020.[4]

These efforts build upon decades of work by the RMOW supporting WHA and more recently the WDC, most notably with respect to the latter:

5) Supporting the delivery of the Cheakamus Crossing Athletes Village projects and legacy neighbourhood in partnership with WDC from 2010 – 2017. Additional information around RMOW's role in the financing of that project and the outcomes, are attached as Appendix "D";

Each of the above includes different financial and risk exposure, both in the near and longer term.

Roles, Responsibilities and Governance

WDC is a municipal corporation, wholly owned by the RMOW. This means that WDC financial results are combined and consolidated with the RMOW's and those of other municipal corporations (including WHA) in the annual RMOW financial statements[5]. Governance of the WDC is separate from that of the RMOW, and is overseen by an independent Board of Directors. Current WDC Board composition is attached as Appendix "B".

WDC's mandate is separate from the RMOW's and different in some important ways. Created and empowered in the lead up to the 2010 Olympic and Paralympic Games, WDC's mandate and purposes are laid out in their Corporate Articles of Incorporation, further detailed in the Aug 18, 2006 Municipal Services Agreement, and associated Bare Trust Agreements. Importantly, according to the Municipal Services Agreement, the WDC is empowered to "design, finance, develop, construct, market and sell/lease housing and potential commercial space on the Cheakamus Crossing legacy lands". The WDC is also intended to construct and install all servicing for the development on those Lands (including all roads, waterworks, sewage and drainage works and other municipal infrastructure and/or public amenities as directed by the RMOW).

The RMOW has express purposes as defined by the *BC Community Charter.* These include: providing for good government of its community, providing for services, laws and other matters for community benefit, providing for stewardship of the public assets of its community, and fostering the economic, social and environmental well-being of its community. Stewardship of public assets includes the management of financial assets including reserves. Investment of municipal funds is tightly controlled under section 183 of the *Community Charter.* It is clear, that while there are overlapping purposes between the two organizations, the purpose of the RMOW is necessarily broader and more encompassing than that of the WDC. For this reason, the RMOW is compelled to consider the plans of the WDC from a broader lens.

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[4] In-progress or recently completed WHA projects include buildings at: 1310 Cloudburst Way, 1330 Cloudburst Way, 1020 Legacy Way and 8350 Bear Paw Trail.
[5] The RMOW is also required to report key consolidated financial figures to the Province of British Columbia for the purposes of LGDE (Local Government Data Entry) disclosures. These disclosures are made public and are used to compare the financial health of communities across the province

Existing Financial Obligations

At the end of 2019, the WDC debt owing to RMOW related to Cheakamus Crossing project was approximately $8.3 million. A separate Promissory Note was issued by WDC to the RMOW in November, 2019 in the amount of $870,000 related to DES settlement payouts. Combined, the debt owing from WDC to RMOW totalled just more than $9 million at the end of 2019. These are funds that otherwise would have remained in municipal reserves, and repayment of these debts would likewise be reflected in an offsetting reserve increase.

There exist meaningful pressures on municipal reserves today. These include lower reserve contributions in light of the COVID pandemic as well as an installed base of assets that continues to require renewal and replacement and investments required to meet the changing needs of the community. Given these pressures, it has become even more critical to consider transforming the WDC debt back into reserve balances, as was WDC's intent dating back to 2007.

Parcel A Project Summary

Over the last two years, the WDC has undertaken the process of assessing the development potential of the Cheakamus Crossing Upper Lands. This process has included consideration of development and servicing options and execution risks, and development of a comprehensive construction plan for Parcel A. Parcel A is a proposed 100 unit employee housing project to be located on the site at the southeastern edge of the existing Cheakamus Crossing neighbourhood. The attached WDC Parcel A Project Plan pairs the construction and development plan with six different potential funding and asset sale/mortgage proceeds scenarios. Execution of the Project Plan requires -- and consideration today is being given to -- a specific request around financing for the project. WDC provided responses to clarifying questions posed by staff around the project plan and associated financing in a document that is attached as Appendix "C".

Below are two charts, informed by the attached Project Plan, that detail planned expenditures on Parcel A and the accompanying funding required, under the proposed credit line facility and funding whose source will be identified at a later date. The net proceeds flowing from Buildings A & B depend on whether each of the buildings is designated for ownership or rental inventory. Each scenario also incorporates the sale of the proposed 18 market single family and duplex lots to be developed at Parcel D3 once the D3 road extension is completed.

The first table outlines total borrowing and net proceeds for the scenarios that assume no grant money accompanies this project. This information comes from the Project Plan. Expenditures associated with the project (construction costs) are shaded grey, financing to support the expenditures are shaded orange (with amounts whose source is not currently known are rust) and proceeds identified for repayment in green.

Expenditure and Financing Scenario: NO GRANTS							
	MONEY OUT	INTERIM FUNDS FOR EXPENDITURES		PROCEEDS TO REPAY INTERIM FUNDING			
	Construction Expenditures	RMOW Credit Line	Financing TBD NO GRANT	Market Lot Sales	2 Buildings Ownership	1 Ownership, 1 Rental Bldg	
1Q20	713,552	713,552	-				
2Q20	3,493,020	3,493,020	-				
3Q20	7,152,579	5,793,428	1,359,151				
4Q20	8,830,087	-	8,830,087				
1Q21	8,126,167	-	8,126,167				
2Q21	8,640,038	-	8,640,038	8,400,000			
3Q21	4,213,482	-	4,213,482	9,600,000	17,350,000	14,000,000	BLDG A
4Q21	1,896,067	-	1,896,067	2,400,000	21,350,000	21,350,000	BLDG B
TOTAL	43,064,992	10,000,000	33,064,992	20,400,000	38,700,000	35,350,000	
	Total Borrowing No-Grant Scenario		43,064,992	Net Proceeds			
	Total Proceeds No-Grant + A Sales Scenario		59,100,000	16,035,008			
	Total Proceeds No-Grant + A Rental Scenario		55,750,000	12,685,008			

The second table outlines total borrowing and net proceeds assuming that both grant applications, one for affordable housing with BC Housing and one for Infrastructure (specifically Road 7) with the Canadian Mortgage and Housing Commission are successful. The scenario outlined includes both buildings being developed as rental housing.

Expenditure and Financing Scenario: GRANTS								
	MONEY OUT	INTERIM FUNDS FOR EXPENDITURES				PROCEEDS TO REPAY INTERIM FUNDING		
	Construction Expenditures	RMOW Credit Line GRANTS	CMHC Infrastructure Grant	BC Housing Grant	Financing TBD GRANTS	Market Lot Sales	Mortgage on Rental Units: BCH	
1Q20	713,552	713,552			-			
2Q20	3,493,020	969,592	1,000,000	1,523,428	-			
3Q20	7,152,579	1,717,375	1,000,000	4,435,204	-			
4Q20	8,830,087	2,688,773		6,141,314	-			
1Q21	8,126,167	3,910,708			4,215,459			
2Q21	8,640,038	-			8,640,038	8,400,000		
3Q21	4,213,482	-			4,213,482	9,600,000	11,000,000	BLDG A
4Q21	1,896,067	-			1,896,067	2,400,000	12,000,000	BLDG B
TOTAL	43,064,992	10,000,000	2,000,000	12,099,946	18,965,046	20,400,000	23,000,000	
		Total Borrowing Grant Scenario		28,965,046		Net Proceeds		
		Total Proceeds Grant Scenario		43,400,000		14,434,954		

Grants are helpful to a project like this as they represent money that does not need to be repaid. As such, they reduce the total amount of borrowing that remains unresolved. In this case from $33 million to $19 million. They also attach conditions to the outcomes of the resulting buildings, specifically that rents charged for the units must be lower. This affects the amount of mortgage debt that can be carried by the building, which translates into lower net proceeds. Altogether, the net proceeds from the scenario that includes grant funding fall between the amounts expected to be generated by the two non-grant scenarios, with significantly lower risk. A decision on the BC Housing grant is expected to be known in February or March 2021.

Financing and Risk Considerations

The information below presents an analysis of the financial risk that the Parcel A project poses to the RMOW. This information is provided such that any decision regarding funding on the Parcel A project is done in full consideration of the risk involved. The information presented outlines the financial considerations and does not include an overview or analysis of the need or opportunity that municipally generated employee housing presents.

Why RMOW is potentially stepping in as lender? RMOW is being asked to extend an unsecured credit line to WDC in order to provide further financial support for work on Parcel A. WDC is not able to access commercial lending at this time as their assets are insufficient in value to serve as collateral. This is expected to change as zoning on the parcel evolves. Rezoning of the Cheakamus Crossing Upper Lands is currently expected to be considered by Council for first and second reading at a Council meeting in December, and proceeds from there to potential final adoption in Q1 of 2021. WDC is understandably reluctant to wait until this date to initiate further substantive investment on this project.

Financing details

Amount & Purpose: The $10 million in proposed credit line funding to WDC by the RMOW is intended to be spent on construction works related to the Parcel D road, servicing for new market lots, and the foundation development for Buildings A and B on Parcel A.

Full scope of the financing required: Important to note is that the total Parcel A project cost as laid out is $43 million. In addition to the $10 million RMOW-sourced financing under immediate consideration, another $33 million is estimated to be required to complete the work. There are several different identified sources for this $33 million: these include BC Housing grant proceeds, CMHC Infrastructure grant proceeds, sales of market lots, the sale and/or direct mortgage of each of the two resulting buildings, and third-party interim or construction financing.

Security: Because the $10 million RMOW credit line is contemplated to be unsecured, third party financing can fairly be expected to be senior, and therefore paid first from proceeds generated by the project. Staff understand that WDC estimates of potential sale/mortgage proceeds from the lots and the buildings have a degree of uncertainty due to the current economic outlook. It is important to note that any shortfall in realised proceeds compared to the expectations outlined in the Project Plan would fall to RMOW to absorb.

Net Proceeds and Debt Repayment: Assuming that realised sales indeed meet the described targets, each of the Parcel A scenarios outlined includes sufficient proceeds to repay third party lenders, the $10 million proposed credit line and the existing $9.3 million in WDC debt. Resolving the full amount of existing debt offers benefits to both WDC and RMOW and deserves consideration. The alternative proposed by WDC is to leave the $9 million outstanding, or perhaps write it off, and direct the net Parcel A proceeds instead to “seed funding” for more Cheakamus Crossing Employee Housing projects. Proposed locations include Parcels B, C, D1 or D2. These projects would again likely include a mix of internal (RMOW) and potentially external interim/construction lenders, to be repaid through a combination of market lot sales, and the sale of ownership units and ending mortgage debt.

Parcel A mortgage debt and total RMOW consolidated debt.

Why are consolidated debt levels important? In addition to considering this proposed $10 million credit line in the context of existing financial obligations owed by WDC to RMOW, it is important to note the lasting effects this project will have on the consolidated debt position of the RMOW. This is different from debt owed by municipal corporations to RMOW (interparty debt) and in that it is debt owed by RMOW consolidating entities to third parties. There exists significantly less flexibility around these debts. They cannot easily be extended for example or payments deferred. External lenders have associated claims to municipal property and would be entirely able to claim that property in the event of a default or other non-performance.

Current and forecast debt position. RMOW ended 2019 with $40.0 million in outstanding consolidated external debt. Significant amounts of new long-term debt have been, or may shortly be, created in support of other RMOW and subsidiary corporation works. In-progress and recently completed WHA projects will add an estimated $4.6 million to consolidated debt between 2019 and 2023. Three different Local Area Service petitions are currently under way that could add an estimated $11.5 million to consolidated debt in the same period. Parcel A as outlined in the project plan, under the NO GRANTS scenario where both buildings become employee ownership housing, adds no additional debt to these amounts. Under the GRANTS scenario, however, another $23.0 million in 30+ year mortgage debt will result and be added to the above-listed amounts. This leaves total combined RMOW debt growing somewhere between +$17 million and +$40 million between 2019 and 2023. This will happen alongside forecast declines in reserve balances in the amount of -$27 million over the same period, and result in consolidated financial asset balances that are likely less than liabilities.

Balancing long run opportunity with near term risks. Over the long run, investment in Employee Housing, particularly rental inventory, creates significant financial value for the RMOW, in addition to the non-financial value it provides to our under-housed community members and the businesses that employ them. What is less clear are the near-term risks to the RMOW debt loads of building four WHA buildings and a 100-unit WDC project in the span of five years. On this measure, RMOW is entering unfamiliar territory at a time when the effects of the COVID-19 pandemic on the global economy are uncertain.

Credit line repayment risk. WDC intends to repay the credit line with proceeds from the sale of serviced single-family and potentially duplex lots in the Cheakamus Crossing neighbourhood (Parcel D3). While a high degree of confidence exists around the assumed value of these lots and the appetite in the market for quick absorption, these sales are not at this time assured. *Absent lot sales, WDC has no identified means to repay the proposed RMOW debt.* There are potential reasons for which lot sales may not ultimately come to pass. In the case of the original Cheakamus Crossing project, this same intent (repayment of the loan through lot sales) was outlined in the original loan documents. The lot sales and accompanying debt repayments were only partially completed. Circumstances changed between the time at which the loan was extended (2008) and when the decision was made to cease debt repayments (2017). The realizable value of the lots was declining as sales progressed, and a further expansion in employee housing inventory was prioritized at the time. It is entirely possible that some combination of similar factors may be in play again when this new proposed debt comes due. In such a case, there is a chance that the $10 million unsecured credit facility may remain outstanding for an uncertain length of time. This would require (as it did in the last iteration) a drawing down of RMOW reserve funds.

***Insulating ratepayers from employee housing costs*.** RMOW and by extension its subsidiary corporations have committed to ensuring that ratepayers will continue to be insulated from the financial costs associated with the development of employee housing. As noted, a $7.9 million debt remained at the time that lot sales in Phase I of Cheakamus Crossing were concluded. This debt has since grown to >$8.3 million. A separate Promissory Note was issued by WDC to the RMOW in November, 2019 in the amount of $870,000 related to DES settlement payouts. Both of these debts, the remainder debt from the first phase of Cheakamus Crossing and the DEC promissory note, represent amounts that otherwise would today be reflected in the reserve balances of the RMOW. Reserve balances influence everything from tax requisitions to long term financial planning. Whether or not this arrangement, debt that endures beyond the original intended repayment period and is offset with lower reserve balances for that same period of time, represents a financial cost to ratepayers is a matter of some debate. What is certain is that any scenario in which the WDC is either rendered incapable of repaying this $10 million credit line, or chooses not to repay the credit line in favour of pursuing other potential development opportunities, would again translate into a decline in reported reserve balances. A $10 million dollar impact on reserves, in addition to the $27 million decline already forecast through 2025 would be highly consequential for the RMOW.

***Potential outcomes for existing $9.3 million debt*.** Each of the scenarios outlined in WDC's Parcel A Project Plan suggest that significant net inflows will result from the project. WDC also detailed in their November 16 Council presentation a suite of opportunities beyond Parcel A that would each require significant capital to advance. WDC has proposed that a working group be struck to determine if and to what extent the repayment of existing $9.3 million debt to RMOW be prioritized among the possible alternative uses for the excess capital coming from this project. If a decision other than debt repayment is the preferred path forward, municipal auditors have advised that the existing $9.3 million debt would need to be written off. This would translate into an upward adjustment in the WDC surplus (the remainder value of that entity) and a downward adjustment to the RMOW surplus.

Next Steps & Upcoming Decisions.

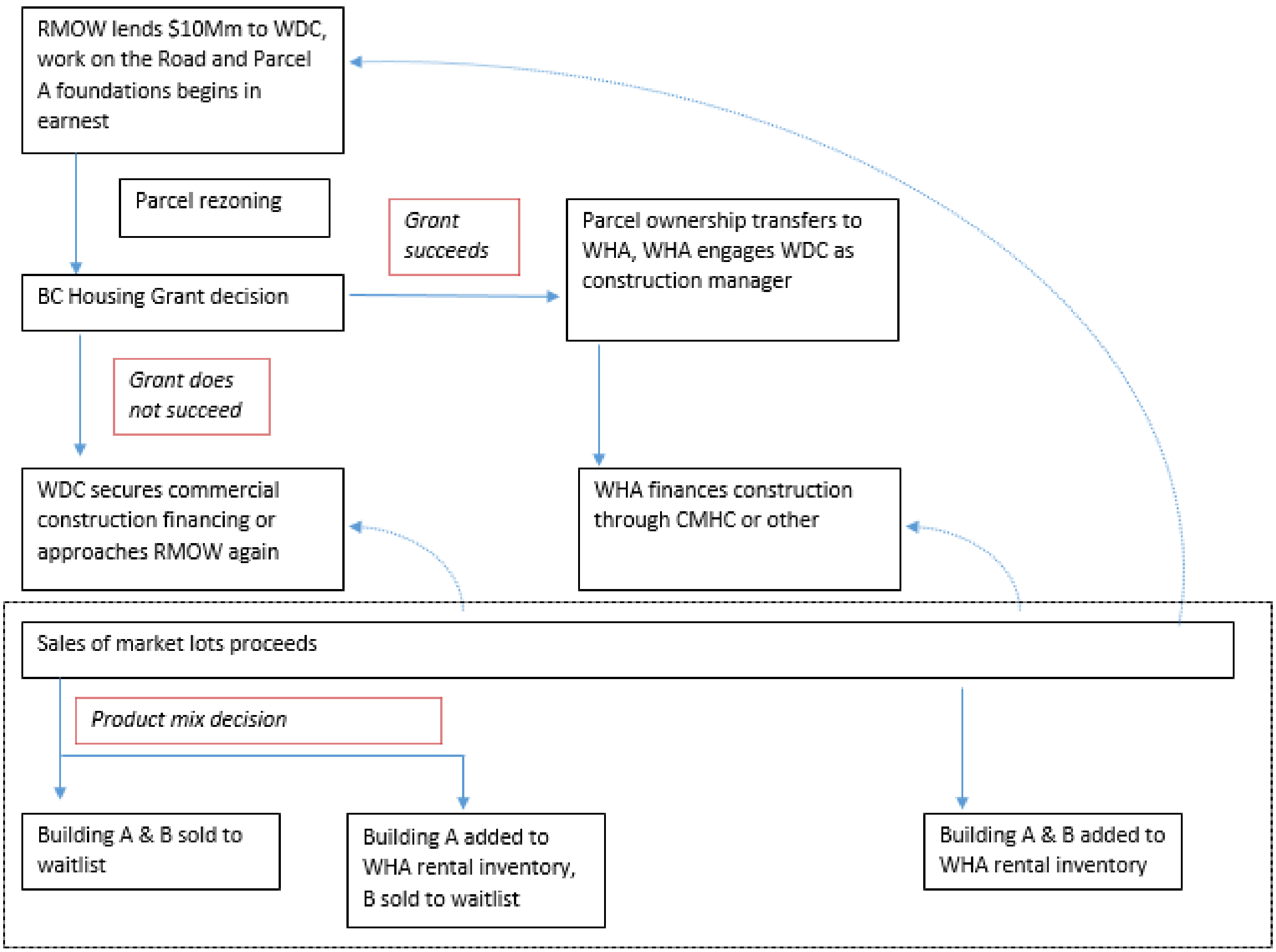
Council is being asked today to direct the creation of documents governing the extension of an unsecured credit line from RMOW to WDC as detailed above. If approved, the documents will return for consideration and signing in the near future. Consideration for the rezoning of market lots in Parcel D is underway now. Once rezoned, the task of marketing and selling those lots falls to WDC, as does the distribution (or retention) of lot-sale proceeds. Staff believe that, given the discussion above, a repayment schedule for both the existing $9.4 million and the proposed $10 million debts should be built into the terms and conditions of the new credit line agreement as a means to ensure that these funds are returned to municipal reserves in a timely fashion, and that consistent with past practice, ratepayers continue to be insulated from the net development cost of building new employee housing.

WDC has confirmed they will provide regular ongoing financial progress reports throughout the upcoming construction period. This transparency will ensure that the community is well informed of the progress of the project, and the state of the credit line repayment process.

Beyond the credit line decision, the Parcel A project has a number of steps to go through before a final pathway for project financing and product offering is determined. The flow chart below shows the various decision points and the possible ways that funds can flow back to the RMOW and the project from lot sales. The upcoming decision points on rezoning (December) and BC Housing grant application award announcement (February) will provide additional clarity on path forward for this important project.

Staff continue to support the development and delivery of new employee housing projects throughout the community. There is a clear need, and a variety of solutions are required. Strong fiscal management of municipal resources will ensure that the RMOW is well positioned to provide continued support of fiscally responsible employee housing projects into the future.

Flow chart detailing Parcel A process:



OTHER POLICY CONSIDERATIONS

The recommended resolutions included within this Report are consistent with the goals, objectives and policies included within “Official Community Plan Bylaw No. 2199, 2018”.

BUDGET CONSIDERATIONS

Decisions made by subsidiary corporations including WDC directly affect the consolidated RMOW financial statements, and the financial reports the RMOW makes to the province. They also have the potential to impact RMOW reserve balances. The intent has long been that decisions at the municipal corporations are kept separate from, and do not affect, the RMOW's general municipal tax requisition. This has largely been the case in practice. However, good fiscal governance requires that the risk of the proposed $10M unsecured line of credit loan not being repaid in the timeline identified be considered when building the RMOW 2021-2025 five year financial plan.

COMMUNITY ENGAGEMENT AND CONSULTATION SUMMARY

The concepts and approach for the next phase of Cheakamus Crossing employee housing development were shared with the community late in 2018 at an Open House, with Parcel A identified as a priority parcel followed by the lower lands. The Open House showed the scale of the housing opportunity available and preliminary designs, and was prior to any decisions with regard to progressing any of the projects. Further engagement with the public in the form of an open house is planned for the spring of 2021, once the final outcome of the BC Housing grant application is known and the direction of the project and associated financing is defined. WDC provided an update to the public on the Parcel A project in a delegation to Council on November 17, 2020.

SUMMARY

A $10 million credit line has been requested of the RMOW by the Whistler 2020 Development Corporation (WDC) to enable progress on the Parcel A Employee Housing project. This new credit line would bring the total amount owing from WDC to RMOW, under three different financing agreements, to $18.4 million.

Looking at the range of potential outcomes for this combined debt, at the conclusion of the Parcel A project, there exist scenarios where:

1) The entire accumulated debt is repaid, which would boost reported RMOW reserve balances by $9.4 million
2) None of the debt is repaid, which would result in a further decline in municipal reserves of $10 million, and potentially a write-off of the $9.4 million debt, or
3) Something in between.

The wide range of potential outcomes and the associated financial uncertainty means that an objectively high level of risk is associated with this proposal. This risk needs to be weighed against the needs and benefits of municipally supported employee housing development in the community.

Respectfully submitted,

Carlee Price
DIRECTOR OF FINANCE

and
Virginia Cullen
CHIEF ADMINISTRATIVE OFFICER