

Di Nozzi, Caterina

Attachments: Millenium.doc

From: [REDACTED] S 22
Sent: Friday, October 10, 2008 10:29 AM
To: Bayne, Ken; Rogers, Judy; Andrews, Jody; Lo, Estelle
Subject: Notes on millenium, 10/10/08

Ho, pls see attached

Estelle

Hi,

I hope the negotiation between Millenium and Fortress is progressing positively. I am out of town but thinking about the briefing you gave me and also reflecting on the Globe and Mail article.

Below is some feedback which I hope will be regarded as constructive thoughts/questions, some of which the project team likely has thought of or dealt with and some of which might have been addressed in the Council report (I don't have a copy with me so I can't validate). Putting my thoughts on paper helps me to focus. My only motive is to provide my perspective, recognizing that decisions have broader considerations, some of which I may not be privy to.

Here they are:

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2. There is a rumor on the street that 'Millenium is having big problems with the 4 storey concrete rental project in West Van'. Do we have the right to ask Millenium about the viability of their other projects, including any financial pressures?

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4. The latest set of overrun projections (\$60 m to \$100m) is quite substantial in dollar terms. Do the contracts with Fortress/Millenium stipulate who would finance all the unplanned add'l costs or shortfalls and the City's role re budget overruns? I wonder what is driving the increased costs that were not factored in Millenium's original submission. Being a seasoned developer, wouldn't they have built in enough cushions/contingency? Are the increased costs all beyond their control? Have they demonstrated due diligence in controlling costs? It may shed some light if we reconcile the original numbers against these sets of numbers (\$60 to \$100 m) and also see how these numbers compare to the City's own independent

'quantitative survey' that was done at the start of the project. If the city covers the project overruns, is this part of the city's \$200million guarantee to Fortress or is this in addition to?

5. What is the future plan for the 3 parties to closely monitor/control costs. How do we ensure that this latest projection is the final final number? What would happen, if interest rates go up between now and the completion date? How would additional increased costs impact on the project profits? If cost continues to escalate, the City would be the party with the exposure to financial risk given that we have a completion deadline. How can we control those risks now?
6. What mechanism is in place to ensure that Fortress has the money to fully fund the completion of the project and to find out to what extent they are impacted by the credit problems in US? What happens to the project, to the city, to Millenium, and to the people who have purchased units if Fortress is unable to provide financing? Would it be prudent for Millenium/the City to talk to other lenders (or would it set the rumor mill going)?
7. Ken mentioned the slow pre-sale would not be of concern as we have 2 more years to sell the units. The real estate market has declined and the expectation is that it will continue to fall. What are the implications to the developer and to the city if costs increase and potential sales prices fall? What was the price per sq. ft. originally established by Millenium vs the latest projection from Michael/Bob Rennie? How far can this price per sq. ft. fall, before there is no profit in the project for Millenium? Our guarantee is exposed to real estate risk - at what level will debt not be able to be repaid? I wonder why Millenium would complete the project if there is no profit, other than reputational risk. (Do developers care more about profit or reputation? Would they not just set up another company for future projects?) How is the City protected against falling unit prices? Will there be a plan to boost sales as 2010 approaches?
8. I presume if we have to get involved financially, the funding would be from CFF. For prudent fiscal management, it would be helpful if Ken can share with us the projected CFF cash flow and the commitments against CFF between now and the next 5 years. Part of the CFF balance is to cover landfill closure and post closure - are there legal requirements that the city must meet such that we can't free up this portion of the CFF? In the worst case scenario of the city continuing to provide financing in the future if the project faces additional financing shortfalls (due to escalating costs, presale collapses, declining sales values or inability of Fortress to finance or any other reason), how the city can protect itself in recovering these funds? Will we charge Millenium interest? What terms and conditions will the city attach and how do we ensure these will be met by Millenium?

