

# LATE DISTRIBUTION FOR CS&B April 21, 2011

Supports Item No. 2  
CS&B Committee Agenda  
April 21, 2011



## ADMINISTRATIVE REPORT

Report Date: April 14, 2011  
Contact: Patrice Impey  
Contact No.: 604.873.7610  
RTS No.: 09044  
VanRIMS No.: 08-2000-20  
Meeting Date: April 21, 2011

TO: Standing Committee on City Services and Budgets  
FROM: Director of Finance  
SUBJECT: 2010 City of Vancouver Annual Financial Report

### *RECOMMENDATION*

THAT Council receive for information the City of Vancouver Financial Statements for the year ended December 31, 2010.

### *COUNCIL POLICY*

The Director of Finance is required under Section 211 of the Vancouver Charter to advise Council on the financial position of the City.

Section 231 requires the City's external auditors to report on the financial statements to Council by April 30 of the following year.

### *PURPOSE*

The 2010 Financial Statements are presented to Council for information in order to fulfil the legislative requirements of the Vancouver Charter.

### *GENERAL MANAGER'S COMMENTS*

The City's 2010 Financial Statements reflect the consolidated financial position of the City of Vancouver, including organizations owned and controlled by the City, as of December 31, 2010. These statements are based on Generally Accepted Accounting Principles as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, and have been audited by KPMG.

The City continued to grow in 2010 and improved its financial position, increasing non-financial assets by \$145.9 million to \$6.15 billion, and increasing accumulated surplus by \$119.4 million to \$5.8 billion. The City's consolidated revenues were \$1.356 billion, an increase of \$72 million over 2009, while consolidated expenses totalled \$1.236 billion, an

increase of \$106 million. The Revenue Fund (Operating budget) generated a surplus of \$2M following transfers to reserves.

The following areas have had a key impact on the 2010 financial statements:

- Subsequent to the 2009 implementation of PSAB 3150 Tangible Capital Assets, the City has made a further restatement of 2009 asset values as a result of more available historical cost information on certain assets.
- The closure costs related to the City's landfill site in Delta were higher in 2010 to reflect a change in the estimated closure date for the landfill related to the new Metro Vancouver Solid Waste Plan.

An area of major public interest is the status of the loan to the Southeast False Creek Development project. The City's net realizable value for this asset, taking into consideration the subsequent events since December 31, 2010, required a write down of \$48 million against the project's outstanding construction loan and receivables at yearend. The subsequent events included the re-pricing and sale of a number of condominiums and settlement of the guarantees associated with the city's loan to the development. The net realizable value is based on current estimates and will fluctuate with changes in financial and real estate markets over the next 3 to 4 years. We will continue to monitor closely and manage vigorously to optimize results to the City.

#### *CITY MANAGER'S COMMENTS*

The City of Vancouver has completed a successful year, with capital assets increasing by \$145.9 million and accumulated surplus increasing \$119.4 million. Our strong financial position is reflected in our continued high credit ratings from outside credit agencies.

2010 has presented the City with both opportunities and challenges; among them successfully hosting the Vancouver Winter Olympic and Paralympic Games, completing significant capital projects financed through the Federal Infrastructure Stimulus programs, and progressing toward many of our corporate and council goals.

One of the most significant challenges has been oversight of the South East False Creek development following the completion of construction. In order to minimize impact to taxpayers and ensure the best return to the city on the loan to the developer, a number of steps were taken to mitigate the risk on the project, including:

- Project oversight to ensure developer remained on budget and timeline
- Purchasing the Fortress loan and obtaining lower cost financing
- Appointment of a receiver to take control of the project and move ahead with marketing the assets
- Negotiation and settlement of loan guarantees with Millennium and their guarantors.

The City will continue its diligence in managing the assets associated with the development to maximize the recovery to the City.

**DISCUSSION****2010 Consolidated Financial Position**

(\$000s)	2010	2009	Change
Financial assets	\$ 1,349.9	\$ 1,394.7	\$ (44.8)
Liabilities	1,698.6	1,716.9	(18.3)
Net debt	(348.7)	(322.2)	(26.5)
Non-financial assets	6,150.4	6,004.5	145.9
Accumulated Surplus	\$ 5,801.7	\$ 5,682.3	\$ 119.4

The City's financial position improved by \$119.4 million in 2010 bringing the City's Accumulated Surplus to a total of \$5.80 billion (2009 - \$5.68 billion). The major increase of \$145.9 million in the City's non-financial assets reflects the City's ongoing investment in civic assets to support programs and services which contribute to making Vancouver one of the most livable cities in the world.

Financial Assets decreased by \$44.8 million while Liabilities decreased by \$18.3 million. Net Debt, calculated as Financial Assets less Liabilities is an indicator of the amount of future revenues required to pay for past transactions and events. The City's Net Debt increased by \$26.5 million to a total of \$348.7 million.

**Consolidated Results of Operations**

The City's annual consolidated surplus of \$119.4 million represents the excess of consolidated revenues over consolidated expenses.

The City's consolidated revenues were \$1.356 billion (2009 - \$1.284 billion) and include property taxes, utilities and user charges, government transfers and capital contributions. The increase of \$72 million in revenues reflects the economic recovery continuing from 2009 as evidenced by increased development and permit fees and as well as increased capital contributions from the Infrastructure Stimulus fund through the Federal and Provincial governments.

The City's consolidated expenses totaled \$1.236 billion (2009 - \$1.130 billion), an increase of \$106 million. This reflects general wage increases of approximately \$30 million, \$25 million landfill closure costs, operating and amortization expenses of civic facilities as well as one-time Olympic events and programs.

***Revenue Fund***

Included in the City's consolidated results of operations, is the City's Revenue Fund which accounts for the general operations for the City. Spending authority and control for the fund are provided by Council through the annual Operating Budget.

Revenues for the year totaled \$1.077 billion and expenditures totaled \$956.6 million resulting in a Net revenue amount of \$120.2 million. After debt charges and transfers to reserves and other funds, the net change in the Revenue fund balance was \$2.0 million. The total fund balance of the Revenue Fund currently stands at \$15.2 million, compared to \$13.1 million in 2009. The following highlights the major changes in revenues and expenditures.

Total operating revenues increased by \$42.0 million from 2009 mainly due to:

- \$16.4 million increase in net taxation revenue mainly due to the 2.26% tax increase approved by City Council
- \$19.4 million increase in utility fees (water, sewer and solid waste) due to a combination of Council approved fee increases to reflect rising regional costs as well as changes in user consumption levels
- \$29.5 million increase in other fees, rates and cost recoveries including \$13.1 million in Olympic cost recoveries, \$5.9 million from expanded on-street parking program and increased rates, \$6.0 million in development and permit fees due to increased construction activity and \$3.5 million from Parks and Recreation due to a combination of fee increases and additional new facilities.
- The above increases were offset by lower investment income of \$3.8 million and \$18.8 million decrease in provincial revenue sharing grants due to a change in the timing of the receipt of the 2010 grant in 2009.

Total operating expenditures amounted to \$956.6 million, an increase of \$82.9 million (9.5%) mainly due to:

- \$30.3 million of contractual wage and fringe benefit increases in 2010
- An increase in the landfill closure and post closure costs of \$24.7 million reflecting a significant change in the assumptions used to calculate estimated life of the City's landfill in Delta, reducing estimated life by 20 years (closure date of 2036 instead of 2056). The earlier closure results in a reduced capacity and costs to be recognized on a nearer term basis.
- \$18.1 million of 2010 Olympic and Paralympic Games related expenditures
- \$5.5 million increase in Parks and Recreation due mainly to increased attendance and the operating costs of 2 new facilities: the Aquatic Centre at Hillcrest Park and Creekside Community Recreational Centre.
- \$4.7 million water and sewer levy charges from Metro Vancouver

### *Tangible Capital Assets*

The City's tangible capital assets are held in two funds: \$5.03 billion of civic use assets in the Capital Fund and \$1.08 billion of non-market housing, residential and commercial rental properties and parking garages in the Property Endowment Fund. Fixed Assets are carried on the Financial Statements at cost.

During the year the City added approximately \$325 million of new assets and disposed of \$25 million of assets. After accounting for accumulated amortization, the City's net book value of assets increased by \$144 million.

The major additions included the projects:

	\$ Million
• Streets, traffic and safety	51.0
• Sewer main construction	47.4
• Water works distribution system	20.9
• Solid Waste utility	6.2
• Vehicle and equipment purchases	5.4

- |                                                                                                                                                                                                      |      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| • Parks, community centres, playing fields, ice rinks<br>Hillcrest Curling Centre Conversion, Trout Lake Community Centre,<br>Van Dusen Visitor Centre, Seawall/Brockton Lighthouse                  | 83.0 |
| • Construction and capital maintenance of City buildings and systems<br>Civic Theatres upgrades, #1 Kingsway, libraries, Tactical Training Centre,<br>Dog Squad facilities, Woodward's and firehalls | 58.9 |
| • Technology infrastructure                                                                                                                                                                          | 12.7 |

### *Long Term Debt*

Long term debt outstanding at year end was \$594.9 million (2009 - \$497.8 million). During the year, \$1.0 million sinking fund debentures and \$34.8 million serial debentures matured. In March 2010, the City issued a 10 year \$125.0 million sinking fund debenture at rate of 4.80%. The City has sinking fund debt reserves of \$ 117.9 million for the future repayments. There is \$16.0 million remaining authority from the 2006-2008 Capital Plan for an overall outstanding borrowing authority of \$199.6 million.

### *Reserves*

Under legislative or Council authority, the City has established a number of specific purpose reserves in addition to the sinking fund debt repayment reserve. At the end of 2010, these reserves amounted to \$471.4 million, up \$34.7 million over 2009.

### *Southeast False Creek Development*

As at the end of last year, December 31, 2009, the City had advanced \$696 million (including interest) to South East False Creek Properties Ltd ("SEFC"), formerly Millennium Southeast False Creek Properties Ltd. The agreement for the Purchase Price of the land of \$200 million was not recorded as a sale, as it was not due until December 2012 and the City retains ownership of the land until title is transferred on the sale of condominiums.

The City borrowed funds through the issue of a \$150 million debenture and establishment of a commercial paper program, and was able to capitalize on the significantly lower cost of borrowing, creating an interest spread between the rate of borrowing and the rate of interest charged on the construction loan.

In late 2009, the Southeast False Creek Development (Area 2A) was completed by SEFC and was handed over to the Vancouver Organizing Committee for a 6 month exclusive use period, ended April 2010, to use as the Olympic Athlete's Village during the Winter Olympic and Paralympic Games.

Following the Olympics, SEFC completed the retrofit of the residential units, closed condominium pre-sales, launched a new marketing program, and commenced occupancy of the rental units. Through 2010, 264 of the 737 market units were sold and proceeds of \$202 million were paid to the City bringing the loan balance to \$554 million at December 31, 2010. The City ceased to record interest following the default of the loan on August 31, 2010.

### Land sale transactions

The historical cost of the land was \$27 million and a deposit of \$29 million was received from the developer in 2006. The title to the land transfers when the units are sold.

In 2010, the City recorded the sale of the land associated with the 264 sold units leaving a balance of land on the City's books of \$21 million at yearend. The City recognized proceeds of \$47 million (prorated portion of the \$200 million purchase price) and applied the \$29 million deposit leaving a land receivable of \$18 million.

In summary, at December 31, 2010 prior to any adjustments, the City's assets related to the SEFC project totaled \$593 million: construction loan of \$554 million, land receivable of \$18 million and value of remaining land \$21 million.

### Adjustment to Net Realizable Value

In accordance with accounting principles, the 2010 financial statements reflect an adjustment to the City's assets related to the SEFC project of \$48 million, from \$593 million to the estimated net realizable value of \$545 million. The estimated net realizable value is based on current markets (real estate and financial) in projecting sales of the remaining residential, commercial and rental units, estimating selling and ongoing carrying costs, and estimating the value of the settlement of the guarantees.

<b>Calculation of NRV</b>	(\$000s)
Estimated proceeds from future sales of remaining condos, Commercial and rental properties less carrying costs	\$ 512
Estimated value of settlement of guarantees	66
	<u>578</u>
Discount for net present value @2.5%	(33)
Estimated Net realizable value	<u><u>\$ 545</u></u>

The construction loan and the land receivable are reflected on the financial statements as the Southeast False Creek development receivable of \$524 million. The remaining land value of \$21 million is included in the City's tangible capital assets.

The estimate of the net realizable value is based on the information available to date and management's best estimates and assumptions regarding the future timing of sale of the remaining properties. It does not anticipate receiving the balance of the Purchase price of the land but will recover the advances made to the developer, the historical cost of the land, the City's cost of borrowing to finance the loan and future financing costs. As the project is expected to continue for a number of years, estimates of the net realizable value may change.

*CONCLUSION*

The City's consolidated operations for the year 2010 resulted in a surplus of \$119.4 million. Net investment in tangible capital assets such as engineering infrastructure, parks and recreation facilities, libraries and cultural facilities were improved and expanded to provide better services to a growing population.

The Public Sector Accounting Board has approved new standards for the accounting of Government Transfers and Tax Revenue for implementation in 2012. In 2011, the City will be preparing for those changes and continuing to implement projects that facilitate the ongoing improvement of financial management and reporting.

\* \* \* \* \*