

NO: R164

COUNCIL DATE: November 9, 2020

REGULAR COUNCIL

TO: Mayor & Council **DATE: November 2, 2020**

FROM: General Manager, Finance **FILE: 2480-01**
General Manager, Engineering
Director, Strategic Initiatives & Corporate
Reporting

SUBJECT: Update on the Transfer of the Surrey City Development Corporation

RECOMMENDATION

The General Manager, Finance, the General Manager, Engineering and the Director, Strategic Initiatives & Corporate Reporting recommends that Council:

1. Receive this report for information;
2. Authorize staff to incorporate the identified staffing requirements as described in this report in the proposed 2021 Five Year (2021 – 2025) Financial Plan;
3. Endorse that the Surrey City Development Corporation (“SCDC”) and its subsidiaries be preserved as legal entities until they have satisfied all of their liabilities and commitments, as described within this report;
4. Appoint Jeff Arason as a Director on the Board of SCDC, effective November 10, 2020; and
5. Appoint Vipin Sachdeva as a Director on the Board of SCDC, effective November 10, 2020.

INTENT

The purpose of this report is to advise Council of the actions taken to date and the actions still to be taken to transfer all of the activities of the SCDC in house, the staffing requirements for the City to successfully deliver these activities and to seek Council’s approval acting in its capacity as SCDC’s sole shareholder to appoint two City employees as new Directors on the Board of SCDC.

BACKGROUND

Council voted to dissolve SCDC, a for-profit development company owned by the City and transfer its assets and operations over to the City. Following this direction, staff have formed a transition team comprising of the General Manager, Finance, City Solicitor and Director, Strategic Initiatives & Corporate Reporting (the “Transition Team”) to work with SCDC’s Board and staff in the dissolution and transition of SCDC’s projects, obligations and liabilities to the City.

To support the Transition Team, the City has retained BDO Canada LLP (“BDO”) to provide professional expertise, guidance and review of the City’s plans and actions in order to ensure that SCDC projects are successfully transitioned over to the City. BDO has experience in working with the City and SCDC in the capacity of providing annual financial audit services for the last three years and also have specialized knowledge and experience in assisting in the dissolving of corporate entities.

DISCUSSION

There are a number of considerations with transferring the projects and responsibilities of SCDC to the City. They are as follows:

- Project Transition;
- Staffing Needs;
- Partnerships and Continuing Obligations;
- Additional Financial Considerations; and
- Administrative Considerations.

Project Transition

When Council provided direction to staff to dissolve SCDC, SCDC was managing nine development projects, two income properties and the obligations related to two completed development projects. These projects are as follows:

Project	Asset Type	Timeframe
Tynehead	Development Project	Long term (5+ years)
Bakerview	Development Project	Short term
Brooksdale	Development Project	Long term (5+ years)
CH North Phase 5 - Lot 10	Development Project	Short term
Cedar Hills	Income Property	Active
Campbell Heights East Phase 1 - Remainder parcel	Development Project	Short term
Campbell Heights East Phase 1 - Walmart	Development Project transitioning to an Income Property	Active
Campbell Heights North - Weir Canada Development	Income Property	Active
Kwantlen Park	Development Project	Active
Gateway	Development Project	Active
Centre Block	Development Project	Active
3 Civic Plaza	Completed Development Project (ongoing obligations)	Long term (5+ years)
The Grove	Completed Development Project (ongoing obligations)	Long term (5+ years)

A brief summary of each of SCDC’s real estate assets (development projects, income properties, holding properties and completed development projects with ongoing obligations) is provided in Appendix “1”.

As the majority of these real estate assets involve the City assuming ownership of land and/or contractual obligations, the transition of these assets to the City needs to follow a three-step process. The first step requires the SCDC Board to approve the transition, the second step requires SCDC's sole shareholder (City Council) to approve the Board's action and the third step requires City Council to approve the acquisition of these assets by the City.

The Transition Team is currently working with the SCDC staff to obtain SCDC Board approval for the transition of these projects at the SCDC Board meeting on November 25, 2020. Following approval by the SCDC Board, staff will bring their transfer to Council for their consideration at a future Council meeting.

The transfer of some of these projects is more complicated than others due to the involvement of subsidiaries, partnerships and / or warranty provisions. These considerations are described further in this report.

Staffing Needs

When Council provided direction to dissolve SCDC, the company had 12 positions, seven of which were filled. These positions were as follows:

Position	Status
President and Chief Executive Officer	Filled
Chief Financial Officer	Vacant
Vice President Development	Vacant
Office Manager and Executive Assistant	Filled
Senior Development Manager	Filled
Senior Development Manager	Vacant
Development Manager	Filled
Development Coordinator / Analyst	Vacant
Controller	Filled
Senior Accountant	Filled
Staff Accountant	Filled
Receptionist/Clerical support	Vacant

Earlier this year SCDC was preparing to fill several of the vacant positions in 2020 and 2021 to support their projects as they advanced but these recruiting efforts were stopped.

The Transition Team has worked with SCDC staff to secure termination and completion agreements with each employee so that effective January 1, 2021, SCDC has no employees. Based on this review and further to Council's direction, the Transition Team envisions that the leadership of SCDC projects can be effectively delivered through a cross-departmental team comprised of the General Manager, Finance, General Manager, Investment & Intergovernmental Relations, the General Manager, Engineering and the Director, Strategic Initiatives & Corporate Reporting.

The Transition Team has identified that many of SCDC existing projects can be successfully assumed by existing staff at the City as they are similar to the projects that these staff are already delivering for the City or they are projects that do not have development opportunities in the short term. These projects are as follows:

Project	Asset Type	Assuming Department - Division
Tynehead	Development Project	Engineering – Realty Services
Bakerview	Development Project	Engineering – Realty Services
Brooksdale	Development Project	Engineering – Realty Services
Cedar Hills	Income Property	Engineering – Realty Services
Campbell Heights East Phase 1 - Walmart	Development Project transitioning to an Income Property	Engineering – Realty Services
Campbell Heights North - Weir Canada Development	Income Property	Engineering – Realty Services

The Transition Team has also identified that there is a need to add new staffing resources to the City to successfully deliver the remaining projects and their related financial management as existing City staff do not have the capacity to assume these projects. These positions are as follows:

Proposed Position	SCDC Position Equivalent	Assuming Department - Division
Development Manager	Senior Development Manager	Engineering – Realty Services
Development Project Manager	Development Manager	Engineering – Realty Services
Accountant	Senior Accountant	Finance – Financial Services

A summary of the key responsibilities for each of these positions is attached as Appendix “II”.

It is recommended that these positions be incorporated in the 2021 proposed Five Year (2021 – 2025) Financial Plan. To support the transition, staff will begin recruiting for these positions by the end of November 2020 but will not fill these positions prior to January 1, 2021 pending budget approval.

The Transition Team has concluded that the City has sufficient administrative capacity at this time to meet the current needs of all of the projects and the newly proposed positions.

While the three proposed positions are sufficient to successfully transition and receive SCDC’s existing portfolio of real estate assets into the City, additional project management and administrative staffing or outside resources will be required in the future as the management of these active projects evolve from the concept design and application phase to the detailed design and construction phase.

The Transition Team has also reviewed the staff plan with BDO, and they have subsequently provided their support for this plan.

In addition to the proposed positions, staff are working to secure SCDC’s President and Chief Executive Officer, on a short-term consulting agreement in 2021 to support staff with the transition and supporting ongoing projects, in particular Centre Block.

Partnerships and Continuing Obligations

While the transfer of a majority of SCDC projects to the City and the addition of staffing to deliver these projects is a relatively straight forward process, there are a few SCDC projects whose

transfer to the City needs special consideration due to existing partnerships and / or continuing obligations. These projects include the following:

3 Civic Plaza: SCDC is responsible for its proportionate share (approximately 24%) of a warranty and indemnity provided in respect of purchasers of office units in the Surrey Centre Tower (3 Civic Plaza) development. The warranty is for up to 10 years (until 2028), depending on the type of defect.

Weir Canada Development: The Weir Canada development is an industrial build-suit-project located in Phase 3 of the SCDC's Campbell Heights North development. The property has been developed in partnership with Beedie Development Group ("Beedie"). SCDC's interest in the development is via a wholly owned subsidiary, which itself owns shares in the partnership entity. For the City to assume the partnership interest directly, negotiations will be necessary with Beedie in order for the City to obtain the best terms under a new arrangement. The City will also have to obtain the consent of the Inspector of Municipalities, which is required whenever a municipality intends to obtain shares in a corporation such as shares in the partnership entity.

The Grove: SCDC's involvement in this project is a partnership with Townline Homes Inc. The project's General Partner, The Grove (GP) Inc., is responsible for a warranty (2/5/10, for new homes constructed on the subject property) until on or around 2026. Under the terms of the agreement with the insurance company, the warranty cannot be assigned or transferred to anyone else. Therefore, in order for the City to take over SCDC's interest in the partnership, the consent of the Inspector of Municipalities will be required (as described in the previous paragraph).

Currently, staff are evaluating SCDC's contractual obligations for all its projects and the potential liabilities for the City by assuming these projects directly. As required by legislation, SCDC and its subsidiaries will be preserved as legal entities until they no longer have any assets and has satisfied or made adequate provision for all of its liabilities.

SCDC Board

SCDC is governed by a Board of Directors (the "Board"). SCDC's Board is currently made up of three directors. As part SCDC's Articles of Incorporation, SCDC's Board shall not be less than three members or greater than seven members.

As SCDC and its subsidiaries will be preserved as legal entities until they no longer have any assets and has satisfied or made adequate provision for all of its liabilities, it is still necessary to maintain the Board.

To assist in the oversight of the transfer to the City now, it is recommended that Jeff Arason (currently Director, Strategic Initiatives & Corporate Reporting and member of the Transition Team) and Vipin Sachdeva (currently Senior Manager, Finance in the Finance Department) be appointed as Directors on the Board of SCDC effective November 10, 2020. Mr. Arason's and Mr. Sachdeva's presence will provide a diverse range of experience at the Board due to their experience in their past roles and current roles with the City.

It is further recommended that the external Board members be removed in December following completion of the transfer process, such that as of January 1, 2021 the SCDC Board will be comprised of only City employees: the City Manager, the Director, Strategic Initiatives & Corporate Reporting and the Senior Manager, Finance.

Additional Financial Considerations

Funding for the additional staffing resources required in the Engineering and Finance departments will be included in the 2021 proposed Five Year (2021 – 2025) General Operating Financial Plan. Funding for any capital expenditures related to SCDC development projects and income properties transitioned to the City will be accommodated through the 2021 proposed Five Year (2021 – 2025) Capital Financial Plan.

Administrative Considerations

SCDC is currently leasing 3,922 square feet of office space in Surrey Central Tower. Their lease is until September 30, 2023. SCDC staff and City staff are currently seeking a party to assume the lease of this office space.

Staff are working to remove all of SCDC's computer equipment in January 2021 such that it will be available for a new tenant as of February 1, 2021. Staff will remove all of the office furniture if required by the new tenant. Any surplus material and equipment will be disposed of by public auction in accordance with the City's Purchase and Expenditure Authorization Bylaw, 2007, No. 16535.

Legal Services Review

The City Solicitor is part of the City's Transition Team. The Legal Services Division is providing continuous support to the Transition Team. This report has been reviewed by the Legal Services Division and they have no concerns.

Company / Project Updates

Staff will be providing Council regular updates on the projects being transferred to the City through future Corporate Reports. In addition, Council serving as SCDC's sole shareholder will continue to receive updates on the status of its projects through the company's Business Plan, Annual Information Meeting and Annual General Meeting.

SUSTAINABILITY CONSIDERATIONS

The transfer of the majority of SCDC's real estate assets to the City and the City's continued advancement of their development projects and other future opportunities supports the objectives of the City's Sustainability Charter 2.0. In particular, this work relates to Sustainability Charter 2.0 themes of Built Environment and Neighbourhoods, and Economic Prosperity and Livelihoods. Specifically, this work supports the following Desired Outcomes ("DO") and Strategic Direction ("SD"):

- Built Environments and Neighbourhoods DO 3: The City Centre is a dynamic, attractive and complete metropolitan area and important international destination, and is one of North America's most livable and desirable downtowns;
- Neighbourhoods and Urban Design DO6: Land is used efficiently and sensitively and development minimizes the impacts on the natural environment, views capes, agricultural land and urban wildlife;

- Neighbourhoods and Urban Design SD1: Promote mixed use development in and around Town Centres and along transit corridors; and
- Economic Prosperity and Livelihoods DO 1: Diverse and meaningful employment and business opportunities are available close to where people live, and provide incomes that can support a high quality of life; and
- Economy DO8: The City's strong revenue base includes a balance of commercial and residential property taxes.

CONCLUSION

Staff are working to have Council authorize the transfer of the majority of SCDC's real estate assets to the City by the end of the year. To support this transfer and continue to deliver these projects, additional staffing resources are necessary. As required by legislation, SCDC will be preserved as a legal entity until it no longer has any assets and has satisfied or made adequate provision for all of its liabilities. While some assets will remain with SCDC and their subsidiaries, City staff will manage all items related to these projects and will report to SCDC's Board, which is recommended to be made up of only City employees beginning January 1, 2021.

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General Manager, Finance

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Appendix "I" – SCDC Project Overview
Appendix "II" – Recommend Positions Key Responsibilities

**Appendix “I”
SCDC Project Overview**

Project	Asset Type	Timeframe
Tynehead	Development Project	Long term (5+ years)

Project Location: 10279 164 Street and 16329 102 Avenue

The Tynehead project is a holding property whose opportunities have yet to be identified.

Project	Asset Type	Timeframe
Bakerview	Development Project	Short term

Project Location: 15238 19 Avenue

The Bakerview project is intended to be sold at market value for consolidation with the surrounding lands to allow in the future for multi-family residential development.

Project	Asset Type	Timeframe
Brooksdale	Development Project	Long term (5+ years)

Project Location: 1760 192 Street and 19230 20 Avenue

The Brooksdale project seeks to rezone the property in the future for development and then partner with or lease to the private sector to deliver the development while also ensuring protection of those parts of the property that are ecologically valuable.

Project	Asset Type	Timeframe
CH North Phase 5 - Lot 10	Development Project	Short term

Project Location: 19165 39 Avenue

The CH North Phase 5 - Lot 10 project is to be retained to advance the City’s strategic economic interests and be developed as future rental income property for the City.

Project	Asset Type	Timeframe
Cedar Hills	Income Property	Active

Project Location: 12820/12830/12842 96 Avenue

The Cedar Hills project is a local shopping mall that is fully leased out and is serving as an income property.

Project	Asset Type	Timeframe
Campbell Heights East Phase 1 - Remainder	Development Project	Short term

Project Location: 2750 194A Avenue

The Campbell Heights East Phase 1 – Remainder parcel is to be retained to advance the City’s strategic economic interests and be developed as future rental income property for the City.

Project	Asset Type	Timeframe
Campbell Heights East Phase 1 - Walmart	Development Project transitioning to an Income Property	Active

Project Location: 19525 24 Avenue

The Campbell Heights East Phase 1 – Walmart project is a recently established income property based on a 30-year land lease with options for six 5-year extensions.

Project	Asset Type	Timeframe
Campbell Heights North - Weir Canada Development	Income Property	Active

Project Location: 18933 34A Avenue

The Campbell Heights North - Weir Canada Development project is a revenue property that was delivered through a 50/50 partnership arrangement with Beedie Development as a build-to-suit for Weir Canada Development.

Project	Asset Type	Timeframe
Kwantlen Park	Development Project	Active

Project Location: 13229 and 13219 104 Avenue

The Kwantlen Park project is an affordable housing project to support the relocation of the Sunshine Housing Co-op (see the Gateway project) and to improve access to affordable housing in the Surrey City Centre. The development is expected to have approximately 70 units, of which 39 will be earmarked for the Sunshine Housing Co-op. The property will be leased to the Community Land Trust for 60 years at no cost in order to facilitate the creation of this new affordable housing stock.

Project	Asset Type	Timeframe
Gateway	Development Project	Active

Project Location: 10735 University Drive and 13326 108 Avenue

The Gateway project is a major multifamily residential project is intended to establish a high-quality residential community adjacent to the Gateway Skytrain station and provide workforce housing for the emerging Central Business district within easy walking distance to the south.

The site is composed of City property currently encumbered by the Sunshine Housing Co-op (a series of 39 low density townhouses located on a land lease set to expire in Sept. 2023), along with two adjacent properties that have been assembled by SCDC to facilitate the development of this site. The Kwantlen site has been acquired to build replacement housing for the Co-op on.

Project	Asset Type	Timeframe
Centre Block	Development Project	Active

Project Location: 10225 and 10275 City Parkway

The Centre Block project is intended to be the catalyst that will define and build momentum for the Surrey City Centre as the region’s second downtown. It builds on the success of SCDC’s 3 Civic Plaza project.

The project is planned to be delivered in up to four phases totalling approximately 2 million sq. ft. of university and office space. The first two phases, accommodating approximately 1.4million sq. ft., will be located on City property currently encumbered by the recently decommissioned North Surrey Recreation Centre.

Appendix "II"

Recommended Positions Key Responsibilities

Development Manager

This position is similar to SCDC's Senior Development Manager position. The key responsibilities for this position include:

- Managing projects through the development lifecycle from acquisition through application, public consultation, design, development feasibility, approvals, construction and divestment
- Working with the Director, Strategic Initiatives & Corporate Reporting, Investment & Intergovernmental Relations staff and Planning & Development staff and external consultants to advance existing development opportunities and to identify and pursue new development opportunities
- Preparing and/or responding to Request for Proposals, Request of Expressions of Interest, Partnering Agreements and Memorandum's of Understanding
- Identifying and establishing external partners for existing and new development opportunities
- Preparing project reports on existing projects and on new development opportunities including project proformas
- Working with Realty Services staff and/or external development partners on the acquisition of new development parcels and the divesting of completed projects
- Appearing before and advising, and potentially becoming a member of, various City and external Committees, Boards and groups
- Providing oversight of Development Team staff (one FTE at this time)
- Supporting Finance Department and Investment and Intergovernmental Relations Department staff

Development Project Manager

This position is similar to SCDC's Development Manager position. The key responsibilities for this position include:

- Supporting the delivery of projects through the development lifecycle from acquisition through application, public consultation, design, development feasibility, approvals, construction and divestment
- Overseeing project management, proformas, budgets and contract management of development projects
- Appearing before and advising various City and external Committees, Boards and groups
- Liaising with other City Departments, local and regional authorities, utility companies, consultants and contractors

Accountant

This position, in conjunction with the respective Finance Manager will provide financial expertise similar to SCDC's Senior Financial Manager. The key responsibilities for this position include:

- Performs budget functions for Annual and Long-Range Operating and Capital including maintains daily, biweekly, quarterly and annual controls, prepares analyses, reconciliations and reports, makes prepares, compiles, presents and publishes operating and capital budgets
- Controls, monitors, analyzes and reports on budgeted versus actual revenues and expenditures
- Provides professional accounting services, advises, audits, studies, reconciliations and reports
- Assists the Development Manager and Project Manager in preparing and reviewing proformas
- Prepares year end and other working papers, and assists with preparation of financial statements
- Review partnership financial reports and incorporate into the City's consolidated financial statements