

Property Realized Reserve Update

ISSUE

This report is intended to provide an update on the Property Realized Reserve (PRR) due to the reliance on this reserve for the Downtown Event and Entertainment District land acquisitions.

BACKGROUND

The PRR is governed by [Bylaw No. 6774, The Capital Reserve Bylaw, 1993](#). As outlined in section 48(1) of the Bylaw, the purpose of this reserve is to finance the purchase of real property for resale by the City of Saskatoon (City). There are several eligible expenditures under section 48(3) of the bylaw, however, the primary use of the reserve includes:

1. The purchase of land for resale;
2. Expenditures made to prepare land for resale; and
3. Loans for purchases of property required by the City for future capital expansions.

Historically, PRR has been critical for the City to carry on a successful Land Development operation as well as acquire land for larger City Building initiatives such as the North Commuter Parkway project, Circle Drive South and the Civic Operations Centre to name a few recent examples.

The overall sustainability of this reserve relies on the continual replenishment of the reserve through a combination of land sale revenue and repayment of monies borrowed from PRR to temporarily fund the purchase of land for other civic projects. Whether it is Saskatoon Land or a City Project, all business lines within the City are required by Bylaw and City Council policy to compensate the Reserve at the greater of historical cost or fair market value when land purchased through the reserve is used. Differences between the PRR historical cost and fair market value remain within the reserve for future acquisitions.

CURRENT STATUS

Prior to any of the recent land acquisitions for the Downtown Event and Entertainment District, PRR had an estimated balance of approximately \$81.0 million made up of the following:

- \$27.3 million of the \$81.0 million is currently held in receivables due from Saskatoon Land's ongoing operations. This receivable relates to expenditures made to prepare land for resale which is an eligible expenditure under the Capital Reserve Bylaw, section 48(3)(b). Individual projects utilizing PRR as a source of funding are presented and approved as part of the Multi-Year Business Plan and Budget process. This receivable is paid back over time as land is developed and eventually sold.

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- The remaining \$53.7 million of the \$81.0 million is currently available in the PRR as cash.

In summary, although the PRR has a balance of \$81.0 million, \$27.3 million is currently held up in receivables and not available for use. Therefore \$53.7 million is currently available for land acquisitions or other eligible uses under the Capital Reserve Bylaw.

DISCUSSION/ANALYSIS

Acquisitions of land for the Downtown Event and Entertainment District are a critical step to establishing the footprint of potential new facilities. The Administration has previously brought forward a report for acquisition of the Midtown Shopping Centre North Parking Lot as the core site for a new district. In addition, included in this City Council agenda, an additional three sites are being recommended for acquisition to provide additional land for future public realm, parking structures, and overall design flexibility for the potential project.

The previously approved Midtown North Lot as well as the three sites being proposed recommend using PRR as an interim funding source until more work is completed on the Downtown Event and Entertainment District and eventual funding plan is approved. Based on current information it is estimated that there will be approximately \$11.4 million in cash available in the PRR following the proposed Downtown Event and Entertainment District land purchases, should all parcels recommended for purchase be approved by Council, as outlined below:

Item	Amount (in millions)
Opening Property Realized Reserve Balance	\$81.01
Less Saskatoon Land Receivable	(\$27.28)
Midtown North Lot	(\$25.00)
50 23 rd Street	(\$ 6.95)
39 23 rd Street	(\$ 5.20)
149 Pacific Avenue	(\$ 5.15)
Estimated Closing Property Realized Reserve Balance	\$11.43

As previously outlined in the report, the proposed land acquisitions above would be funded by the PRR on an interim basis. Once the funding sources for the Downtown Event and Entertainment District project are implemented, the PRR will be repaid as per bylaw requirements.

FINANCIAL IMPLICATIONS

As indicated above, the projected PRR cash balance will be \$11.4 million following the proposed acquisitions that are recommended by the Administration. However, there are several items to consider that will increase the PRR balance over the next several years:

1. As indicated in previous reports, out of the next \$20.1 million in Neighbour Land Development Dividends from Saskatoon Land, \$6.2 million is planned to go back to the PRR to fund future acquisitions;

2. Industrial Land sales have been strong in recent years. These developments are fully financed through the PRR as opposed to the pro-forma approach with residential development and therefore receive any profit generated off these developments. Based on these sales, it is anticipated positive cash flow will increase the reserve in the next several years;
3. Saskatoon Land operating surpluses are deposited to PRR after topping up the Land Operations Reserve, with a planned contribution of \$2.7 million in 2022 based on current forecasts;
4. Administration will be performing a detailed review of outstanding capital projects utilizing the PRR as a funding source as part of the 2022-year end with the goal of closing off projects and returning unused or surplus funds back to the reserve. In addition, it is important to note all funds used for capital projects are repaid back in full to PRR upon project completion from the Neighbourhood Land Development Fund; and
5. The Downtown Event and Entertainment District sites are anticipated to have a positive cash flow during operations after considering parking and lease revenue less operations and maintenance costs. Any operating surplus achieved would be returned to the PRR annually to pay back the reserve for the initial land acquisition costs.

Overall, although the four proposed acquisitions significantly reduce the amount of cash available in the PRR in the immediate term, there are short-term cash in-flows planned over the next several years which will improve the financial health of the PRR.

OTHER IMPLICATIONS

The PRR is used as a critical tool by the City to acquire land for future use. Often times the City purchases land through the PRR that may not be developed for a number of decades. While there are no immediate impacts to carrying a lower balance in this reserve, the City does have a number of land acquisitions identified as a priority that are strategic in nature. The Administration will continue to monitor cash flow in the PRR and will continue to pursue all lands deemed of strategic importance to the City.

At this time, the Administration does not see a conflict between the PRR balance and known upcoming acquisitions, although the total balance in the short term is less than optimal. Should a large strategic purchase present itself before the PRR cash balance is available, the Administration will develop funding strategy options and report them to Committee and Council.

In the event the Downtown Event and Entertainment District does not ultimately proceed, a decision report would be presented regarding options for the acquired properties which would include the option to dispose of the properties with the proceeds returning to the PRR as per Bylaw.

Overall, the balance of the PRR is significantly less than it was prior to the recent Downtown Event and Entertainment District land acquisitions, however, this project has

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been identified as a key priority for the City and creates a manageable amount of risk for the City over the next several years based on the planned in-flows to the reserve.

NEXT STEPS

The Administration will report back periodically on the health of the PRR, specifically if future acquisitions are recommended.

REPORT APPROVAL

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