

## MINUTES

**COMMITTEE NAME:** Cabinet Committee on Crown Corporations      **CABINET DATE:** May 5, 1999

**MEETING DATE:** April 22, 1999

**Members Attending:** Honourable Andrew Petter, Chair (AETT)  
Honourable Jenny Kwan (MA)  
Honourable Cathy McGregor (ELP)  
Honourable Dan Miller (EM)  
Honourable Gordon Wilson (MAA)

**Members Absent:** Honourable Michael Farnworth (EI)  
Honourable Joy K. MacPhail (FCR)  
Honourable Paul Ramsey (EDU)  
Honourable Moe Sihota (PS)

**Officials Attending:** Don Avison (CCS)  
John Fryer (CCS)  
Gerry Armstrong (AETT)  
Brenda Edwards (CCS)  
Nancy Carter (CCS)  
Vaughan Krueger (CCS)  
Joy Illington (CO)

**Guests Attending:** Honourable Dale Lovick (LAB)  
Bob Williams (ICBC)  
Thom Thompson (ICBC)  
Donny Wing (ICBC)  
Surrey City Centre Project Team:  
Bing Thom  
Michael Heaney  
Ray Drost  
Howie Charters  
Don Redden

### **1. ICBC Investment Strategy**

The Committee reviewed a presentation for information dated April 22, 1999 and a submission "ICBC's Investment Portfolio – Investing in British Columbia", dated April 20, 1999.

The Committee was informed that since 1994, ICBC has moved toward longer term investments and has balanced its portfolio by changing its asset mix to 90% fixed income assets and 10% equities (with a goal of 80/20). This has produced an annual average rate of return of 7.3%.

As part of the move to a more diversified portfolio, ICBC is considering investments in B.C. in real estate, social housing, and small businesses and community enterprise.

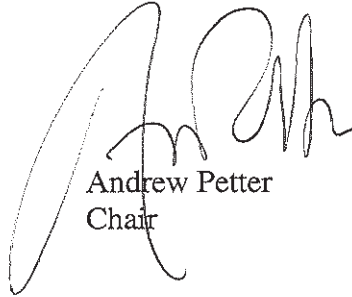
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ICBC emphasized the Board's legal obligation to consider investments in terms of rate of return, level of risk and their fiduciary responsibilities.

The Committee received a presentation on the investment components, and due diligence on the financial viability and risks of the Surrey Town Centre development.

Not Responsive

Not Responsive



Andrew Petter  
Chair

# Surrey City Centre

## Project Status Report

**Cabinet Committee on Crown Corporations**

**April 22, 1999**

***Strictly Private & Confidential***



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# Agenda

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<i>Introduction</i>	Bob Williams, Chairman
<i>Project Concept</i>	Bing Thom and Michael Heeney, Bing Thom Architects
<i>Valuation and Development Profitability</i>	Ray Drost, Ernst & Young Corporate Finance Inc.
<i>Rental Market Issues</i>	Howie Charters, Colliers International
<i>Project Delivery and Timetable</i>	Don Redden, Redden & Associates
<i>Risks and Benefits</i>	Bob Williams, Chairman
<i>Closing Remarks and Questions</i>	Bob Williams, Chairman



# Introduction

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- Earlier this year, ICBC determined that it was in the best interest of the Corporation to diversify its investment portfolio to include real estate. Preferred investments are those that contribute to the betterment of British Columbia while meeting our investment objectives. Infrastructure projects meet these objectives.
- In the summer of 1998, ICBC became aware of a unique opportunity to become the lead developer and owner in a major infrastructure project that integrates the new university for British Columbia ("TechBC"), with office and retail space to create an integrated, economically viable City Centre in Surrey (the "Project").
- Since June, 1998, senior management of ICBC and its architectural, technical, legal and financial advisors have made significant progress to move the project from concept to reality. Work to date includes: preparing and analyzing three alternative designs, construction costing, performing due diligence on the potential acquisition of Surrey Place Mall and reaching an agreement in principle of the major business terms for the acquisition of the Mall, negotiating with TechBC on the terms of a lease for the University, negotiating with the City of Surrey for certain development lands for the Project and the identification and commencement of negotiations with prospective tenants for the Project.



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## Introduction (cont'd)

- The preferred design concept was an integrated university/commercial project, combining approximately 1 million square feet of new space with Surrey Place Mall. ICBC is not interested in Surrey Place Mall as a stand-alone investment. The original agreement to acquire the Mall was effectively an option that was conditional upon a number of items, most importantly obtaining an agreement with TechBC and TechBC obtaining funding approval.
- In March, Cambridge advised that they were negotiating with another potential purchaser for the Mall, and wanted ICBC to "firm up" its offer by reinstating the agreement and waiving the TechBC condition. As TechBC did not have funding approval, ICBC was not in a position to waive the condition. The Mall is now the subject of a letter of intent, which may or may not lead to a binding agreement.
- ICBC believes that the alternative design concepts offer similar benefits to the concept which integrates Surrey Place Mall with the Project, and is prepared to move this Project forward on acceptable terms and conditions.
- This presentation describes the Project and the benefits associated with proceeding.





# Project Concept

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- The proposed development envisions an integrated and vibrant city core for Surrey located at King George Highway and 102 Avenue in what is known as Surrey City Centre. Phase I of the development consists of 1 million sq. ft. of buildable sq. ft., of which TechBC would occupy 425,000 sq. ft., ICBC would take between 250,000 and 350,000 sq. ft. principally for its technology centre and the balance would be leased to the private sector.
- The land component for the Project is a 12 acre parcel currently owned by the City of Surrey. This land is split into 2 parcels, 5 acres and 7 acres.
- The 5 acre parcel is provided at minimal cost provided significant development, including TechBC, is undertaken on the site. The 7 acre parcel is available at fair market value.
- The 3 principal alternatives of Phase I Project are:
  - ◆ Integrated with Surrey Place Mall
  - ◆ Phase I on 5 acre parcel
  - ◆ Phase I on 5 acre parcel and part of the 7 acre parcel
- Each of the above alternatives have different costs, returns, revenues, and physical attributes. However, the business terms of the TechBC lease have not changed in our analysis of each of the scenarios.



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# Project Concept (cont'd)

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- The business terms with TechBC are based on:

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# Valuation and Development Profitability

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- In order to estimate the potential return from the Project, a cash flow model with and without integrating the cash flows from Surrey Place Mall, construction costs and expected lease rates was developed.
- The model allows for various sensitivity analysis for the assumptions contained in the model.

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# Valuation and Development Profitability (cont'd)

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# Rental Market Issues

- Commercial space will be pre-leased.
- A high level of interest has been shown by high profile, technology-oriented companies, including:
  - ◆ IBM
  - ◆ BC Tel
  - ◆ SNC Lavalin
  - ◆ Motorola
  - ◆ McDonald Dettwiler
- Research conducted by Colliers indicates the following:
  - ◆ The rental market in Surrey is very tight
  - ◆ High-rise Class A office space is leasing between \$22 and \$27 psf due to:
    - Low vacancy rates (2.3%)
    - No large blocks of contiguous office
    - Gateway (A Building) is offering space in \$22 - \$27 range (currently 0% vacancy)
- Association with TechBC and ICBC a competitive leasing advantage.
- Proximity to Skytrain, Recreation Centre and Surrey Place Mall a competitive advantage.



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# Project Delivery and Timetable

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- Construction Costs have been validated through:
  - ◆ Double checking with independent quantity surveyor
  - ◆ Benchmarking with private sector projects
  - ◆ Costing has been reviewed by government appointed developer
- Project will not be fast tracked.
- No new technology in building.
- Development team will be led by an experienced, Vancouver-based developer.
- Utilization of fixed price/lump sum contracts.
- Competitive process to hire trades.
- Current scheduling shows that ground breaking would occur 7 months after approvals, with substantial completion occurring 24 months after ground breaking.



# Benefits of ICBC/TechBC Project

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- Start of Surrey Town Centre.

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- Cost of university is fixed.
- Further delay will jeopardize availability of Surrey land.
- Enhanced tax base.
- More than double the number of construction jobs created.
- Creates an integrated "Centre of Excellence" for technology in Surrey and British Columbia.
- Accelerates partnering between private sector and TechBC.



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# Risks/Risk Mitigation

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**INSURANCE CORPORATION OF BRITISH COLUMBIA**  
**CABINET SUBMISSION**

**I. Prepared for:** Cabinet Committee on Crown Corporations, for INFORMATION

**II. Subject:** ICBC's Investment Portfolio – Investing in British Columbia

**III. Background:**

ICBC manages an investment fund of \$5.6 billion, held in trust on behalf of the policyholders, comprised of known liabilities that the Corporation must be able to honour such as unpaid injury claims (\$3.7 billion) and property claims (\$267 million) that have been made and not yet settled. The fund also includes unearned premiums (\$1.1 billion), the rate stabilization reserve (\$285 million) designed to cover unexpected losses and to stabilize large premium adjustments, and other net liabilities (\$277 million).

The investment fund generates a return to assist in maintaining affordable insurance for British Columbians. Over the past six years, ICBC's portfolio has an annual average rate of return of 7.3 percent.

Until the mid 1990s, ICBC matched the length of its investments with the period it took to settle a claim. This meant ICBC was generally placing short-term investments that lasted approximately three years. These shorter-term investments were lower risk and, as a result, generated more moderate returns. In the mid-1990s, ICBC began to move to an investment policy with longer investment terms to provide a more balanced portfolio and to bring moderately higher returns. As all BC motorists are required to buy a basic package of ICBC Autoplan insurance that includes accident benefits, third-party legal liability protection and underinsured motorist protection, and the basic insurance package forms approximately 60 percent of its insurance business, ICBC has reliable sales that provide income stability and permit longer term investments.

ICBC predominantly invests in fixed income assets with a smaller portion in equities. The current asset mix is as follows:

***Asset Mix as a Percentage of the Total Portfolio***

<b><i>Fixed Income</i></b>		<b><i>Equity</i></b>	
Bonds	80.6 percent	Canadian Equities	8.3 percent
Mortgages	2.8 percent	U.S. Equities	0.7 percent
Cash & short-term investments:	7.4 percent	Real Estate	0.2 percent
<b>Total:</b>	<b>90.8 percent</b>	<b>Total:</b>	<b>9.2 percent</b>

ICBC is moving to a more diversified portfolio with 80 percent in fixed income assets and 20 percent in equities. The more diversified portfolio reduces the risk of relying upon one single type of investment and allows for more higher investment returns to be made.

In 1998, ICBC invested 10.5 percent or \$593 million in BC. This includes \$300.7 million in provincial bonds, \$194.4 million in municipal bonds, \$67.8 million in corporate bonds, and \$18.2 million in equities. The Corporation also owns revenue-generating properties at 5<sup>th</sup> & Cambie in Vancouver, and a site on Douglas St. in Victoria with a market value of \$12 million.

In 1998, the above ICBC investments in BC represented:

- 12.5 percent of its total bond holdings,
- 3.9 percent of its total Canadian equities, and
- 100 percent of its real estate holdings.

ICBC has placed some venture capital investments in BC with approximately \$7 million in the BC Focus Fund. ICBC has also begun to invest with the Hong Kong Bank of Canada Capital Canada Fund (II) which provides financing from \$1 to \$10 million. Currently, the investment in this fund sits at \$1.2 million with the potential of rising to \$15 million.

#### **IV. Discussion:**

As part of a move to increase its investment for the benefit of British Columbia and the move to a more diversified portfolio with 80 percent in fixed income assets and 20 percent in equities, ICBC is looking to undertake investments in real estate, social housing, and small businesses and community enterprises in BC.

These investments would increase the BC component of the portfolio to a possible maximum of 20 percent and strengthen the Corporation's commitment to communities and their social and economic development. As a Crown Corporation, ICBC is leveraging the advantage offered by its steady basic insurance sales, that generates a steady cash flow, to better benefit British Columbians through community social and economic development.

There are other precedents in Canada for such an approach to investing. The Caisse de Dépôt et Placement du Québec places a substantial portion of its portfolio being invested in their home province. In 1997, the Caisse invested in Québec:

- 65 percent of its total bonds,
- 92 percent of its total private investments, and
- 42 percent of its total real estate holdings.

Private investments through venture capital and corporate debt formed approximately 6.9 percent, equivalent to \$4.7 billion, of the total portfolio. The Caisse invested approximately \$450 million in debt financing to small and medium size companies. Real estate forms approximately 3.7 percent of the total portfolio with investments in urban shopping centres, commercial industrial parks, and residential and mortgage-backed loans. The legal framework in Québec is slightly different than in British Columbia, and as a result they have different fiduciary requirements.

Manitoba Public Insurance Corporation, another similar organization to ICBC, holds approximately 52 percent of its investments in Manitoba. While MPIC has predominately invested in bonds, the Corporation has recently decided to diversify its investment portfolio and plans to move toward a mix of 80 percent public bonds, 10 percent corporate bonds, and 10 percent equities.

Section 29 of the Insurance Corporation Act enables Cabinet to prescribe investment guidelines and consequent guidelines incorporate by reference the Pension Benefits Standards Regulations 1985 made under the federal Pension Benefits Standards Act. Schedule III details the types of investments may be made by ICBC and also authorizes ICBC to make investments that are otherwise not permitted under Schedule III. Specifically under Schedule III:

- Section 5 limits investments including investments in real estate, leaseholds or Canadian resource property, not otherwise authorized by Schedule III, to seven percent of the total portfolio. This section provides both flexibility and a cap on these types of investments.
- A single investment may not exceed two percent of the book value of the total assets of the Corporation.

While ICBC can invest in BC and pursuing economic development objectives under the existing guidelines; ICBC must exercise care, diligence, skill and act in the best interests of the Corporation with respect to the investments made with the reserve. ICBC needs to consider investments in terms of the rate of return, level of risk and their fiduciary responsibility. This reinforces the need to ensure that there are guaranteed minimum rates of return and that measures for minimizing risk are developed to satisfy these requirements.

### *Real Estate Investments*

ICBC is considering an investment in the development of the Surrey town centre with the purchase of the existing Surrey Place Mall, and the construction of the new Technical University of BC (TechBC) and commercial office space. The development would integrate different destination venues, such as TechBC, major office tenants, a modern retail area, and a proposed new library, recreation and new performing arts centres.

Phase 1 of the development includes a galleria style five to seven storey structure built on top of the existing mall, and two towers at the north end of the mall's entrance and ranging in height from 24 to 28 stories. This construction would create one million square feet of new university and commercial space.

ICBC has also looked at the investment potential of the mall in terms of the partnership potential with TechBC site given ICBC's dependence on information technology. A Memorandum of Understanding has been drafted to describe the nature of the partnership. As part of TechBC's contribution to the initiative, the university and the Province would provide five acres of land that the City of Surrey has agreed to transfer to them.

ICBC and the current mall owners, Cambridge, have been discussing a potential purchase and sales agreement for several months. No agreement has been reached primarily because there have been delays in the other aspects of the project. In the meantime, there are indicators of interest by other buyers.

While the final estimated return would be contingent on a number of factors, including final construction cost estimates, the arrangement with TechBC and the leases for the commercial space, it is expected that the overall return on investment would be above the average rate of return for the Corporation's investment portfolio.

### *Risk and Risk Mitigation*

While the due diligence work indicates that the investment would yield acceptable returns, the business risks must be addressed. ICBC would need to ensure that appropriate steps are taken to ensure construction is on time and on budget, and that the commercial space is rented at an acceptable rate of return for the Corporation.

As part of its due diligence work, ICBC is conducting a feasibility study to determine the financial viability and associated risks of this investment. ICBC has engaged highly experienced industry professionals to assist in determining the proper purchase price prior to removing the various subjects contained within the ICBC offer.

ICBC contracted with Colliers International who undertook market research on the demand for commercial lease space. The report confirmed that sufficient demand would exist to fill the commercial space created as a result of the real estate development.

Of the 1 million square feet available in the development, ICBC and TechBC could occupy approximately 675,000 square feet leaving 325,000 square feet of commercial space to be rented. ICBC is looking to act as developer and financing agent for TechBC's initial space requirement of 425,000 square feet. At the completion of construction, ICBC would lease the space to TechBC. ICBC's Information Services Department, call centres and Surrey offices are likely to be housed in the new facility. The commercial space will likely be occupied by other major technology organizations. This minimizes the investment risk by reducing the total amount of space for rent and the risk of a high vacancy rate.

To address the business, financial, and construction risks, ICBC would ensure the appropriate expertise is available to effectively manage the many aspects of the development.

### *Housing Investment Initiative*

Investment in social and rental housing is another opportunity being examined. Limited social housing is available in the province with 28,000 eligible families on waiting lists and only 600 to 1,000 new units being constructed each year.

While social housing is the primary focus of this investment, there may be other viable market opportunities that could increase the overall supply of rental housing, and also create employment.

While BC Housing and the federal government are able to provide subsidies and guarantees respectively to many projects, other viable project proposals still require access to capital and market-rate financing.

ICBC could finance mortgages for social and rental housing projects and then sell the mortgages after five, ten, or 15 years to traditional investors, such as chartered banks, who may be willing to purchase them once the projects' viability has been demonstrated. ICBC would explore the possibility of establishing a rolling fund that would ensure a certain amount of capital is always available for social and rental housing projects.



ICBC would be investigating the following:

- the prudent means and the professional expertise required to identify, evaluate, select, and monitor potential investments.
- type and terms of financing required for social and rental housing
- to leverage financing from other parties such as chartered banks, credit unions, real estate developers
- mechanisms to reduce risks including guarantees from municipal, provincial and federal governments
- the overall market demand for rental housing.
- the availability of private sector rental housing projects that are seeking financing
- the availability of market property below market costs

### *Investment in Small Business and Community Enterprises*

ICBC is also currently investigating opportunities to increase the Corporation's investment in BC's small communities by allocating a maximum of approximately \$20 million to provide debt financing to small businesses and community enterprises as part of the provincial Community Renewal Strategy.

Investments may be made through existing financing intermediaries, such as credit unions and community development corporations, to stimulate regional economies and to provide a return equivalent to or better than bond returns.

ICBC will likely issue a Request for Proposal to intermediaries. The proponents would then be evaluated on predetermined criteria such as mandatory and desired requirements, bidder qualifications, compliance to terms and conditions, and rate of return provided. ICBC's investment criteria would include a guaranteed minimum rate of return, a guarantee that the funds will be invested in BC, a mechanism to protect ICBC's investment from loss, and on-going monitoring of the investments. Once the partner(s) is selected, the required legal agreements would be negotiated.

To reduce the risk of saturating the capital market, the investments would be phased in over a number of years.

Risk reduction mechanisms such as establishing a loan loss guarantee with the Western Economic Diversification fund would be used.

ICBC is considering placing an amount of capital with investment vehicles such as community futures development corporations to be invested in small businesses involved in the tourism industry. Western Economic Diversification has indicated that they will entertain establishing a loan loss reserve for investments made in the tourism industry. ICBC could consider creating a capital fund with credit unions. This fund would then provide larger loans to more established companies. In addition, a potential opportunity is to look at coastal community tourism investment proposals.

ICBC would also create an advisory committee to develop funding criteria and to provide guidance to the selected intermediaries. The advisory committee would monitor performance and report to the Board of Directors' Investment Committee. This advisory board would be comprised of financial investment risk analysts and economic development specialists.

The selected intermediary would have primary responsibility for determining the eligibility of loan applicants. ICBC would maintain an arms length relationship in order to preserve the intermediary's independence in determining which businesses are qualified and to ensure the intermediary is accountable for the loan's performance. The intermediaries have the expertise and the ability to perform due diligence in placing these loans. Regular reports would be provided to the Corporation to monitor performance and compliance with the terms of the contract.

The following issues are being taken into account and addressed to the extent possible:

- These investments are higher risk with the potential for lower returns and loss of investment capital.
- The need to convey to the public the potential and desirability of increasing investments in BC.
- Community enterprise financing would be new for ICBC.
- The investments in small businesses and community enterprises are long-term investments that have long pay-back periods.

These issues are being addressed:

- A guaranteed minimum rate of return equivalent to bonds.
- The Request for Proposal process would ensure that the selection of the investment intermediary is fair and open.
- The investment intermediaries would be responsible for selecting applicants with viable community ventures. This structural arrangement would ensure ICBC is insulated from the loan application process and any concerns an applicant may have with the investment vehicle's final decision regarding their loan.
- The investment partners have the expertise and abilities to perform the due diligence on potential loans.
- ICBC is looking to negotiate a loan loss reserve possibly with Western Economic Diversification.



# INSURANCE CORPORATION OF BRITISH COLUMBIA

## Research, Design and Negotiation of a Social Housing Investment Initiative

### Terms of Reference

#### Introduction

The Insurance Corporation of British Columbia (ICBC) retains an investment portfolio of \$5.6 billion to cover its liabilities, namely unpaid claims and unearned premiums. The portfolio is currently invested primarily in bonds and the money market with a small portion invested in Canadian equities. Approximately 11 percent of the portfolio is invested in British Columbia, again primarily in bonds with a small portion in equities.

ICBC is exploring opportunities to increase its investments in British Columbia, and in particular, in activities that would generate social or economic benefits for the province, in addition to an acceptable return on investment for ICBC. It is considering devoting a small share of its portfolio to these types of investments.

A scoping study commissioned by ICBC identified a range of investment opportunities that could provide it with a return on investment while generating social and economic benefits. They include investments in road safety, social housing, small businesses and community enterprises, targeted community development projects and venture capital. The Corporation has decided to pursue investments in social housing and small businesses and community enterprises.

The scoping study involved only preliminary investigation of investment opportunities in social housing. It determined that there is a lack of social housing in the province, with 28,000 eligible families on waiting list<sup>1</sup> and only 600 to 1,000 new units being constructed each year. The limiting factor affecting the supply of new social housing units appears to be BC Housing's budget for social housing subsidies. With an annual budget of \$5 million for new subsidies, BC housing is able to support a limited number of social housing projects. The subsidized projects are in turn eligible for a federal guarantee, which attracts market-rate financing from the chartered banks. Proposed projects that do not receive a BC Housing subsidy or federal guarantee are unable to secure financing.

The scoping study concluded that ICBC may be able to expand the supply of new social housing units in the province by providing market-rate financing to social, housing projects that are unable to secure a BC Housing subsidy or federal guarantee. ICBC could finance mortgages and then sell them after 5, 10, or 15 years to traditional investors, like the chartered banks, who may be willing to purchase them once the projects' viability had been demonstrated. ICBC would receive a return on its investment and poor families would benefit from an expanded supply of low cost rental housing.

And while social housing is our primary focus, there may well be other market opportunities that could increase the overall supply of rental housing which could be viable and generate employment.

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<sup>1</sup> Eligibility is determined by the percentage of household income that is devoted to housing. These 28,000 families are spending more than 50 percent of their household income on housing.

## Objective

The objectives of this assignment are a) to investigate social housing in British Columbia as an investment opportunity for ICBC and b) to design a housing investment initiative for ICBC.

## Tasks

1. *Investigate the financing needs of social housing in British Columbia and potential roles for ICBC as a financier.*
  - i) Through interviews with key players in the social housing field<sup>2</sup> and private developers, reviewing relevant documents, and scanning the current marketplace investigate:
    - how social housing units are presently financed in the province, including the return on investment received, and risk assumed, by financiers;
    - the financing needs of incremental social housing projects in BC, including the type and term of financing;
    - how ICBC could finance an expanded supply of new social housing units in the province;
    - how ICBC's financing could leverage financing and in-kind contributions, such as land grants, from other parties, such as chartered banks, real estate developers and governments;
    - mechanisms to reduce or mitigate any risk assumed by ICBC in social housing investments, including guarantees from the federal, provincial governments or municipal governments;
    - what return on investment and level of risk the Corporation might receive and assume, respectively, in social housing investments.
    - whether there are market projects available below cost.
    - whether there is a case for expanding the overall rental market.
  - ii) Develop recommendations for an ICBC social housing investment initiative, including how ICBC should approach financing social housing projects, what role(s) it should assume, what terms and deal structures it should seek and what partnerships or agreements it should pursue with governments or private companies (on co-financing, in-kind contributions or guarantees, for instance).
  - iii) Prepare a report documenting results of the above research tasks and recommendations and present it to the Board of Directors' Investment Committee.

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<sup>2</sup> Key players in the social housing field include BC Housing, municipal governments and social housing societies. The following are several useful contacts:

- Dan Maxwell, Contoller, Homeowner Protection Office, 433-1711
- Mary Flynn, Executive Director, Community Housing Land Trust, 879-5111
- Bob Nicklin, Executive Director, Affordable Housing Society, 521-0818
- Pat Screeten, Executive Director, Red Door Housing Society, 431-9225
- Ian Leeman, Executive Director, Vancouver Native Housing Society, 320-3312 ?
- Sean McEwan, Lower Mainland Network for Affordable Housing, 255-1945
- Shane Ramsa, CEO, Homeowner Protection Office
- Jim O'Dea, Chair, BCHMC

2. *Draft an RFP process for social housing specialists and experienced private developers.*

- i) Taking into consideration direction provided by the Investment Committee, and the preferred terms and deal structures for ICBC's participation in housing and social housing investments, prepare a request for proposals (RFP) to be issued to BC social housing societies and the private sector soliciting proposals for social housing projects or initiatives to be financed by ICBC. The RFP should encourage creativity in the preparation of investment schemes that use ICBC's financing to leverage co-financing, participation and in-kind contributions from other parties, such as chartered banks, real estate developers and governments, and that provide risk mitigation mechanisms to reduce ICBC's exposure.

### **Reporting Requirements**

Option 1: The consultant will report to Robert Williams, Chair of the Board of Directors, and Isabel Meharry, Vice President of Finance and Chief Financial Officer, who may delegate these tasks

### **Schedule**

This assignment is expected to take at least 2 months, in order for the consultant to appear at least twice at the Investment Committee's quarterly meetings.

### **Required Expertise**

The consultant should have at least 10 years of experience in the financing of multi-unit rental housing projects, preferably those which have incorporated social housing units.

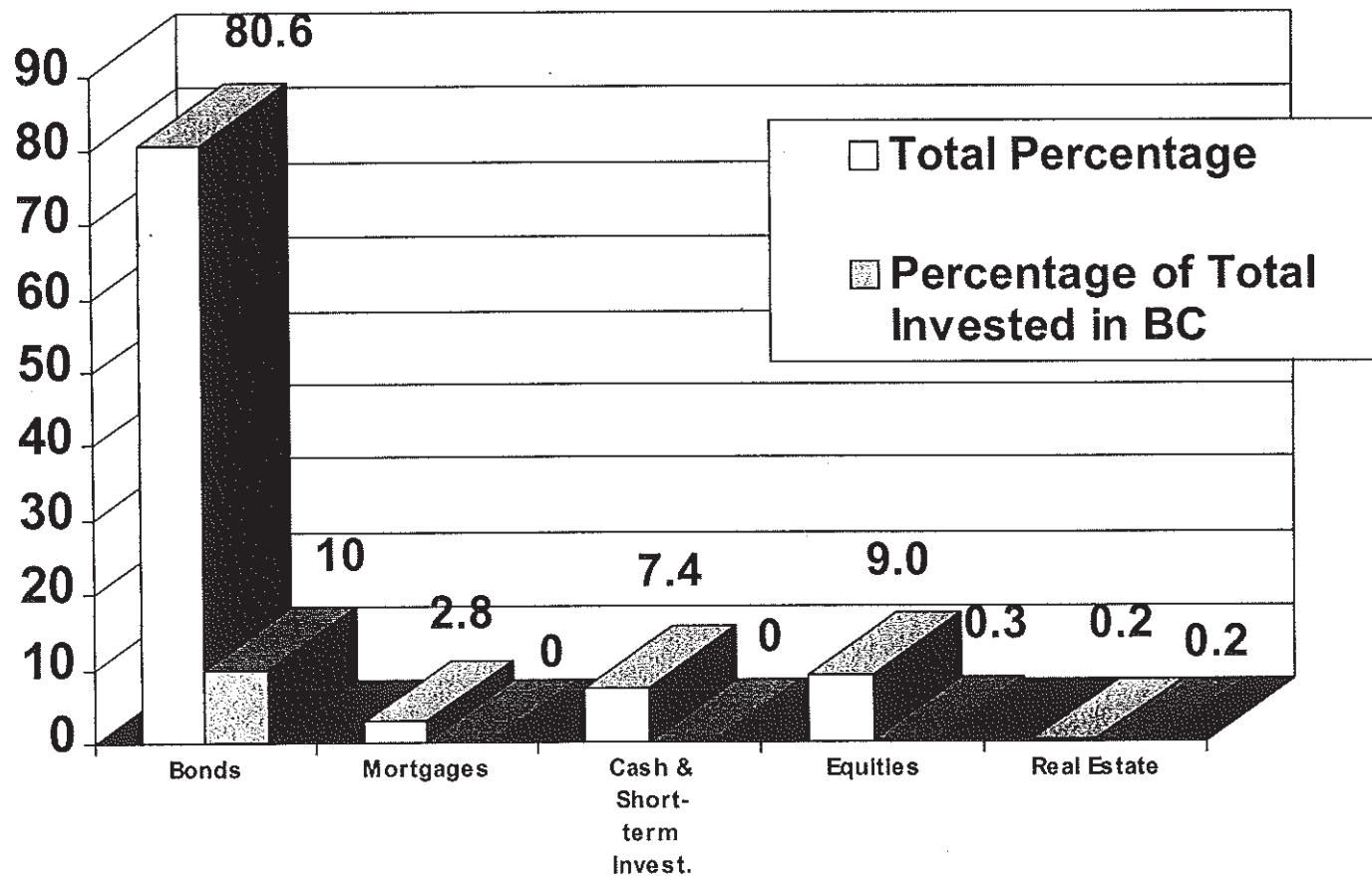
# ICBC's Investment Portfolio Investing in BC

Cabinet Committee on Crown Corporations

**Presentation**

**April 22, 1999**

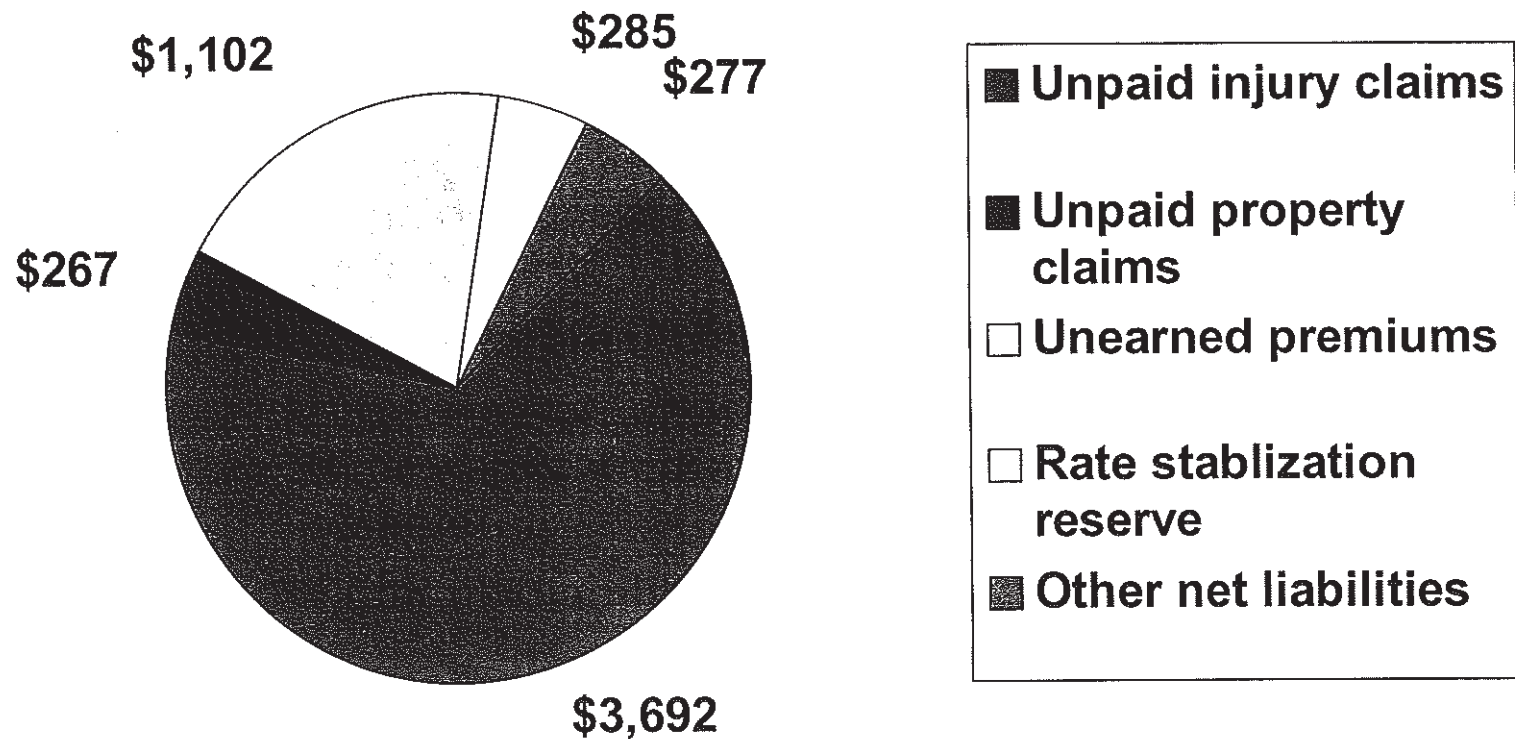
# ICBC's Current Investment Mix



1998: 10.5 percent or \$593 million in BC

# ICBC's Investment Portfolio

- December 31, 1998 - \$5.6 billion (cost value)
- Held in trust on behalf of policyholders



# **ICBC's Portfolio Management History**

## **Pre 1994**

- Matching the investment term with the time to settle a claim
- Shorter term investments
- Lower risk
- Moderate Returns



# **ICBC's Portfolio Management History**

## **Post 1994**

- **1994**
  - Asset Mix 1994: 95 percent fixed income & 5 percent equities
  - Longer term investments by extending duration of portfolio and by moving into equities
  - More balanced portfolio
  - Moderately Higher Returns

# ICBC's Portfolio Management History

## Current Mix

- **Current Asset Mix** - 90 percent fixed income assets & 10 percent equities
- **Asset Mix Objective** - 80 percent fixed income assets & 20 percent equities
- **Reason for 80:20 Mix:**
  - All motorists are required to buy basic insurance which provides ICBC with income stability
  - Moves ICBC closer to other property & casualty insurance companies' portfolio mix
  - Potential for higher returns
  - Ability to invest more in BC

## **Why is ICBC increasing investments in BC?**

- Fulfills original intentions of ICBC's founders
- Contributes to ICBC's community-based objectives
- Create jobs and stimulate social and economic development in BC
- Fulfill social responsibility as a Crown Corporation
- Linkage to Community Renewal Strategy
- Precedent set by Quebec and Manitoba insurance companies

# How will ICBC increase its investments in BC?

- Surrey Town Centre development - investing up to \$237 million
- Social and Rental Housing - investing up to \$100 million
- Small Business and Community Enterprises - investing up to \$20 million

## Examples - Other Jurisdictions

- Caisse de Dépôt et Placement du Québec:
  - In 1997 the Caisse invested in Québec:
    - 65 percent of its total bonds
    - 92 percent of its total private investments
    - 42 percent of its total real estate holdings
- Manitoba Public Insurance Corporation
  - 1997: 52 percent of its total investments in Man.
  - Moving to 80 percent public bonds, 10 percent corporate bonds, and 10 percent equities.

# Proposed Asset Mix

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# Impact of Proposed Strategy

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# Surrey

“For Surrey, the university is seen as a catalyst for the city centre's redevelopment, as well as a lure for technological companies and quality jobs.”

Surrey Mayor Doug McCallum paraphrased in Vancouver  
Sun April 21, 1999

# Surrey Town Centre development

- Investment Components:
  - Purchase of existing Surrey Place Mall
  - Construction of TechBC
  - Construction of commercial office space
  - Potential for a proposed new library, recreation and performing arts centre
- Return on investment: expected to be above the portfolio's average rate
- Negotiations ongoing with Cambridge

# Due Diligence - Surrey

- Feasibility study on financial viability and associated risks of the investment
- Engaged industry professionals for current negotiations and will engage industry professionals to manage the project's development
- Colliers International market research on demand for commercial lease space
- TechBC and ICBC space requirements reduce risk of commercial space vacancy

# Surrey Phase 1

- 5 to 7 story galleria building on top of existing mall
- 2 towers (24 to 28 stories) at north end of mall entrance
- Total of 1 million square feet of space for TechBC, ICBC and commercial tenants

# Partnership with TechBC

- Memorandum of Understanding has been drafted to describe the partnership
- TechBC and the Province providing 5 acres of land to the project
- ICBC will act as developer and financing agent for TechBC's initial space requirements of 425,000 sq. ft.

# Social and Rental Housing in BC

- Demand: 28,000 eligible families on waiting lists and only 600 to 1,000 new units being constructed each year
- Budget '99: Increase social housing by 1,200 over next two years
- Viable projects requiring capital still exist (ones not funded by provincial and federal subsidies)

# Social and Rental Housing Investment

- Finance mortgages for social and rental housing projects and sell the mortgages after 5, 10, or 15 years to traditional investors
- Establish rolling fund that would ensure fixed amount of capital is available for construction projects

# Investment in Small Business and Community Enterprises

- \$20 million in investments in small businesses and community enterprises
- Use existing intermediaries such as credit unions and community development corporations selected through RFP
- Financial return that at least exceeds the risk-free rate of Canadian Savings Bonds



## Three Pronged Small Business Investment by PriceWaterhouse Coopers

- **Regional Tourism Micro-Loan Fund** - target tourism businesses / start-ups in communities that are unable to attract traditional financing
- **Regional Growth Capital Fund** - finance well-managed “high growth” companies that cannot raise funds because of lack of assets and / or track record
- **Venture Capital Fund** - syndicate with venture capital firms to support new automobile & road safety technologies

# Regional Tourism Micro-Loan Fund Investment Process

- Open and transparent RFP process to identify partners
- Independent evaluation process to select investment intermediaries
- Selection criteria:
  - Guaranteed minimum rate of return
  - Terms & Conditions that investments will be made in BC and others
  - Mechanism to protect the capital
- External consultant to facilitate and to ensure independence and integrity of the selection process

# Small Business Risk Reduction

- Phase investment over a number of years to avoid market saturation
- Ensure preservation of ICBC's capital by seeking federal government guarantees and/or asset assignments, where possible
- Invest through Intermediaries who have expertise to perform due diligence on potential investments

# Small Business Investment Advisory Committee

- Membership: investment and economic development specialists
- Develop investment criteria
- Provide guidance to selected intermediaries
- Advise the Board of Directors' Investment Committee



**PROVINCE OF BRITISH COLUMBIA**  
**Cabinet Operations**

4th Floor, 617 Government Street  
Victoria, British Columbia V8V 1X4

# MEMORANDUM

**TO:** All Members of the Cabinet Committee    **DATE:** December 6, 1999  
on Crown Corporations

## STRICTLY CONFIDENTIAL

### NOTICE OF MEETING

Wednesday, December 8, 1999  
10 a.m. - 12:00 Noon  
Cabinet Chambers

## A G E N D A

- |    |   |       |   |
|----|---|-------|---|
| 1. | ICBC Strategic Overview/Financial Management Strategy | TAB 1 | * |
| 2. | ICBC Status Report on Surrey City Centre Project      | TAB 2 | * |
|    | - Leveraging  |       |   |
|    | - Governance & Subsidiary Structure                   |       |   |

Not Responsive

\* indicates materials attached  
TBD to be distributed at meeting  
VER verbal

**INSURANCE CORPORATION OF BRITISH COLUMBIA**  
**BRIEFING NOTE**

**I. Prepared for Cabinet Committee on Crown Corporations, FOR INFORMATION**

**II. Subject: Status on Surrey City Centre Project**

**III. Background**

The Surrey City Centre development project, located next to the Surrey Centre SkyTrain station, is a major real estate investment for ICBC and infrastructure project that integrates the new Technical University of BC (TechBC) with office and retail space to create an integrated and economically viable city centre in Surrey.

ICBC Properties Ltd. a wholly owned subsidiary company of ICBC, was established to undertake the development of Surrey City Centre.

Phase One construction is scheduled to begin in the Spring of 2000 and involves building two high-rise office towers, a quadrangle and a galleria adjoining the existing Surrey Place Mall. The Technical University of B.C. will occupy just under half of the space, with ICBC and other commercial tenants sharing the remaining space.

**IV. Discussion**

The following outlines the current project status.

**A. ADMINISTRATIVE**

*Corporate Structure and Governance*

ICBC staff have been developing the appropriate governance framework for ICBC subsidiary companies. A report entitled "Appropriate Governance Framework for ICBC Subsidiary Companies" has been developed and submitted to the Board of Directors for their consideration.

The recommended governance framework meets several objectives including:

- Providing an accountability framework that respects the chain of accountability from the directors of the subsidiary to the directors of ICBC, and from the directors of ICBC to Cabinet.
- Providing a defined mandate, with roles and responsibilities, for the directors of ICBC and its subsidiary companies.

- Ensuring that a strong linkage exists between the ICBC board and the boards of the subsidiary companies.
- Ensuring that the ICBC board will be provided with the appropriate information on a timely basis to allow it to assess the status, performance and risks of the subsidiary companies.
- Ensuring that the board of directors of the subsidiaries operate independently from management.
- Ensuring that the board of directors will benefit from the skills and expertise of outside directors for the subsidiary companies.
- Ensuring that conflict of interest can be identified and dealt with in an appropriate manner.

The key recommendations of the report include:

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Management of conflict of interest issues:

- Strict conflict of interest guidelines for the staff, management and directors of the subsidiary companies should be documented and consistent with ICBC conflict of interest guidelines.
- Directors for the subsidiary companies should be selected to minimize the potential for conflict of interest issues.

*Board of Directors*

Additional director appointments to the Board of Directors of ICBC Properties have been recommended to the ICBC Board. The current recommendations include outside directors with industry related experience.

*Financial and Operating Policies*

The financial and operating policies for ICBC Properties Ltd are currently under development by ICBC staff and external consultants.

*Communications*

A communications consultant has been retained to coordinate communications on the Surrey City Centre development. The communications team is composed of representatives of ICBC, TechBC and Surrey Place Mall.

**B. AGREEMENTS/APPROVALS**

*TechBC Memorandum of Understanding (MOU)/TechBC Lease*

The Memorandum of Understanding between TechBC, ICBC and the Ministry of Advanced Education, Training and Technology was approved in September 1999. The MOU set out the business terms of the relationship between the parties in the Surrey City Centre development. Formal lease documentation between ICBC Properties and TechBC is being developed based on the terms agreed to in the MOU.

*Surrey Land Agreement*

ICBC, TechBC and the City of Surrey are currently negotiating the Surrey Land Agreement which will govern the transfer of the twelve acres of City of Surrey owned lands to TechBC and ICBC.



### *Rezoning/ Development Permit*

Rezoning approval for the Project was obtained on November 18, 1999.

The development permit application for construction of the parkade will be made in early December 1999. The development permit for the balance of the project will be made in January 2000.

## **C. PROJECT DESIGN/SYNERGIES**

### *TechBC/ICBC Space*

Representatives of TechBC and ICBC have been meeting on a regular basis with the project architects to refine the design and building specifications of TechBC and ICBC.

ICBC has also formed the Surrey City Centre Relocation Project Team which is responsible for managing the ICBC space requirements and the relocation to Surrey City Centre.

### *Synergies*

ICBC and TechBC Staff have been meeting to discuss possible synergies related to the infrastructure requirements and operations. Currently, ICBC and Tech BC staff are working together to determine infrastructure services that could be provided to TechBC by ICBC, discussing offerings for back office software applications, familiarizing TechBC and ICBC with respective programs and initiatives and discussing distribution options.

### *Commercial/Retail Space*

Discussions have been initiated with potential commercial/retail tenants, however, no leases have been finalized which is consistent with projects not yet under construction. Appropriate resources are being put in place to both ensure the leasing of space and achieve synergies with TechBC and ICBC. The overall amount of commercial/retail space has been reduced to minimize the potential risk of developing this type of space without tenants. If commercial/retail tenants are confirmed, more commercial/retail space may be considered.

## **D. SURREY PLACE MALL**

### *Management and Operations*

Bentall Properties have been retained to provide mall management services of Surrey Place Mall. Bentall retained the existing mall management staff of Surrey Place so there have been no transition disruptions to mall tenants.

### *Anchor Tenants*

Discussions regarding the development have been ongoing with the Anchor Tenants of the Mall. Extra Foods has extended their lease for an additional five years and have indicated that they want more space for a larger format store. The Bay has indicated that they wish to move Zellers into the Bay space and there has been interest from tenants in the Zellers space. Discussions are currently ongoing with Sears regarding their space.

## **E. CONSTRUCTION**

Construction of the project is scheduled to commence in early 2000 with the realignment of 102 Ave. The main structural, electrical and mechanical consultants have been hired by the project architect and regularly scheduled construction meetings are being held. The parkade will be the first structure built. The construction manager and project architects have also held informal meetings with unions and prime contractors regarding project construction.

Currently, the project is on schedule.

## **F. BUDGET/FINANCIAL**

### *Project Budget*

The project is currently within the project budget approved as part of the Business Plan. The budget will be revised according to the final design and regular financial reports will be submitted to the board of directors of ICBC Properties Ltd.

### *Leveraging*

As directed by Cabinet, ICBC staff have initiated discussions with Provincial Treasury and Crown Corporation Secretariat staff regarding leveraging on the project. It was jointly agreed that, at the current stage of the project, leveraging is not required nor financially beneficial. ICBC has committed to review leveraging options during the annual preparation of the Business Case and will continue to keep options regarding leveraging flexible when negotiating legal agreements.

This document consists exclusively of advice prepared for Cabinet Committee on Crown Corporations, for information

**Contact:** Monica Hay  
Office of the Chair  
(604) 408-4058

**Approved by:**



Thom Thompson  
President & CEO

## MINUTES

**COMMITTEE NAME:** Cabinet Committee on Crown Corporations

**MEETING DATE:** December 8, 1999

### **ATTENDANCE:**

Hon. Andrew Petter (Chair) (AETT)  
Hon. Michael Farnworth (EI)  
Hon. Helmut Giesbrecht (PS)

Hon. Jenny Kwan (WEQ)  
Hon. Dale Lovick (AA)  
Hon. Gordon Wilson (EDU)

### **OFFICIALS:**

Tony Penikett (CCS)  
Les MacLaren (CCS)  
Nancy Carter (CCS)  
Brenda Turmel (CCS)  
Bob Adams (CCS)  
Thom Thompson (ICBC)

Greg Basham (ICBC)  
Donnie Wing (ICBC)  
Bob Irwin (BC Transit)  
George Chen (BC Transit)  
Ron Drolet (BC Transit)  
Sheryl Kozyniak (CO)

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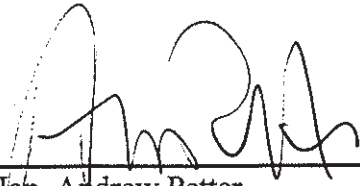
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2. **ICBC Status Report on Surrey City Centre Project**

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Not Responsive



---

Hon. Andrew Petter  
Chair

**CROWN CORPORATIONS SECRETARIAT  
BRIEFING NOTE  
PREPARED FOR THE CABINET COMMITTEE ON CROWN  
CORPORATIONS**

**I. Subject: ICBC Surrey City Centre project**

**II. Policy Considerations and Advice:**

- The Surrey City Centre project was reviewed by Treasury Board at its July 13, 1999 and September 14, 1999 meetings. The resulting Treasury Board and Cabinet decisions identified a number of specific information and action requirements for central agencies (Capital Division/TBS and CCS) and ICBC in order to ensure a successful launch of the project.
- ICBC provided a project status report to the December 8, 1999 meeting of the Cabinet Committee on Crown Corporations, which addressed some of these requirements

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## Prepared by:

Brenda Turmel  
Senior Policy Advisor  
952-0768  
February 4, 2000

## Contact:

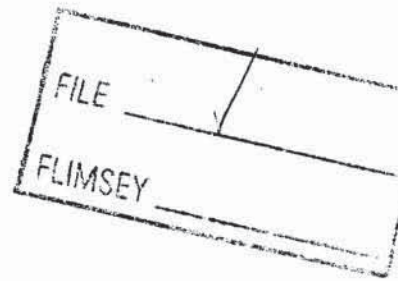
Nancy Carter  
Director, Corporate Secretary/  
Management Services  
952-0755

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*This document contains advice prepared for the deliberation of the Cabinet Committee on Crown Corporations and Cabinet*



Not Responsive



January 14, 1999

S22

Dear S22

Thank you for your letter received in my office December 1, 1998, outlining your strong opposition to the purchase of Surrey Place Mall by the Insurance Corporation of British Columbia (ICBC).

I appreciate your concerns about the interest that ICBC has shown in purchasing Surrey Place Mall. In one sense ICBC is no different from any insurance company, public or private. Premium revenue is invested in a diversified portfolio so that investment income can be earned between the time the money is received and when it is paid out in the form of claim settlements. There is an important difference, though, for ICBC, this investment income helps keep auto insurance premiums down. For other insurers, this revenue factors into their profit margin and return to their shareholders.

In 1997, ICBC's investment income totalled \$387 million, on a portfolio of more than \$5 billion. This represents an average saving of \$155.00 for each Autoplan policy - \$155.00 that otherwise would have had to be generated through premiums. For more details on ICBC's investment policies, please check the enclosed 1997 Annual Report.

ICBC is very aware of the benefits of a diversified investment portfolio, which in turn provides a healthy investment return while exposing the funds to a relatively low level of risk and volatility. Most of ICBC's investments are in secure money market securities and bonds.

ICBC currently has a small portion of its investment portfolio in income-producing real estate and continues to actively seek investments that provide an appropriate return. If this assists BC communities in their economic development, all the better. The Corporation is exploring the option of purchasing the Surrey Place Mall - a potential investment would represent less than one percent of ICBC's total investment portfolio.

Office of the  
Premier

Mailing Address:  
PO Box 9041 Stn Prov Govt  
Victoria BC V8W 9E1

Location:  
Parliament Buildings  
Victoria



ICBC is considering the acquisition of Surrey Place partly because of its proximity to the Phase 1 site of the Technical University of BC. With 2.5 million Autoplan policies, 3.1 million licensed drivers, and millions of electronic transactions annually, ICBC is a significant user of information technology in the province. It is interested in exploring ways to integrate its needs with the resources that will be available at Tech BC. The mandate of that institution is to help build technology expertise and expand the pool of trained technology workers in this province.

ICBC is also looking at Surrey Place as a potential site for the consolidation of existing corporate facilities. There are currently six separate operational locations in Surrey, including claim offices and call centres. The merger of ICBC and the Motor Vehicle Branch represents a significant opportunity to review customer service enhancements and cost savings through consolidating compliance and licensing operations with the rest of the company.

Thank you, again, for writing and sharing your concerns.

Sincerely,

Original Signed By  
**PREMIER**

Glen Clark  
Premier

Enclosure

Not Responsive

-----  
From: Kowalchuk, Sharon EI:EX  
Sent: Wednesday, August 19, 1998 9:14 AM  
To: Goulet, Bev PO:EX  
Cc: Lauren, Jani EI:EX  
Subject: Premier's Website-#1849  
Importance: High

S22

Assignment completed - please see below.  
Thanks  
Sharon

-----  
From: Little, Christine EI:EX  
Sent: Tuesday, August 18, 1998 1:35 PM  
To: Kowalchuk, Sharon EI:EX  
Subject: FW: URGENT-Premier's Website-#18

--  
From: Sokkanen, Timo R ICBC:E2  
Sent: August 18, 1998 13:02 PM  
To: Little, Christine EI:EX  
Subject: FW: URGENT-Premier's Website-#18

Christine:

As requested here is the response for the Premier's office.

Timo

------( Forwarded letter 1 follows )-----  
Date: Tuesday, 18 August 1998 12:01pm PT  
To: TISOK, GEFED, KAPAR  
From: RAMAT  
Subject: FW: URGENT-Premier's Website-#18

S22

I appreciate your wish to have surplus insurance funds used to benefit policy holders. You will be pleased to learn that ICBC's investment policy is intended to meet this goal.

Like other insurance companies, ICBC invests the income it receives from insurance premiums until funds are needed to pay out claim settlements. These funds also cover unexpected losses and stabilize large premium adjustments. In 1997, ICBC earned investment income of \$387 million. This sum represents an average saving per policy of \$155.00--or \$155.00 that a policy holder like you



did not have to pay.

ICBC currently has a small portion of its investment portfolio in income-producing real estate and is actively seeking conservative real estate opportunities in BC communities. ICBC is exploring the possibility of purchasing the Surrey Place Mall, for two reasons: 1) because, after further study, it may represent a prudent opportunity to earn income and 2) because of the partnership possibilities with the adjacent site of the Technical University of BC.

With 2.5 million Autoplan policies and millions of electronic transactions each year, ICBC is one of the largest users of information technology in the province. The Corporation is interested in exploring ways to integrate its needs with the resources that will be available at Tech BC. At this stage, however, ICBC is simply examining a number of options regarding this site.

Thank you again for writing and sharing your concerns.

----- ( Forwarded letter 2 follows ) -----

Date: Tuesday, 18 August 1998 9:14am PT

To: RAMAT, TISOK, KAPAR

From: GEFED

Subject: FW: URGENT-Premier's Website-#18

Hi Mona,

Could you work with Kathy to draft the response?

Thanks

George

----- ( Forwarded letter 3 follows ) -----

Date: Tue Aug 18 09:08:19 1998

To: GEFED

Cc: TISOK

From: Christine.Little@gems6.gov.bc.ca

Subject: FW: URGENT-Premier's Website-#1849

S22

Could you please prepare a response within 24 hours please.

thanks in advance

Christine Little  
Assistant Director  
Communications  
(250) 952-0610

> -----  
> From: Kowalchuk, Sharon EI:EX  
> Sent: August 18, 1998 9:07 AM  
> To: Little, Christine EI:EX  
> Subject: URGENT-Premier's Website-#1849 S22  
> Importance: High  
>  
>  
> Please draft a response and return to me via e-mail within 24 hours.  
> Maximum of 150 words.  
> Thank you.  
> Sharon  
>  
> -----  
> From: Lauren, Jani EI:EX  
> Sent: Monday, August 17, 1998 4:38 PM  
> To: Kowalchuk, Sharon EI:EX  
> Subject: FW: ICBC PURCHASE OF SHOPPING CENTRE  
>  
> Cliff # 1849. J  
>  
  
>  
>  
>

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-----  
From: Premier's Correspondence Branch  
Sent: Thursday, August 20, 1998 9:59 AM  
To: S22  
Subject: RE: ICBC PURCHASE OF SHOPPING CENTRE

Thank you for sharing your point of view with me.

Like other insurance companies, ICBC invests the income it receives from insurance premiums until funds are needed to pay out claim settlements. These funds also cover unexpected losses and stabilize large premium adjustments. In 1997, ICBC earned investment income of \$387 million. This sum represents an average saving per policy of \$155.00--a saving that you as a policyholder did not have to pay.

ICBC currently has a small portion of its investment portfolio in income-producing real estate and is actively seeking conservative real estate opportunities in B.C. communities. ICBC is exploring the possibility of purchasing the Surrey Place Mall for two reasons: 1) because, after further study, it may represent a prudent opportunity to earn income and 2) because of the partnership possibilities with the adjacent site of the Technical University of B.C.

Given its 2.5 million Autoplan policies and millions of electronic transactions each year, ICBC is one of the largest users of information technology in the province. The Corporation is interested in exploring ways to integrate its needs with the resources that will be available at Tech B.C. At this stage, however, ICBC is simply examining options regarding this site.

Glen Clark  
Premier

Not Responsive



Not Responsive