

Subject: Apology to Mr. David Sadler:

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A MESSAGE FROM ERNIE CRIST;

The Council of the District of North Vancouver should apologize to Mr. David Sadler a District resident and community activist in the matter of "Analysis of District Leasehold Properties" as dealt with by Council at the Jan. 28 Council meeting. In response to Mr. Sadler, Dr. Kost and Mr. Hunter's critiques, the District has ordered a staff report to disclaim the allegations made by these members of the public over the past few years.

I consider sections of this staff report to be unprofessional. I am specifically referring to the first two paragraphs under "Conclusions" stating that, " In recent months the District has been subjected to a number of public comments with respect to the District revenue return from its leasehold properties. Although public opinion and constructive criticism are always welcome, certain comments have been directed towards staff that have been antagonistic and arguably slanderous". It is my personal opinion that such comments are inappropriate.

"We note" the report goes on to say that, " many of the conclusions and criticisms expressed by certain members of the general public with respect to the revenue production of the District's leasehold properties are erroneous". On page 2 of the report under the heading of "Category I prepaid leases" it states, "It is apparent that Mr. Sadler's economic analysis of the District's leasehold revenue did not take into account that the District had already received full market rent payment for these properties". "As a result it was incorrectly implied that the District's prepaid lease properties had not produced any income which, as the aforementioned figure shows, is obviously not the case." It is not Mr. Sadler who is wrong, however, but District Staff by implying that prepaid money used up instead of being left in the Heritage Fund to earn interest in the District is the same as receiving annual lease payments and subsequently tantamount to good fiscal governance.

Mr. Sadler is correct in stating that prepaid leases produce no revenue beyond the initial payment until the leases expire which could be anywhere from 60 to 99 years - for although the prepaid lease money goes into the Heritage Fund, it also comes out again to subsidize District operations. The result is that there is no further income from that source, which is exactly the point made by Mr. Sadler.

That this method is poor is beyond question, for who could argue that prepaid lease money left to accumulate in the Heritage Fund, as was planned in 1986, would produce more benefits than putting it into general revenue, more or less, just as soon as it goes into the Fund. One method produces

annual interest and the other method produces nothing. This is basic and only graduates of lesser institutions of learning would argue otherwise.

That District staff is not responsible for this fiscally irresponsible policy, no one is denying. But to be innocent of such an absurdity is one thing, defending it is quite another. Mr. Sadler was correct in lumping all lease monies together, irrespective as to whether they are prepaid or based on annual payments. Prudent fiscal management should prohibit prepaid leases altogether, for it is unquestionably true that leases with annual returns adjusted regularly to reflect the market value are far more profitable than accepting prepaid leases even if left in the Heritage Fund which they are not however, as we have already determined ad nauseam.

However, not only does the District not discourage prepaid leases but in fact encourages them. Anyone who has observed the District's financial management will attest that greed rather than standard fiscal practices have been the driving force behind this state of affairs. But, once again, District staff defend the indefensible. Under Category I - Prepaid Leases of the report it states that - "the Advantage of the prepaid lease is that the District has the use of the entire amount of prepaid rent at the start of the lease" . And so finally the cat is out of the bag and the only thing left to do now is to attack Mr. Sadler.

Notwithstanding, the same report takes a 180 degree turn by stating in "Category 3 Annual income producing leases" that a reasonable rate of return on leased properties is considered to be in the range of between 6 - 10% , (annually). One staff member, when questioned by me at the time of the debate in the Council chambers (with great difficulties I might add for the Mayor interrupted me continuously and I wonder why), stated that, in his opinion, annual income producing leases are superior to prepaid leases, for in addition to the rent received over the term of each lease the District will also enjoy the full value of each property at the end of the term. But to really clinch the case for income producing leases, the staff report states " An example of the value of a typical ground lease is 347/53 Lynn Ave. This property was leased in November of 1969 for 99 years. Its market value in 1969 was \$ 23, 500 and the initial ground rent was \$ 1,738 per annum. The current assessed land value of the property is approximately \$ 600, 000 and we currently receive a rent of \$ 19,000 per annum. This sentence demolishes any and all arguments in favor of prepaid leases.

As to the value of the accumulated wealth that the District has forfeited by mismanaging the public's assets can be deduced from the following statement in the report. With 45 % of all leases falling into the category of annual Income producing Leases "our annual income is \$ 1,192,491.76". This amount will increase each and every year as the value of the land increases, whereas in the case of prepaid leases the District receives either no income for the duration of the lease or only a marginally small and temporary income since the money is being used up as soon as it goes into the Heritage Fund as I stated before. Since the total value of the prepaid leases equals \$ 16,000,000.00 we can only estimate the annual potential loss of income for the municipality. By way of example, we get the picture, however. On

Page 4 of the Report "Category I Prepaid Leases" it notes "the Parkgate Shopping Center was prepaid to the amount of \$ 4,860,000.00.

The full implications of that statement and the magnitude of the mismanagement of the District's assets is revealed on page 4 of the report where 347/53 Lynn Ave, which staff have held up as a shining example and which I have quoted already. The report states that " the market value of that property in 1969 was \$ 23,500 and the initial ground rent was \$ 1,738 per annum". "The current assessed land value of the property is now approximately \$ 600,000 and we currently receive a rent of \$19,000 per annum".

Thus within the span of 30 years the annual lease return to the District has multiplied by a factor of more then 10. Translated into "Parkgate" this means that after 13 years into the Parkgate lease, annual lease payments to the District based on the initial value of \$ 4,860,000, plus the increases in the value of the property since 1989, which at the end of the term according to the report, will reflect a real value of \$ 90,000,000 would conservatively be in excess of one million dollars annually. And what does the District receive from this property? Nil - Nil this year and nil each an every year for the duration of the lease and neither will the District receive any income from the interest of the initial prepaid \$ 4,850000 since that amount was used up to cover District operating expenses.

Keep in mind that, contrary to recent claims that District taxes are the fourth lowest in the region, they are in fact the highest in the region. (I will expose this untruth in a separate revelation). Also keep in mind that, the money received for the "Parkgate" lease prepayment was not used for capital projects or even for the Parkgate Community Center, including the Library, as was originally planned. The money for that project had to be borrowed through a referendum. This, Ladies and Gentlemen, is the true state of affairs with the District's leases and this is why the whole District machinery has been set in motion to accuse citizens such as Mr. Sadler of spreading false information and to try to discredit and ultimately silence him just as they attempted to silence me and for no other reason than having exposed this fiasco all along. It is the real reason why I have been harassed since the CCA endorsed Council has been elected in the Fall of 1999, not to speak of the waterfront scandal.

In summary Mr. Sadler deserves not only an apology but deserves a bouquet of flowers as well as Dr, Kost and Mr. Hunter and every other citizen who has exposed the Districts financial charade and incompetence.

Ernie Crist