

Artscape Capital Loan Guarantee

Date:	November 21, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer Deputy City Manager, Sue Corke
Wards:	All
Reference Number:	P:\2007\Internal Services\Cf\ec07054Cf - et (AFS #6468)

SUMMARY

This report seeks Council approval for two capital loan guarantees for Artscape in the amounts of \$300,000 for the Distillery District Studios and \$3,500,000 for the Wychwood/Green Arts Barn project respectively from January 1, 2008 until December 31, 2010.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and the Deputy City Manager, Sue Corke recommend that:

- (1)(a) the City approve an extension of the capital loan guarantee on behalf of Artscape to its financial institution in the reduced amount of \$300,000 (inclusive of all interest payable by Artscape), commencing on January 1, 2008 and ending on December 31, 2010 for the Distillery District Studios; and
- (b) the City approve a capital loan guarantee on behalf of Artscape to its financial institution in the amount of \$3,500,000 (inclusive of all interest payable by Artscape), commencing on January 1, 2008 and ending on December 31, 2010 for the Wychwood/Green Arts Barn project; and
- (c) the City enter into two agreements with Artscape with respect to capital loan guarantees; and

- (d) the City enter into two tri-party agreements with Artscape and its financial institution(s) with respect to the capital loan guarantees;
- (2) such guarantees and all related agreements be on terms and conditions satisfactory to the City Solicitor, the Deputy City Manager and Chief Financial Officer and the Deputy City Manager Sue Corke;
- (3) the Deputy City Manager and Chief Financial Officer be requested to negotiate appropriate and adequate safeguards, to the satisfaction of the City Solicitor, with the City being promptly advised in the event of default or delay in the payment of interest;
- (4) the City retain the right to withhold a portion of outstanding grants that the City may provide to Artscape over the term of the loan if it is not retired or renegotiated by December 31, 2010;
- (5) Artscape provide the Deputy City Manager and Chief Financial Officer with their 2007 to 2010 inclusive audited financial statements when they become available;
- (6) the two guarantees be deemed to be in the interest of the municipality; and
- (7) the appropriate officials be authorized to take the necessary action to give effect thereto.

FINANCIAL IMPACT

Issuance of a line of credit guarantee is considered to be a financial commitment of the City. However, there is no direct cost to the City for providing this guarantee unless the organization defaults on its obligation and the City cannot recover the funds beyond any grant funding to Artscape withheld by the City.

As a safeguard for the City, the current agreement provides that the City can withhold part of the grant to the Artscape in the event of a default and it is being recommended that this provision be continued in the renewal. In 2007, the City provided Artscape with an operating grant of \$253,800.

DECISION HISTORY

At its meeting held on January 31, February 1 and 2, 2006, City Council adopted the report "Lease of a Portion of the City-owned Property Located at 76 Wychwood Avenue: Non-Residential Component of Wychwood Green/Arts Barn Project" whereby the City entered into a 50 year lease with Artscape for a nominal payment for the development of art-related facilities.

A financial institution agreeing to provide financing for the affordable residential component of the project requires a separate lease for the affordable housing component (i.e. as distinct from the arts and cultural centre component). Accordingly, the staff report that was before City Council in 2006 contemplated two separate leases. The requirement from financial institutions of requiring the city to guarantee a capital loan for the cultural component of the Artscape project was not contemplated at that time and therefore it was not reflected in the 2006 report.

City Council, at its meeting held on March 6, 7 and 8, 2001, by adoption of Clause No. 3 of Report No. 2 of the Policy and Finance Committee, established the Policy of Capital Loan and Line of Credit Guarantees for cultural and community organizations that have a direct financial relationship with the City of Toronto. This policy established a limit of \$5,000,000 in line of credit guarantees that can be issued by the City for these organizations, which limit has subsequently been increased to \$10,000,000 by Council at its meeting of February 1, 2 and 3, 2005.

The following table illustrates the lines of credit and capital loans, guaranteed by the City, that are currently in place for cultural organizations:

Toronto Philharmonia	200,000
Lorraine Kisma Theatre for Young People	250,000
Canadian Stage	500,000
The Factory Theatre Lab	200,000
Toronto Caribbean Carnival Festival	100,000
Toronto Symphony Orchestra	<u>2,250,000</u>
Total – Operating Line of Credit Guarantees	<u>3,500,000</u>
Artscape-Distillery District Project	400,000
Toronto Botanical Gardens	<u>1,500,000</u>
Total-Capital Loan Guarantees	<u>1,900,000</u>

ISSUE BACKGROUND

Artscape is a not-for-profit corporation and its main mandates are to provide affordable working and living space for Toronto’s artists and to promote cultural activities beneficial to the community. With the strong support of the City of Toronto, Artscape has grown to become a significant not-for-profit, real estate development agency for the arts.

The adaptive reuse of the Wychwood Car barns proposed by Artscape's "Green/Arts Barns Project" will provide a dynamic environment that will incubate ideas, collaborations and initiatives that serve the arts and green agendas. The project reflects the City's balanced vision of cultural, educational and recreational uses for the buildings which is sensitive to the surrounding neighbourhood and preserves the integrity of the historical building envelope.

More specifically the Green/Arts Barns, located at Wychwood and Benson Avenues, will provide affordable accommodation for artists and their families; affordable work studios to artists; programming and office space for 13 not-for-profit arts and environmental organizations; and a community gallery, programmable event space and a sustainable food education centre for the local community and the public.

Artscape was selected by the City of Toronto in 2006, through a RFP process, to re-develop and manage the former TTC streetcar barns as a multi-tenant community centre. Artscape is responsible for re-developing four of the five streetcar barns, including The Studio Barn, The Covered Street Barn, The Community Barn and The Green Barn.

COMMENTS

In a letter dated October 19, 2007, Artscape requested a capital loan guarantee to support two Artscape projects consisting of the renewal of an existing loan guarantee related to capital improvements at the Distillery for \$300,000, a reduction of \$100,000 from the original approved capital guarantee of \$400,000 and \$3,500,000 for the Green Arts Barn.

While Artscape has requested 5 year terms for both of the capital loan guarantees in order to coincide with their respective financing terms, Council cannot approve guarantees that extend beyond its term. Therefore, the terms being recommended in this report are for 3 years and Artscape will have to request a 2 year extension from the Council that will be seated as at January 1, 2011.

Distillery District Studios

In 2003, the City provided a 5 year loan guarantee for the Distillery studios of \$400,000 that will expire in May 2008. Their financial institution has advised Artscape that they will continue to require a City guarantee for the remaining requirement of \$300,000.

Since 2003, the studios have remained fully tenant-occupied and all of the financial obligations under the loan have been satisfied to date.

Wychwood/Green Arts Barn

This project is projected to be completed by July 2008 at a cost of \$19,000,000 that is being funded through a combination of public and private commitments.

To date, \$15,500,000 of the \$19,000,000 required to allow construction to proceed has been received from the private sector and the provincial and federal governments. The \$15,500,000 will have been spent on construction by the third week in January 2008. Artscape intends that the last \$3,500,000 required to complete construction will come through financing in the way of a capital loan. The City has been informed that financial institutions will not negotiate with Artscape without a loan guarantee from the City as the land and the buildings are not owned by Artscape. If financing is not secured by January 2008, we have been informed by Artscape that construction will likely be halted until the additional financing has been secured.

Financial Analysis

A review of the business plan and operating forecast as well as Artscape's 2006 audited financial statements demonstrates that the project has the financial capacity to support the future interest and principal payments of the \$3,300,000 loan. However, since the City has retained ownership of the building and has leased it to Artscape, they are not able to secure mortgage against the property and requires a guarantee from the City.

When a non-profit cultural organization such as Artscape requests a credit facility from a financial institution, there may be a requirement from the lender to obtain a guarantee. Since a portion of their funding consists of a grant approved by Council and the building being redeveloped is owned by the City and leased to Artscape, the City is being requested to provide a guarantee to the lender that it will cover any losses arising from the arrangement. There is no direct cost to the City for providing this guarantee unless the organization defaults on its obligation and the City cannot recover any funds from them beyond any grant funding that would be withheld by the City.

As a safeguard for the City, the current agreement provides that the City can withhold part of the grant to the Artscape in the event of a default and it is being recommended that this provision be continued in the renewal. In 2007, the City provided Artscape with an operating grant of \$253,800.

In order to provide additional protection to the City, the audited financial statements for the 2006 fiscal year have been reviewed. An updated cash flow forecast for October 2007 to October 2008 has been received and reviewed by City staff and indicates improved financial results and cash management. It is also recommended that Artscape provide the Deputy City Manager and Chief Financial Officer with their 2007 to 2010 inclusive audited financial statements when they become available.

The City Solicitor has reviewed this report and, if approved, will assist in the preparation of the required documents in conjunction with Artscape and its financial institution.

CONTACT

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SIGNATURE

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