

Policy for the Provision of Line of Credit and Loan Guarantees for Cultural and Community-Based Organizations

Date:	January 22, 2008
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2008\Internal Services\CF\Ec08001Cf - et (AFS #2270)

SUMMARY

This report recommends a policy for the guidance of City staff and Council in consideration of requests for capital and operating lines of credit and loan guarantees from cultural and community-based organizations.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

- (1) Council adopt the criteria for Capital Loan and Operating and Line of Credit Guarantees contained in Appendices “A” and “B” of this report;
- (2) the total amount of all financial guarantees provided by the City under the Capital Loan policy be limited to an aggregate total of \$125 million;
- (3) the total amount of all financial guarantees provided by the City under the Operating and Line of Credit policy continue to be limited to an aggregate total of \$10 million; and
- (4) the appropriate officials be authorized to take the necessary action to give effect thereto.

FINANCIAL IMPACT

Issuance of a line of credit or loan 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 any funds. Loan and line of credit guarantees are recorded as contingent liabilities in the City's financial statements. The credit rating agencies assess the level of exposure regarding contingent liabilities when assessing the City's borrowing capacity and credit rating. For this reason, it is important for the City's financial position that Council adheres to a policy that recognizes the financial impact of loan and line of credit guarantees.

The total amount of all financial guarantees provided by the City under the Capital Loan policy will be limited to an aggregate total of \$125 million and \$10 million under the Operating Line of Credit policy.

DECISION HISTORY

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 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.

ISSUE BACKGROUND

Operating Loans and Lines of Credit

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

Toronto Philharmonia	\$ 250,000
Lorraine Kisma Theatre for Young People	250,000
Canadian Stage Company	500,000
The Factory Theatre Lab	200,000
Artscape	3,800,000
Toronto Symphony Orchestra	3,000,000
Toronto Botanical Gardens	1,500,000
Toronto Caribbean Carnival Festival	<u>100,000</u>
Total -Cultural Guarantees	<u>\$ 9,600,000</u>

Capital Loans

Regarding capital loans for community-based organizations, in 2007 the City provided the Lakeshore Lions Arena Incorporated with a loan guarantee of \$29 million to facilitate the development of a new four-pad arena as well as a \$20 million loan guarantee in conjunction with the Ricoh Arena and a \$30 million loan guarantee in conjunction with the redevelopment of the Automotive Building, both located at Exhibition Place. Also, there is a Council direction to provide a line of credit for \$20 million for the Bloor Street Transformation project (Bloor Street BIA). Thus, in total, the City currently provides approximately \$100 million in capital loan guarantees.

COMMENTS

Grants, loans and credit guarantees are authorized by section 83(1) and (2) of the *City of Toronto Act 2006*. When a non-profit cultural or other not-for-profit organization requests a credit facility from a financial institution, there may be a requirement from the lender to obtain a guarantee. 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.

Financial assistance may be provided to a non-profit cultural or community-based organization by using the following methods:

- (a) A direct grant that is not required to be paid back by the recipient;
- (b) A loan guarantee whereby the organization obtains a loan from a lender who is provided with a loan guarantee from the City. The organization is required to pay the interest and principal on the loan throughout the term and there is no financial impact on the City unless the organization is unable to meet its obligations; and
- (c) A line of credit guarantee which is similar to a loan guarantee as discussed in (b). However, the City's credit exposure can vary with this type of arrangement since the organization can access and repay the line of credit at various intervals. The City is only liable if the organization is unable to repay the credit line.

Typically, the organization can secure a more advantageous interest rate and credit terms if they have obtained a guarantee from the City.

Due to the City's position as the cultural centre of Canada and a major participant in the North American market, there are potentially more non-profit cultural organizations that may be seeking various forms of assistance than would be found in other municipalities.

Providing financial guarantees to these organizations are beneficial to the City since these groups provide important services to the community that in many cases could not be provided by the City.

Cultural Organizations – Operating and Line of Credit Policy

Staff has developed a policy approach to the issue of the City's guarantee of cultural and community-based organizations' loans and lines of credit. The policy allows the City to support cultural community-based endeavours while limiting its financial exposure. Guidelines and criteria for evaluating requests will streamline the process, ensure equity and discourage the application of exception-based approvals. Adhering to these requirements ensures that only organizations that have not been able to access loans or lines of credit at reasonable interest rates and terms without a City guarantee will be eligible.

In order to protect the City's financial interests in cases where the City provides a financial guarantee, the organization will have a direct financial relationship with the City, receiving grants that could be withheld if financial difficulties occur in the future.

The provision of these guarantees does expose the City to a limited but manageable financial risk. However, the recommended policy as well as the continued review an organization's audited financial statements, cash flow forecasts and business plans by the appropriate Deputy City Manager (depending on the type of organization) and the Deputy City Manager and Chief Financial Officer minimizes the City's exposure to risk.

These organizations must demonstrate sound financial management and have high and increasing participation/ membership levels particularly where the majority of active members reside within the City.

The total amount of all financial guarantees provided by the City of Toronto under this policy is limited to \$10 million. This contingent liability represents less than 1% of the City's current outstanding net debt. At this level, the risk is manageable and will not adversely affect the City's credit rating. If requests are considered that would cause this amount to be exceeded, Council approval must be obtained to amend the policy.

The policy establishes an equitable framework for the evaluation of requests received for such guarantees while providing a means to effectively manage any risks associated with these financial instruments.

Community-Based Recreational and Sporting Organizations – Capital Loans and Line of Credit

From time to time, requests are received from sporting and community organizations for Council to guarantee loans and lines of credit to support organizations in initiatives that will assist in increasing participation in sport and recreation activities and will ensure the viability and sustainability of the organizations. The need for the proposed facility must be based on a sound business case supported by current recreation needs and requirements and a community benefit must also be demonstrated by the project

It is important that these requests are handled in a consistent and appropriate manner to ensure equitable treatment for the organizations and to manage and minimize the financial risk to the City. Since the size of these capital projects varies, each business case and loan guarantee must be analyzed according to its individual circumstances. A limit of \$125 million for these loans is considered to be a reasonable and manageable risk representing 5.7% of the City's current outstanding debt, given that the majority of these projects are being built on City-owned land and the City can usually take a security interest in the project that is not available when providing a line of credit guarantee for a cultural organization under the Operating Line of Credit policy.

The offering of loan and line of credit guarantees will be considered in conjunction with all other funding options and the project and the organization's financial position is demonstrated to meet the principles outlined in this policy.

CONTACT

Len Brittain, Director, Corporate Finance

Phone: 416-392-5380; Fax: 416-397-4555; E-mail: lbrittai@toronto.ca

Martin Willschick, Manager, Capital Markets

Phone: 416-392-8072; Fax: 416-397-4555; E-mail: mwillsch@toronto.ca

SIGNATURE

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer

ATTACHMENTS

Appendix A – Cultural Organizations Loan and Operating Lines of Credit Guarantee Policy

Appendix B – Community-based Service, Recreational and Sports-based Capital Loan and Line of Credit Guarantee Policy

Appendix A

Cultural Organizations Loan And Operating Lines Of Credit Guarantee Policy

Purpose:

It is recognized that many local community and cultural organizations receive operating grants from the City of Toronto and Council views these arrangement to be in the public's interest to continue on a longer-term basis. These non-profit groups have issues with cash flow management due to the seasonality of their operations and require lines of credit to assist in their daily operations or for the construction of capital facilities before they receive permanent financing.

In most instances, financial institutions such as banks will not provide these organizations with operating or capital lines of credit unless they are guaranteed by a third party or will provide them at high interest rates, placing an additional financial burden upon the non-profit organizations.

Requirements:

1. Loan and line of credit guarantees will only be considered when the organization provides documentation that they have been denied sufficient and reasonable funding from all other sources.

Types of Eligible Organizations and Projects:

2. Loan and line of credit guarantees will only be considered from cultural and community organizations that have a financial relationship with the City of Toronto.

Council Financial Limits:

3. The total amount of all financial guarantees provided by the City of Toronto under this policy is limited to \$10 million in aggregate. If requests are considered that would cause this amount to be exceeded, Council approval must be obtained to amend this policy.

Information to be Submitted with Applications:

4. The organization must submit recent audited financial statements as well as a business plan that demonstrates financial viability and a capacity to repay the loan within operating funds as well as other documentation as required by the Deputy City Manager and Chief Financial Officer to assist in preparing a financial analysis and assessment of the organization.

Terms of Guarantee Agreements:

5. The nature and terms of the proposed guarantee be subject to the concurrence and approval of the Deputy City Manager and Chief Financial Officer and the appropriate Deputy City Manager.

Monitoring of Organization's Financial Position:

6. The legal and financial arrangements related to the loan and line of credit must protect the rights of the City of Toronto in the event of default and are subject to the approval of the Deputy City Manager and Chief Financial Officer, City Solicitor and the appropriate Deputy City Manager. The City requires an agreement between itself and the organization as well as a tri-party agreement between itself, the organization and the lender. If the City takes security under these agreements, it is subject to registration as to title in order to provide the City with additional protection.

Appendix B

Community-Based Service, Recreational And Sports-Based Capital Loan And Line Of Credit Guarantee Policy

Purpose:

The purpose of this policy is to provide a framework for Council to consider requests from sporting and community organizations to act as a loan or line of credit guarantor for projects that will enhance capital facilities and thereby increase participation in the activities of the applicant organization and ensure its long term viability.

The offering of loan and line of credit guarantees will be considered in conjunction with all other funding options and the project and the organization's financial position is demonstrated to meet the principles outlined in this policy.

Principles:

Council recognizes the community value of sporting and community organizations within the City and its role in helping these organizations to provide facilities that will contribute to their ongoing sustainability and viability.

These organizations must demonstrate sound financial management and have high and increasing participation/ membership levels particularly where the majority of active members reside within the City.

Background:

From time to time, requests are received from sporting and community organizations for Council to guarantee loans and lines of credit. It is important that these requests are handled in a consistent and appropriate manner to ensure equitable treatment for the organizations and to manage and minimize the financial risk to the City.

In a highly competitive recreation and sports market, it is also critical for Council to ensure that projects that are supported in this manner are sustainable and that there is a high degree of confidence in the future of the sport / activity and the sustainability of the applicant organization as determined by the Deputy City Manager.

Loan and line of credit guarantees are recorded as contingent liabilities in the City's financial statements. The credit rating agencies assess the level of exposure regarding contingent liabilities when assessing the City's borrowing capacity and credit rating. For this reason, it is important for the City's financial position that Council adheres to a policy that recognizes the financial impact of loan and line of credit guarantees.

Policy Objectives:

To support organizations in initiatives that will assist in increasing participation in sport and recreation activities and will ensure the viability and sustainability of the organizations.

To support organizations that demonstrates sound financial management and sports management skills.

To manage the financial risk to the City.

Policy Statement:

Council will consider acting as a guarantor for loans to sporting and community organizations where the following can be provided or demonstrated to the satisfaction of Council.

1. Funding Options and Council Financial Limits:

- Other sources of funding guarantees have been exhausted. The total amount of all financial guarantees provided by the City of Toronto under this policy is limited to \$125 million in aggregate. If requests are considered that would cause this amount to be exceeded, Council approval must be obtained to amend this policy.
- Purpose and Size of the Loan or Line of Credit Guarantee:
- The loan or line of credit is being used to upgrade community facilities and not to support operating deficits.

2. Justification of the Project:

- The need for the facility proposed is based on a sound business case supported by current recreational needs and requirements.
- Clear community benefit is demonstrated by the project.

3. Assessment of the Organization's Financial Viability:

- Financial stability including audited financial statements for the past 3 years with financial projections that take into account the additional loan/lease repayments where applicable.
- Sound history of financial and project management including a Business Plan.

4. Review of Lease / Licence:

- Existing lease/licence arrangements and rental fees will be updated and reviewed to take into account changes as a result of the proposed project.
- Loan terms must be no longer in duration than the remaining term of the relevant leasing and/or operating agreements.

5. Other considerations:

- Loan information and supporting documentation will be required to be evaluated by the Deputy City Manager and Chief Financial Officer.
- The duration of the loan shall not exceed the effective life of the facility to be constructed.
- The organization must demonstrate the ability to operate the project in an efficient and effective manner.
- Preference will be given when a capital development is constructed on City-owned property so that it would be possible for the project to revert back to the City in case of a default or as part of the terms of an agreement.

6. Provision of Information:

- The Organization will agree to provide the Deputy City Manager and Chief Financial Officer with annual audited financial statements for the duration of the loan guarantee.

7. Payment of costs:

- The applicant must be willing to pay all legal costs associated with establishing the loan guarantee and other agreements as required.

Council will only consider requests that satisfy the above policy statements and will reserve the right to decline a request to act as guarantor after considering all of the relevant information.

January 22, 2008
Corporate Finance