

Request for a Capital Loan Guarantee for the Artscape Shaw Street Centre

Date:	April 30, 2010
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	Ward 18
Reference Number:	P:\2010\Internal Services\Cf\Ec10023cf (AFS #11706)

SUMMARY

This report seeks authority for the City to provide a \$5,800,000 capital loan guarantee for Toronto Artscape Inc. ("Artscape") to assist them in the purchase and development of the Artscape Shaw Street Centre that will be used for their activities. It is proposed to be in effect for an initial three year term from May 1, 2010 until May 31, 2013.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1.
 - a. The City provide, to the Artscape's financial institution, a capital loan guarantee in respect of Artscape's capital loan for the construction and development of the Artscape Shaw Street Centre in the amount of \$5,800,000.00 (inclusive of all interest costs payable by Artscape), for a three year term commencing on May 1, 2010 until May 31, 2013.
 - b. In accordance with the City's Capital Loan and Line of Credit Guarantee Policy, the City enter into a tri-party agreement with Artscape and its financial institution, in respect of the recommended capital loan guarantee.
2. The Deputy City Manager and the Chief Financial Officer be authorized and directed to negotiate and enter into an agreement with Artscape, whereby the City's interest is secured by a mortgage registered against the title to the Shaw

Street Property, on terms and conditions satisfactory to the Deputy City Manager and the Chief Financial Officer and in a form approved by the City Solicitor.

3. Artscape be required to provide the Deputy City Manager and Chief Financial Officer with their 2010 to 2013 inclusive audited financial statements when they become available.
4. Before any future loan guarantees are considered by the City, Artscape be requested to submit their business plan to the Deputy City Manager and CFO and the General Manager, Economic Development and Culture which achieves the objective of becoming more financially self-sufficient by placing less reliance on loan guarantees and creating more equity in its projects.
5. The capital loan guarantee be deemed to be in the interest of the municipality.

FINANCIAL IMPACT

Issuance of a capital 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 funds. The City's \$5.8 million loan guarantee will be secured by a mortgage registered against the title to the Shaw Street Property.

DECISION HISTORY

City Council, at its meeting held on March 3, 4 and 5, 2008, by adoption of Executive Committee Item EX17.3, established the Cultural Organizations Loan and Operating Lines of Credit Guarantee Policy (the "Policy") for cultural organizations that have a financial relationship with the City of Toronto.

The policy has established a limit of \$125 million in capital loan guarantees that can be issued by the City for organizations that meet the policy criteria. To date, capital loan guarantees totalling \$71.2 million have been issued by the City.

Artscape has received the following capital loan guarantees to date, totalling \$5.4 million:

2007	\$3.5 million Expires 12/31/10	Wychwood/Green Arts Barn
2008	\$0.3 million Expires 12/31/10	Distillery District
2009	\$1.0 million Expires 06/30/12	150 Sudbury Street
2009	\$0.6 million Expires 05/27/19	FCM debenture issued to support Wychwood /Green Arts Barn

ISSUE BACKGROUND

Established in 1986, Artscape is a not-for-profit, urban development organization that revitalizes buildings, neighbourhoods, and cities through the arts. Artscape currently operates seven multi-tenant complexes in Toronto including the Wychwood Barns and studios in the Queen Street West, Liberty Village, Toronto Island and The Distillery Historic districts.

Artscape's current development projects include Artscape Triangle Lofts, a residential condominium project for artists and non-profit arts professionals in the West Queen West neighbourhood and the Regent Park Arts & Cultural Centre, a new-build capital project located in the heart of the Regent Park

With the exception of the Regent Park project, the City has provided \$5.4 million in capital loan guarantees to support the above projects. Artscape has retired \$300,000 of the \$5.4 million and is progressing towards retiring the debt and building equity in these projects.

In 2006, the Toronto District School Board retained Artscape to conduct a feasibility study of the potential reuse of the former Shaw Street School, which included extensive community consultation. The study demonstrated strong community support for repurposing the site as a centre for arts and community programming with a focus on youth.

COMMENTS

Shaw Street School Redevelopment Proposal

Artscape has reached an agreement with Toronto Lands Corporation (TLC), as agent for the Toronto District School Board, to purchase the Shaw Street School and repurpose it as Artscape Shaw Street Centre as a centre for arts and community programming. The Shaw Street School is a 70,000 sq ft. building located within the Trinity Bellwoods neighbourhood, adjacent to West Queen West and Trinity Bellwoods Park, just north of Queen Street West on Shaw Street.

Artscape has signed a letter of intent with TLC, with an expected closing date of late summer 2010. The Shaw Street School was declared surplus to the educational needs of the Toronto District School Board in 2001. Located on Shaw Street, north of Queen Street West, the building is located in an area associated with Toronto's creative community.

Artscape plans to develop the property as a non-residential condominium for arts and community organizations, selling one third of the units on an affordable non-residential ownership program and retaining the remainder as affordable non-residential rental units. The Shaw Street Centre will include non-profit arts and community organizational space and artist studios. The Centre's planned combination of condominium and rental non

residential units will provide long-term affordable rental space while also offering some artists and non-profit organizations with the opportunity to own their work space permanently.

The following chart illustrates the proposed construction costs for the project:

	Million
Property Purchase and Development Costs	\$9.5
Project Development Costs	2.0
Financing Costs	0.4
Total	\$11.9

The following chart illustrates the proposed financing of the \$11.9 million required for the purchase of the school, project development and construction costs and temporary financing:

		Million
Condominium Sales	30%	\$3.6
Government Grants (not from the City)	17	2.0
Donations	38	4.5
Debt	15	1.8
Total	100%	\$11.9

Artscape staff indicates that, if sufficient donations are not secured, the project will not proceed.

Artscape requires the requested capital loan guarantee to be applied against a \$5.8 million revolving demand loan that will be accessed only during the development and construction periods and it will not need it when the building is occupied as the long-term mortgage will be secured by the building asset. Prospective lenders have informed Artscape that they require a City loan guarantee as security for the financing of the purchase and development of the centre.

The financial projections demonstrate that it is cash flow positive and sustainable to its debt service requirements. In order to provide additional protection to the City, the audited financial statements for the 2009 fiscal year have been reviewed and an updated cash flow forecast has also been received and reviewed by City staff and demonstrates the project's financial viability. Artscape will be required to provide the Deputy City Manager and Chief Financial Officer with their 2010 to 2013 inclusive audited financial statements when they become available.

As a group, artists in the proposed Shaw Street Centre area are facing affordability challenges for work space as the area re-develops, and thus this group is under pressure to relocate. The proposed development will provide much-needed affordable work space for artists and arts professionals who make a valuable contribution to the City.

RISK FACTORS:

Vacancy Rates

On the basis of the business case and cash flow forecast provided by Artscape, the building will be self-sufficient and able to pay the mortgage payments after it has been occupied. The cash flow model assumes a vacancy rate of 2% although Artscape's other properties are experiencing a vacancy rate of less than 1%. The risk factor for the vacancy rate being too large to support this project is considered to be low, given Artscape's success with other projects and the waiting list that is currently in place for this project.

Project and Contract Management

Artscape has conducted an assessment of building's condition and a feasibility study as requested by the TDSB and has concluded that the construction costs required to redevelop the former school can be accommodated within the project's budget. It appears to be a practical budget as it has used an assumption of a 3.5% annual increase in costs and Artscape has had previous success in managing their various projects on time and on budget.

Artscape Long-term Business and Financial Plan

If this proposed loan guarantee is approved by Council, then Artscape will have a total of \$11.2 million in City loan guarantees or 9% of the \$125 million policy limit. These guarantees expire during the period between December 31, 2010 and May 27, 2019 as per the previous chart in this report. While staff is comfortable with managing the current risk level, it is being recommended that before Council considers future loan guarantee requests, Artscape submit a business plan to the Deputy General Manager and CFO and the General Manager, Economic Development and Culture that specifically addresses the objective of becoming more financially self-sufficient by placing less reliance on loan guarantees and creating more equity in its projects.

CONTACT

Len Brittain, Director, Corporate Finance

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

Michael Williams, General Manager, Economic Development, Culture and Tourism

Phone: 416-397-1970; Fax: 416-397-5314; E-mail: mwillia5@toronto.ca

Martin Willschick, Manager, Capital Markets

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

SIGNATURE

Cam Weldon

Deputy City Manager and Chief Financial Officer