



STAFF REPORT ACTION REQUIRED

Evergreen Brick Works – Amendment to Credit Facilities Terms

Date:	October 14, 2011
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer, and General Manager, Economic Development and Culture
Wards:	Ward 29
Reference Number:	P:\2011\Internal Services\Cf\Ec11032cf (AFS #14667)

SUMMARY

"Evergreen Brick Works" (the "Project") was substantially completed at the end of December 2010 within the approved budget of \$55 million. Evergreen, a national registered charity incorporated in 1991 ("Evergreen"), as at August 31, 2011 has raised almost \$50.5 million of the Project's cost, of which \$44.2 million has already been received, and has commitments for \$6.3 million in future pledges to be received by December 2014, leaving a fundraising target shortfall of \$4.5 million. Evergreen has financed Project construction in part through a \$11.52 million loan from Royal Bank of Canada ("RBC"), to which the City and Toronto And Region Conservation Authority ("TRCA") provided a joint and several loan guarantee of up to \$7.5 million (the "Capital Loan Guarantee"). Covenants of the RBC loan required Evergreen to show that they had sufficient committed pledges by September 30, 2011 to meet the shortfall, and other milestones to ensure the RBC loan would be extinguished by December 2014.

City and TRCA staff have reviewed Evergreen's current financing, operations and business plan, and have determined that Evergreen is in sound financial position, albeit the fundraising campaign is behind schedule. The principal recommendations of this report are that Council approve a 18 month extension to the Capital Loan Guarantee term, from December 31, 2014 to June 30, 2016, which is reasonable to allow Evergreen to raise this final \$4.5 million through its ongoing capital campaign and recently commenced operations at the Project, and that Council grant authority for the City to enter into those Project amending and consent agreements and any ancillary documents related thereto, as required, which, in the opinion of the Deputy City Manager and Chief Financial Officer, in consultation with the General Manager of Economic Development and Culture, are considered appropriate to give effect to and implement these revisions.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer, and the General Manager of Economic Development and Culture, recommend that:

1. Subject to City Council approval of Recommendations 2 and 3 below, and to obtaining approval from TRCA to this effect on terms satisfactory to the Deputy City Manager and Chief Financial Officer and the General Manager of Economic Development and Culture, in form acceptable to the City Solicitor, authority be granted for the City, in conjunction with TRCA, to extend the term of their current joint and several Capital Loan Guarantee of \$7.5 Million (inclusive of all interest, costs and charges) in respect of the Project by 18 months, from its current expiration on December 31, 2014 to expiration on the earlier of June 30, 2016 or the date of termination or payout of Evergreen's Project construction financing with RBC (the "Financing") and to require that the outstanding Financing be reduced to \$4.81 million by December 31, 2013, and to \$1.0 million by December 31, 2014.
2. Authority be granted for the City, in conjunction with TRCA, to consent to and acknowledge the extension of the Financing term on such terms and conditions as are satisfactory to the Deputy City Manager and Chief Financial Officer, in consultation with the General Manager of Economic Development, and in form acceptable to the City Solicitor.
3. Authority be granted for the City to enter into any Project-related amending agreement(s), consents, acknowledgements and agreements or ancillary documents between the City, TRCA, Evergreen and RBC which, in the opinion of the General Manager of Economic Development and Culture, in consultation with the Deputy City Manager and Chief Financial Officer and the City Solicitor, may be required, desirable or necessary to give effect to the above recommendations, including, the extension of the Capital Loan Guarantee, RBC's General Letter Agreement, the Four Party Agreement and the dates and terms for funding to be obtained by Evergreen as contemplated by the Ground Lease, all subject to such further revisions and other terms and conditions as may be satisfactory to the Deputy City Manager and Chief Financial Officer, in consultation with the General Manager of Economic Development and Culture, and in a form satisfactory to the City Solicitor.

Implementation Points

If the above recommendations are approved, the Project lender, RBC, requires that an amended General Letter Agreement be entered into between Evergreen and the Lender, and acknowledged and consented to by the City and TRCA, no later than December 16, 2011 to implement the above recommendations.

Financial Impact

There is no direct financial impact to the City arising from adoption of the recommendations in this report, the effect of which is to extend this Capital Loan Guarantee term by 18 months to give additional time for Evergreen's fundraising efforts.

The City's maximum financial exposure, jointly and severally with the TRCA, is \$7.5 million through the Capital Loan Guarantee, and additionally for the City alone, a further \$980,000 through the Sustainable Energy Funds loan in respect of the Project's eligible energy efficiency components. In the event of a default of any covenant or term of Evergreen under its loan agreements with RBC that cannot be remedied by Evergreen, the Capital Loan Guarantee could be called upon by RBC. However, it would appear, subject to any other agreement made between the City and TRCA, that if Evergreen's existing ground lease of the Project was terminated, the management agreement between the City and TRCA in respect of the Project would continue whereby the City would then be in a position to assume the Project along with the improvements, collectively valued at \$55 million.

DECISION HISTORY

In 2003, the City issued an RFP seeking proponents to raise the capital necessary for the restoration and adaptive re-use of the heritage structures at the Don Valley Brick Works to create a centre for environmental learning and urban ecology. Evergreen, a national registered charity, responded to the RFP, and a Memorandum of Understanding was entered into for Evergreen to redevelop the Project. This report can be viewed at: <http://www.toronto.ca/legdocs/2004/agendas/committees/edp/edp040913/agenda.pdf>

In 2006, Evergreen submitted a Master Plan to the City for the restoration and adaptive re-use of the Don Valley Brick Works site, and subsequently entered into a ground lease with TRCA and the City for the Project. At that time, the Project cost was estimated at \$50 million, of which the construction cost was pegged at \$38 million (inclusive of GST). Evergreen had received commitments from the Province for \$10 million and from the Federal government for \$15 million, and had raised over \$6 million in private donation pledges towards the capital construction cost of \$38 million. At the time, the City and TRCA were requested to provide a joint loan guarantee for \$3 million towards the construction financing with a term to expire four years after substantial completion. That approval can be viewed at: <http://www.toronto.ca/legdocs/2006/agendas/council/cc060725/adm5rpt/agendain.pdf>

In 2007, the construction cost estimate was revised to \$42 million (inclusive of GST), and the total Project cost to \$55 million. The City and TRCA were requested to increase their loan guarantee to \$7.5 million, with the four year term after substantial completion on the guarantee remaining in place. The Federal government increased their contribution to \$20 million and Evergreen anticipated raising \$12 million in private donations towards capital and a further \$13 million in private donations towards programming. This report can be viewed at: <http://www.toronto.ca/legdocs/mmis/2007/gm/bgrd/backgroundfile-5359.pdf>

In 2008, the construction cost was revised back down to \$37.8 million (inclusive of GST; \$35.4 million net of GST), however, the total project cost remained at \$55 million, to allow for donor specific requests, including certain interpretive features, heritage preservation and fit-outs. This report can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.GM19.17>

COMMENTS

The Brick Works Project was substantially completed at the end of December 2010 within the approved and authorized budget of \$55 million. Brick Works site operations and programming commenced in late 2010. Most of the available space has been leased out to tenants at market rates. The programming and site operations at Evergreen Brick Works clearly meets Council's objective of adaptive re-use of the property, and is reflected by the high level of attendance at the site.

Evergreen has raised almost \$50.5 million of the project cost, of which \$44.2 million has already been received, and has commitments for \$6.3 million in future pledges to be received by December 2014, leaving a current fundraising shortfall of \$4.5 million. These sources of funds include a \$10.3 million capital contribution from the Province of Ontario, a \$20 million capital contribution from the Government of Canada, and almost \$14 million raised to date by Evergreen through their private donation campaigns. Evergreen's historic payment completion rate on committed pledges is virtually 100%.

However, Evergreen has experienced some delay in obtaining additional pledge commitments, principally due to the slow-down in the economy. Covenants of the RBC loan currently required Evergreen to show that they had sufficient committed pledges by September 30, 2011 to meet the shortfall, and other milestones to ensure the RBC loans would be extinguished by December 2014. These targets were not met by Evergreen. The chart below summarizes the planned and current financing position.

**Chart 1- Sources of Capital Funds
Planned vs. Current**

Sources of Capital Funds:	Planned	Current
Province of Ontario Contribution Agreement	9,996,501	10,316,501
Government of Canada Contribution Agreement	20,000,000	20,000,000
Private Sector Pledges:		
Committed Private Sector Pledges	18,725,319	
Private Sector Pledges Received (@ Jul/11)		13,857,354
Future Committed Private Sector Pledges Aug/11 - Dec/14		6,302,826
Future Pledges	6,500,000	-
Total Equity	55,221,820	50,476,681
Required		55,000,000
Pledge Shortfall		(4,523,319)
Debt Financing		
RBC Floating Facility #1	7,000,000	7,000,000
RBC Floating Facility #2	4,520,000	2,770,000
	11,520,000	9,770,000
City BBP EEF Loan	980,000	980,000
Total Debt	12,500,000	10,750,000

Evergreen's primary source of operating and capital revenue is fundraising. Evergreen's financial statements show a track record of balanced budgets. Revenues (and expenses) have increased from \$3.5 million in 2005, to \$7.3 million in 2010. The 2010 budget is approximately \$10 million. Full time employees have increased from 35 in 2005 to approximately 90 currently.

With the addition of the Brick Works, Evergreen has additional sources of earned revenues of approximately \$2 million annually from leased space, event management, the farmers and Evergreen markets, tickets and registration, and parking. Attendance at Evergreen Brick Works was 200,000 in 2010, and projected at 300,000 for 2011 and 350,000 for 2012.

There is real potential for the business at Evergreen Brick Works to develop further, as well as creating the opportunity to leverage growth for their national programming from the high profile of the Brick Works site.

Evergreen has provided a revised Business Plan and updated their fundraising and revenue strategy. This strategy encompasses three prongs to generate additional cash flow totalling \$7 million. This approach will allow Evergreen to fully repay the RBC loan by December 31, 2015, and repay the City's 10-year Energy Efficiency Loan by its scheduled due date of October 31, 2021. This strategy involves:

1. Major Donor Campaign

As previously noted, Evergreen has already secured approximately \$20 million through its major donor campaign. Their target is to raise an additional \$5.5 million in new pledges by the end of 2014. They have a proven strategy in this regard, which includes (i) working with "key influencers" to introduce new potential donors to remaining opportunities at the site; (ii) expanding their reach to potential corporate sponsors; and (iii) leveraging the international attention gained from the Brick Works site and programming to reach out to potential donors outside of Canada.

2. General Public Campaign

Building on the tremendous attendance and momentum gained since the site opening, Evergreen will leverage this increased public awareness through the introduction of a public fundraising campaign with the objective of raising \$650,000. This will involve various marketing components, peer-to-peer fundraising, special events, use of social media, and celebrity, media and public relations. This campaign will be launched in the fall of 2012 and be active through to the end of 2014, with payments by the end of 2015.

3. Brick Works Site Generated Earnings

Evergreen has identified opportunities for additional earned revenues from developing business at the Brick Works site, and have earmarked an additional contribution of \$825,000 to the loan repayment coming from: (i) parking, (ii) event rental, and (iii) tenant leases. The Brick Works three parking lots are managed by the Toronto Parking Authority on behalf of Evergreen. Additional revenues in the amount of \$218,000 are projected through to 2015. Third-party event rental account for a significant part the Brick Works earned revenues. They have already achieved 25% of the 2012 target through pre-bookings. An additional \$387,000 is projected in event rentals through to 2015. With respect to the lease-out of space, 91% of is currently occupied. The balance of space is expected to be leased-out by January 2012, which is expected to generate an additional \$220,000 through to 2015.

Staff have undertaken a review of Evergreen's revised financing, operations and business plan, and have determined that Evergreen is in sound financial position to retire its debt obligation by June 2016 or earlier, and Evergreen's plan is in fact to retire the debt by December 31, 2015. The extra six months is being allowed only as a contingency.

Accordingly, staff recommend an extension to the term of the loan guarantee to June 30, 2016. TRCA, RBC and Evergreen concur with this approach.

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SIGNATURES

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