



**STAFF REPORT
ACTION REQUIRED**
with Confidential Attachment

**Annual Report on City's Loan and Loan Guarantee
Portfolios**

Date:	April 8, 2015
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reason for Confidential Information:	This report is about litigation or potential litigation that affects the City or one of its agencies or corporations
Reference Number:	P:\2015\Internal Services\Cf\Ec15012Cf (AFS #20830)

SUMMARY

This report provides an annual update on the City's loan and loan guarantee portfolios.

The City currently guarantees three operating lines of credit and seven capital loans under Council approved policies for line of credit and loan guarantees for cultural and community-based organizations. In addition to the guarantees, the City currently provides seven direct loans to City agencies and corporations, and one to an external organization. All loans and guarantees with one exception are in good standing.

Noteworthy changes to the portfolio since last year's report include:

1. An early discharge of the capital loan guarantee (\$4.8 million) on behalf of the Centre for Social Innovation (CSI), as the lender is satisfied with the improved property as full security for its loan;
2. A direct city loan being made to the Lakeshore Arena Corporation in the amount of \$19.9 million on a temporary basis, to replace a loan from an external lender which matured in September 2014; and
3. An extension to the term of the capital loan guarantee (\$4.8 million) on behalf of the Evergreen Brickworks to 2023 (instead of 2016) due to shortfalls in their capital fundraising for this project.

Recommendations concerning the loan that is currently in default are contained in the Confidential Attachment to this report.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council approve the renewal of the line of credit guarantee issued on behalf of the Toronto Symphony Orchestra (TSO) to its lender in the amount of \$3,000,000 (inclusive of all interest payable by TSO), for a three year period commencing on November 1, 2015 and ending October 31, 2018.
2. City Council request the Board of the Lakeshore Arena Corporation, in consultation with the Deputy City Manager & Chief Financial Officer, to report to Executive Committee in the fall of 2015 meeting, on options and a recommendation for permanently financing the approximately \$20 million in funds currently provided by the City to it on a short-term interest-only basis.
3. City Council approve the key terms of the settlement of the \$500,000 loan to Toronto Just for Laughs Festival (JFL) as outlined in Confidential Attachment 1.
4. The General Manager, Economic Development and Culture, be authorized to enter into an agreement with JFL, to the satisfaction of the City Solicitor, in accordance with these terms.
5. City Council direct that Confidential Attachment 1 remain confidential until the necessary agreements have been executed.

Financial Impact

As at December 31, 2014, there were:

- 3 outstanding operating line of credit guarantees with a maximum exposure of \$3.9 million,
- 7 outstanding capital loan guarantees in the amount of \$42.1 million, and
- 8 direct city loans with an outstanding balance of \$89.6 million.

A loan guarantee is considered to be a financial commitment of the City, and impacts the City's borrowing capacity and potentially its credit rating. However, there is no direct cost to the City for providing the guarantee unless the borrower defaults on its obligation and the City cannot recover any funds paid out under the guarantee.

As of December 31, 2014, one loan (Just for Laughs) in the amount of \$470,000 remains in default and is the subject of a settlement proposal discussed in the confidential Attachment. The total value of loans or loan guarantees for which loan payments are in

default or past due is \$470,000 as identified in this report, or approximately 0.3% of the portfolio value, as shown in the following Chart.

Total Value of Loans and Loan Guarantees

	No. of Loans	Total Exposure (\$000's)	No. of Loans in Default or Past Due	Total Value of Loans in Default or Past Due (\$000's)	% of Value
Line of Credit Guarantees	3	\$3,905	0	\$0	0%
Capital Loan Guarantees	7	\$42,124	0	\$0	0%
Direct City Loans	8	\$89,639	1	\$470	0.5%
Total @ Dec. 2014	18	\$135,668	1	\$470	0.3%
Total @ Dec. 2013	19	\$137,711	1	\$500	0.4%

During 2014, the City provided an interest-only loan in the amount of \$19.9 million to the Lakeshore Arena Corporation (LAC), a corporation of the City, to replace a third-party loan which matured on September 31, 2014. The LAC is also indebted to a third-party lender by way of a fixed term loan in the amount of \$19 million, secured by a City guarantee, which will mature on September 31, 2017, and which will also have to be refinanced at that time. This report recommends that the Board of LAC, in consultation with the Deputy City Manager & Chief Financial Officer, report back on options for permanently financing the assets of LAC.

The Deputy City Manager & Chief Financial Officer reviews and reports annually on the risk of loss under the City's loan guarantee and loan portfolios. With regular monitoring, it is possible to identify financial risks earlier and to take action to avoid or mitigate potential losses.

DECISION HISTORY

In April 2013, City Council adopted a revised framework for loans and loan guarantees made by the City. That report arose as a result of recommendations made by the City's Internal Audit group to strengthen controls and oversight of the line of credit guarantee and loan guarantee undertakings. This includes formal monitoring and reporting on the status of all loan and loan guarantees under this policy, including the total amounts issued, confirmation that the loan is being repaid to the lender, actual repayments and current amount outstanding, and costs, if any, associated with any defaults or claims paid. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX31.14>

In the 2014 Annual Report on City's loan and loan guarantee portfolio, additional criteria were added concerning fundraising as a source of funds to repay loans. That report can be viewed at: <http://www.toronto.ca/legdocs/mmis/2014/ex/bgrd/backgroundfile-68407.pdf>

ISSUE BACKGROUND

Non-profit organizations that have no tangible assets often require a city loan guarantee in order to obtain credit necessary to deal with operating cash flow fluctuations that occur during the year or in order to acquire assets to further their objectives.

Non-profit organizations operate in a different financial environment than for-profit enterprises. Operating deficits from own revenues are not uncommon, and fundraising and government subsidies are sometimes core to not-for-profit sustainability.

Providing financial guarantees to qualifying organizations is beneficial to the City since these groups provide important services to the community that complement or offset the need for government to provide those services. The City also occasionally provides direct loans to its agencies and corporations to contribute to the financing of a project that will create or enhance a capital facility. Such loans increase the value of City assets and support new activities and/or expansion of activities that directly benefit the public.

However, such loans and loan guarantees are not without risk. A number of projects have experienced financial difficulties requiring financial intervention by the City. For these reasons, it is important that the level of financial support be properly founded by business case analysis, and that the responsible program area with direct oversight take responsibility for the continuous monitoring of the organization receiving the loan or loan guarantee.

COMMENTS

As part of this annual review on the status of loan guarantees and loans provided by the City, consideration was given to the following matters:

1. financial statements of the borrower and liquidity metrics;
2. status of payments and debt covenants;
3. economic conditions affecting the environment in which the borrower operates; and,
4. independent credit reports.

A finding that an organization is experiencing difficulties in any of the above conditions is not necessarily an indication of insolvency or imminent failure. However, such conditions if not mitigated could lead to financial difficulties that, in the extreme, could lead to a demand for payment by a lender of all or a portion of the loan guaranteed by the City, and may impact on the City's credit and/or cash flow. Typically, there would be a notice and remedy period wherein the borrower, lender and City could work together to attempt to address the financial difficulties. Failing that, the City could assume control of the operation in order to minimize its losses, or exercise on any security that may have been provided as part of the loan guarantee or loan.

Under the current policy, the City provides assistance in three ways:

- a. lines of credit guarantees are intended to allow non-profit cultural and community organizations to obtain a line of credit for working capital purposes and to deal with seasonal fluctuations in cash flow;
- b. capital loan guarantees are intended to assist non-profit cultural, community and recreational based organizations purchase or improve property; and
- c. direct city loans which are intended to provide City agencies and corporations financing for projects that create or enhance a capital facility.

A. Line of Credit Guarantees:

Under the City's current policy, lines of credit guarantees are only available to cultural and community organizations. The intended purpose of such guarantees is to enable eligible organizations to obtain a line of credit for working capital purposes and to deal with seasonal fluctuations in cash flow.

Such guarantees will only be considered when the organization provides documentation that they have been denied sufficient reasonable funding from all other sources. The total amount of all line of credits provided by the City under this policy is limited to \$10 million in the aggregate. Organizations must submit audited financial statements as well as a business plan that demonstrates the financial viability and capacity to repay the funds within operating funds to the satisfaction of the Deputy City Manager & Chief Financial Officer. Organizations must also submit audited statements and operating budgets on an ongoing basis as long as the loan remains outstanding.

As of the date of this report, there were 3 existing lines of credit guarantees, representing a maximum City guarantee of \$3.9 million, as shown in Table 1 below. It should be noted that the actual amount outstanding in any line of credit will fluctuate from day to day. Two of these lines of credit – Young People's Theatre, and Canadian Stage Company expired in 2014 and were extended to 2017 with reduced loan amounts. The table below shows the current loan amounts and expiry dates.

Table 1 - Summary of Line of Credit Guarantees

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized \$000's	Expiry Date	Responsible Program Area	Loan Status	Security
May, 2014	Young People's Theatre	Registered Charity	\$175	December 2017	Economic Development & Culture	Currently in Good Standing	City Grants (via TAC)
May, 2014	Canadian Stage Company	Registered Charity	\$730	October 2017	Economic Development & Culture	Currently in Good Standing	City Grants (via TAC)
July 2010	Toronto Symphony Orchestra	Registered Charity	\$3,000	October 2015*	Economic Development & Culture	Currently in Good Standing	City Grants (Major Cultural Grants)
	Total		\$3,905				
	Aggregate Limit		\$10,000				

*Recommended for renewal to October 2018

Young People's Theatre (\$175,000)

Young People's Theatre (YPT) operates in a City Below-Market-Rent facility at 165 Front Street. YPT is the only large-scale theatre in Ontario dedicated to producing and presenting shows specifically for young people. More than 60,000 people attend YPT's theatrical productions and educational programs annually. YPT receives annual operating grants from the City, through the Toronto Arts Council and through other programs.

YPT has had some form of line of credit from the municipality dating back to the early 1990's, and has a successful history in the community and in meeting its financial obligation under the loan guarantee. YPT has not drawn upon its line of credit in its fiscal 2015 period. It is noted YPT reduced the amount of its line of credit request from \$200,000 to \$175,000 in 2014, which was a further reduction from the City's guarantee of \$250,000 made in 2012.

Canadian Stage Company (\$730,000)

Canadian Stage Company operates in a City Below-Market-Rent facility at 26 Berkeley Street. Canadian Stage is also an anchor tenant of the St. Lawrence Centre for the Arts (a City agency). Canadian Stage produces and presents Canadian and international contemporary theatre.

Canadian Stage has had some form of line of credit from the City since 2001, to which it has met its financial obligations under the loan guarantees and subsequent renewals. Canadian Stage has experienced operating deficits in 2011 and prior years, but has since taken measures to control expenditures and posted small surpluses over the past three years (fiscal year ending June 30th) on an operating budget of approximately \$8 million.

Canadian Stage Company also has an externally restricted endowment fund held by the Ontario Arts Foundation. In the 2014 audited financial statement the endowment stood at \$1.657 M.

Canadian Stage has followed through on the deficit reduction plan presented to City staff and their lenders at the time of the last line of credit renewal in 2014. It is noted Canadian Stage reduced the amount of its line of credit request from \$800,000 to \$730,000 in 2014.

Toronto Symphony Orchestra (\$3,000,000)

Founded in 1922, the Toronto Symphony Orchestra (TSO) is one of Canada's leading cultural institutions. Today, more than 225,000 patrons and over roughly 50,000 students attend performances at Roy Thomson Hall each year. The Orchestra continues to develop its international presence touring to venues in the United States, and Europe, and Asia, as well as attracting distinguished guest artists and conductors to performances at Roy Thomson Hall. The Orchestra most recently completed a highly successful and fully-

funded tour to Europe in August of 2014 and is planning a return tour to Florida in January of 2015.

TSO's cash requirements are cyclical and seasonal, affected by differences in timing of revenues and expenses. Subscription sales revenues are predominant in the earlier part of the year, and revenues from grants and distributions from the Toronto Symphony Foundation occur later in the year. Cash requirements peak during the January through April period.

The TSO has incurred operating losses in 2010, 2012, 2013 in the amount of approximately \$400,000, \$900,000, and \$1.28 million respectively, on an annual operating budget of approximately \$25 million. It is also carrying an accumulated deficit from prior years. A decline in subscription and ticket revenues contributed to the operating deficits. The TSO has followed through on the deficit reduction plan presented to City staff during 2014, and has posted a small surplus for 2014 (fiscal year ending June 30th) and has further expectations to break even or better in fiscal 2015.

The TSO has a demand revolving loan with HSBC Bank Canada for \$9,200,000, which is secured by the guarantee from the City in the amount of \$3,000,000 and a guarantee from the Toronto Symphony Foundation (TSF) in the amount of \$6,200,000. The guarantees are structured such that in the event of default, the lender would first demand funds from the TSF guarantee up to \$6,200,000, and if the default is in an amount greater than that, then from the City guarantee up to \$3,000,000.

The City's guarantee expires October 31, 2015. This report recommends an extension of the City's guarantee for a three year period ending October 31, 2018. The loan guarantees have been in good standing since inception. TSF is a registered charity (foundation) established to aid the Toronto Symphony and to receive, administer and invest gifts and makes annual distributions to the Toronto Symphony. Its 2014 financial statements indicate financial assets in excess of \$32 million (most of which are restricted, however). The TSO is also supported through the City's Major Cultural Organizations Grant Program, with the grant allocation to TSO being \$1.205 million in 2014.

B. Capital Loan Guarantees:

Under the City's current policy, capital loan guarantees may be provided to non-profit community organizations and recreational and sports based organizations. Sports and community organizations seeking to purchase or improve property sometimes require a City guarantee to obtain capital financing because banks are usually not willing to provide a mortgage to a community organization for a property that is not in the organizations ownership. In the cases, where such an organization is purchasing a property, banks may provide a mortgage to a certain level secured by the property, with the City being requested to provide a guarantee on amounts above that if required.

The intended purpose of such guarantees is to enable eligible organizations to acquire or upgrade community facilities to further initiatives that will assist in increasing

participation in cultural, 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 demonstrated community benefit.

The total amount of all capital loan guarantees provided by the City under this policy is limited to \$300 million in the aggregate. As of the date of this report, there were 7 capital loan guarantees with an outstanding balance of \$42.1 million, as shown in Table 2 below. For comparison, at this time last year, there were 8 capital loan guarantees with outstanding balance of \$61.7 million. As discussed later in this report, a large part of this reduction in the loan guarantee amount arises from the third-party loan to the Lakeshore Arena Corporation (\$19.9 million) which matured and was assumed by the City.

Table 2 - Summary of Capital Loan Guarantees

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized \$000's	Current Balance (Dec. 31/14) \$000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
July 2013	Theatre Centre	Registered Charity	1,000	800	December 2017	Economic Development & Culture	Currently in Good Standing	Leasehold Improvements to City Building, TAC Grants
November 2011	Evergreen at the Brickworks	Registered Charity	7,500 (jointly with TRCA)	4,300	June 2016	Economic Development & Culture, Parks, Forestry & Recreation, TRCA	Currently in Good Standing	Leasehold Improvements to City/TRCA lands
August 2009	Lakeshore Lions Arena (now Lakeshore Arena Corporation)	City Services Corporation	35,500	19,932*	October 2042	Parks, Forestry & Recreation	Currently in Good Standing	Leasehold Interest of facility on TDSB lands
2002	Ricoh Coliseum Arena	City Agency	20,000	13,514	July 2022 (Jul 2025)	Exhibition Place	Currently in Good Standing	Leasehold Improvements to City lands
	Sub-Total @ Dec. 31/14		64,000	38,546				

*\$19.9 million transferred from loan guarantee to direct city loan

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized \$000's	Current Balance (Dec. 31/14) \$000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
Artscape:								
May, 2014	Distillery District Studios	Not-for-Profit	250	164	October 2017 (August 2022)	Economic Development and Culture	Currently in Good Standing	Assets (chattels)
May, 2014	Wychwood Barns	Not-for-Profit	3,200	2,939	June 2017 (March 2038)	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands
January 2009	FCM – Wychwood Barns	Not-for-Profit	600	475	August 2029	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands
Sub-Total Artscape @ Dec. 31/14			4,050	3,578				
Total @ Dec. 31/14			68,050	42,124				
Total @ Dec. 31/13			72,850	61,716				
Aggregate Limit			300,000					

No Longer Included:

Most Recent Date Approved	Name of Organization	Relationship to City	Original Amount \$000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
May 2010	Centre for Social Innovation	Registered Charity	4,800	May 2015 (Discharged October 2014)	Economic Development and Culture	Guarantee Discharged by Lender	
	Total		4,800				

****Expiry Date (Effective Expiry Date)**

Expiry date is the expiry date of the loan guarantee. Effective expiry date is amortization period of the loan (the number of years it would take to repay the loan in full). If the amortization period extends beyond the loan guarantee period, the borrower would be required to repay the balance of the loan at the end of the loan guarantee period, unless the loan guarantee is extended or the lender no longer requires a loan guarantee.

Theatre Centre (\$800,000)

Theatre Centre was established in 1981 as a charitable not-for-profit organization and is serving as a research and development hub for the cultural sector by providing space, subsidy and mentorship to new generations of arts leaders.

In April, 2010, City Council authorized a Below Market Rent lease agreement with the Theatre Centre for the City owned property at 1115 Queen Street West for the purpose of adaptively reusing the heritage designated Carnegie Library as a performing arts hub and community meeting space.

Theatre Centre partnered with other levels of government and the private sector to undertake the extensive renovations required of this City-owned facility, with a capital investment in this project of \$6.225 million. The Theatre Centre has secured funding for over 70% of the Project cost (\$4.5 million), and together with its own fundraising, required bridge financing for the shortfall of up to \$1.5 million. Because Theatre Centre has no tangible assets (the property is owned by the City), their lender required a loan guarantee, of which \$1 million would be secured by the City and up to \$0.5 million would be unsecured. City Council in June 2013 approved of a capital loan guarantee for Theatre Centre in the amount of \$1.0 million for a four year period ending in December 31, 2017. The final loan agreement between Theatre Centre and their lender, Community Forward Fund, provided a \$1.25 million loan, \$1 million of which is secured by the City guarantee, and \$0.25 million which is unsecured. \$1 million was drawn in March 2014, of which according to agreement \$800,000 are secured by the City.

As of December 31, 2014, the outstanding loan balance on the portion guaranteed by the City was \$800,000 (December 31, 2013 - \$0).

Theatre Centre is supported by the City through the Toronto Arts Council grant program, with an operating grant of \$121,000 having been provided for 2014. Economic Development and Culture Division has assigned a monitor to provide oversight to the project.

Evergreen Brick Works (\$4,300,000)

Evergreen is a national charity with a mandate to make cities more liveable through green design and urban sustainability. In 2006, Evergreen entered into a ground lease with TRCA and the City for the restoration and adaptive re-use of the heritage structures at the Don Valley Brick Works, and commenced site operations and programming in 2010, providing a dynamic public space in the heart of Toronto's Don Valley. The facility is now engaging visitors through interactive workshops and community festivals, and offers a full suite of programs combining ecology, design, technology and the arts in a hands-on educational experience.

The project was substantially completed at the end of December 2010 within the approved budget of \$55 million. At that time, Evergreen had raised \$44.2 million of the

project cost, including 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 through their private donation campaigns. The City and TRCA jointly and severally provided their guarantee on \$7.5 million of the \$11.5 million loan made by RBC to Evergreen for the balance of the cost of the project, which was to be retired by December 31, 2014 through their capital fundraising campaign.

In late 2011, due to shortfalls in capital fundraising, the City consented to an extension in the term to June 2016, with a covenant that the loan balance be no more than \$4.8 million by December 31, 2013, and \$1.0 million by December 31, 2014. The City also holds \$500,000 as security for loan payments.

During 2014, Evergreen advised that it would not be able to meet covenants requiring the loan balance to be reduced to \$1 million by December 31, 2014, and to be extinguish by June 30, 2016, due to slower than anticipated capital fundraising revenues for this Project. Evergreen further advised they have abandoned their capital fundraising efforts for the loan (they continue to fundraise for other priorities), and proposed paying off the balance of the loan through residual operating cash flow over an extended period of time.

In August 2014, City Council approved Evergreen's proposal to repay the loan through operating revenues rather than from fundraising, and an extension of the loan guarantee term to June 30, 2023. Council also authorized release to Evergreen of the \$500,000 cash security held by the City, incrementally over a four year period.

As of December 31, 2014, the outstanding loan balance on the loan guaranteed by the City was \$4,300,000 (December 31, 2014 - \$4,800,000).

Lakeshore Arena Corporation (\$19,931,808):

In September 2011, the City assumed control of the Lakeshore Arena (Mastercard Centre for Hockey Excellence) through a municipal services corporation – Lakeshore Arena Corporation (LAC). The facility was conceived by the Lakeshore Lions club, wherein the City provided the land (through a land exchange with the TDSB) and a capital loan guarantee to a third-party lender. The final cost of the facility was approximately \$44 million, almost entirely debt financed. The City's guarantee to the third-party lender was continued on behalf of the LAC, in addition to the City directly providing the LAC with loans for capital and as a line of credit.

A summary of the total debt of the LAC is provided in the table on the following page. The total debt (to the third-party lender and to the City) as at December 31, 2014 was \$40,524,277 (December 31, 2013 - \$40,937,049).

	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2014</u>
Third Party Loans Guaranteed by City:		
- Fixed rate term loan	\$20,244,580	\$19,931,808
- Floating rate interest only loans (2)-	\$14,156,845	\$0
Third Party Loan not guaranteed by City, but secured by 1 st mortgage:		
- Floating rate interest only loan	\$4,535,624	\$0
Direct City Loans:		
- Interest only capital loan	\$1,200,000	\$19,892,469
- BBP Energy Loan	\$800,000	\$700,000
- Line of Credit	<u>\$1 million available</u>	<u>\$1 million available</u>
Total Debt*	\$40,937,049	\$40,524,277

*excluding line of credit up to \$1million

The private lender's three floating rate facilities (December 31, 2013 - \$18,692,469) matured on September 31, 2014. Council had previously authorized that the City provide a short-term interest-only (at 3%) loan to LAC to settle this loan obligation.

The Lakeshore Arena is a state-of-the-art facility with three NHL regulation pads and one Olympic sized pad with expandable seating for up to 4,500 people. Its tenants include the Toronto Maple Leafs, Toronto Marlies, Hockey Canada, and the NHL Players Association. It has also hosted three seasons of the Battle of the Blades Franchise.

Since assuming control, revenues from Arena operations have exceeded projections. The Arena is generating income of more than \$2 million per year after expenses but before debt service and depreciation. Meeting current debt service cost, half of which is temporary financed, however, consumes most of the income from the facility.

The loan provided by the City to replace the private lender's interest only loan does not address the repayment of principal, and is intended only as a "short-term interest-only loan" until such time that the Board of the LAC develop a longer-term financing solution. The LAC will be faced with significant financial pressure once permanent financing (e.g. a bond, debenture or term loan that is inclusive of principal repayment) is completed. Core business ice-rental revenue is already at top market rates, and it is not likely to be able to support the permanent financing of the debt. A write-down by the City of a portion of the debt is expected.

Given the current low-interest rate environment, this report recommends that the Board of the LAC report back in the fall of 2015, through Executive Committee, on options and a plan to permanently finance the interest-only debt of the LAC. At that time, Council can consider the amount of debt that may be required to be written down.

Ricoh Coliseum Arena (\$13,514,125)

Located on the Exhibition Place grounds, Ricoh Coliseum is home to AHL's Toronto Marlies Hockey Club. The 8,200 seat arena offers ice rentals, concerts, special and corporate events and was designed with sightlines and acoustics in mind.

In November 2003, City Council approved the renovation of Ricoh Coliseum at a total cost of \$38.0 million and entered into a 49-year lease agreement with BPC Coliseum Inc. (BPC), an affiliate of OMERS. Both BPC and the City each contributed \$9.0 million in equity investment to the project. In addition, the City guaranteed a \$20.0 million loan borrowed by BPC from the Bank of Montreal initially for a term of 10 years which was later amended to 20 years.

The construction of the Ricoh coliseum was completed on time and on budget and the Coliseum opened in November 2004. In July 2005, BPC entered into a sub-lease agreement with Maple Leafs Sports and Entertainment Ltd. (MLSE) with the condition that the annual rent payable be sufficient to pay the debt (with a 20 year amortization to July, 2025), the property taxes, and provide an annual return to the equity contributors, BPC and Exhibition Place.

The payments on the loan are up to date with an outstanding balance of \$13,514,125 as of December 31, 2014 (December 31, 2013 - \$14,413,385).

Centre for Social Innovations (\$0)

The Centre for Social Innovation (CSI) is a non-profit corporation that provides shared affordable office space and related services to small non-profit and charitable groups as well as various socially oriented businesses in accessible locations in downtown Toronto. The CSI business model pools common resources such as access to telephone and fax systems, internet and email, photocopiers and meeting rooms that would normally not be affordable for smaller non-profit groups unless they are able to share the cost.

The CSI started initial operations in a leased building located at 215 Spadina Avenue in June 2004. In 2010, CSI purchased and renovated a 5 story 36,000 sq ft office building located in the Annex at 720 Bathurst Street, and in September 2012, CSI opened a 10,000 sq ft space in Regent Park, Canada's largest public housing community.

As part of the 720 Bathurst purchase in 2010, City Council authorized a capital loan guarantee in the amount of up to \$4,800,000 for a five year period ending May 2015 to help facilitate CSI's purchase of the building and to make the necessary improvements to the building. The total project cost was approximately \$6.8 million, and CSI raised the balance of the financing through an innovative issuance of \$2 million in community bonds.

In late 2014, CSI acquired another building at 192 Spadina Avenue, and their lender chose to secure this financing from the improved asset value at 720 Bathurst, and on October 31, 2014 discharged the City's guarantee on 720 Bathurst in this process.

Therefore, as of December 31, 2014, the outstanding loan balance on the loan guaranteed by the City was \$0 (December 31, 2013 - \$4,409,570).

Artscape (Total of Guarantees - \$3,578,407)

Toronto Artscape Inc. (Artscape) is a not-for-profit corporation established in 1986 with the mandate of developing and managing affordable working and living space for artists and to promote cultural activities in the community.

Over time, Artscape has significantly increased its asset holdings. Artscape currently operates multi-tenant complexes in Toronto including the Artscape Wychwood Barns, and studios in West Queen Street, Liberty Village, Toronto Island, Regent Park, Shaw Street ("Young Place") and The Distillery District. In developing these projects, Artscape has relied on, for some projects but not all, capital loan guarantees from the City.

To this end, Artscape has been able to leverage its assets to reduce its reliance on the City for a guarantee. The Triangle Lofts and the Artscape Young Place are examples of projects Artscape has ownership of and have been used to reduce the reliance on a city guarantee. The loan guarantees on these two projects have been extinguished (\$5.8 million guarantee on Young Place, and the \$1 million guarantee on Triangle Lofts), leaving these assets available for Artscape to leverage financing upon.

However, there continues to be existing projects and proposed projects that are located on properties owned by the City and where long term debt will continue to require a loan guarantee, as the City cannot pledge its assets as security to lenders.

Currently Artscape has three projects supported by capital loan guarantee from the City of Toronto, with an outstanding loan balance at December 31, 2014 of \$3,578,407 (December 31, 2013 - \$3,692,177).

Artscape Wychwood Barns (\$2,939,293)

In August 2010, City Council authorized a capital loan guarantee in the amount of \$ 3.2 million for the Artscape Wychwood Barns project for the period of January 2011 to December 2014, which was extended to June 15, 2017 in 2014. The term loan secured by Artscape assumes an amortization term of 25 years.

The city owned facility, located at Wychwood and Benson Avenue, covers 60,000 sq. ft. and is leased to Artscape for 50 years. It provides affordable accommodation for 26 artists and their families, 17 individual artists in work studios, and programming and office space for 13 not-for-profit arts and environmental organizations. It also has a

community gallery, programmable event space and a sustainable food education centre for the local community and the public.

The repayment of the loan is up-to-date according to the amortization schedule with an outstanding balance of \$2,939,293 as of December 31, 2014 (December 31, 2013 - \$3,008,764). The loan comes up for renewal in June 2017, and the current payment amount, will require amortization to the year 2038.

FCM Wychwood Barns (\$474,719)

In August 2009, the City borrowed \$600,000 from the Federation of Canadian Municipalities (FCM) under the Green Municipal Fund Initiative for the purpose of financing an energy efficiency project at the Artscape Wychwood Barns. The loan is to be paid by Artscape to the City over 20 years. In effect, by borrowing on behalf of Artscape, the City is guaranteeing to FCM that the payments will be made. All payments are up-to-date, with an outstanding balance of \$474,719 as at December 31, 2014 (December 31, 2013 - \$500,937). The loan is expected to be repaid by August 2029.

Distillery District Studios (\$164,395)

In order to attract the arts community and other creative entrepreneurs, the owners of the Gooderham & Worts Distillery site provided below-market rent leases to Artscape for two buildings in the Distillery District. In 2003, Artscape renovated the Case Goods Building as well as the Cannery Building which are now home to sixty-three work and retail studios, offices, rehearsal and performance spaces for artists and creative entrepreneurs.

To this end, City Council approved two loan guarantees on behalf of Artscape. An initial loan guarantee advanced in April 2009 for \$400,000 for the Distillery District and was paid back in full, and the guarantee extinguished in April, 2012.

Another capital loan guarantee was made, most recently renewed by City Council in August 2010, in the amount of \$250,000 for the period January 2011 to December 2014. In 2014 Council approved an extension of the loan guarantee to October 31, 2017. This term loan, with an amortization period of 19 years (to 2022), has been paid according to the amortization schedule with an outstanding balance of \$164,395 as of December 31, 2014 (December 31, 2013 - \$182,476).

C. Direct City Loans

Under the City's current policy, direct city loans may be provided to City agencies and corporations to contribute to the financing of a project that will create or enhance a capital facility. In one exception, the City made a direct loan to an external organization.

In considering such requests, the City agency or corporation must demonstrate that all other potential sources of funding have been exhausted. The loan must be used to

upgrade or establish capital facilities and not to fund operations or support operating deficits. The need for the facility proposed must be based on a sound business case supported by current needs and requirements and the duration of the loan must not exceed the effective life of the facility to be constructed.

The loan provided by the City must be self liquidating, in that revenues generated by, or in respect of, the underlying project are sufficient to repay the loan in the timelines set out in the loan agreement. Clear community benefit must also be demonstrated by the project in order to be in the interest of the City.

The total amount of all direct loans provided by the City under this policy is limited to \$125 million in the aggregate. As of the date of this report, there were 8 direct loans under this policy with an outstanding balance of \$89.6 million (2013- \$72 million), as shown in Table 3 on the following page.

Table 3 - Summary of Direct City Loans

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized \$000's	Current Balance (Dec. 31/14) \$000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
July 2011	Lakeshore Arena Corporation	City Services Corporation	1,000	700	none	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
July 2011	Lakeshore Arena Corporation	City Services Corporation	21,039*	19,982*	none	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
January 2012	Leaside Arena	City Agency	7,500	7,274	September 2043	Arena Board	Currently in Good Standing	City Property
2007	Conference Centre at Exhibition Place	City Agency	38,675	34,880	2032 (2035)	Exhibition Place	Currently in Good Standing	City Property
2008	Bloor Street Transformation Project	BIA	11,975	9,308	2027	Transportation Services	Currently in Good Standing	Priority Lien
1993	North York Performing Arts Centre	City Agency	10,000	10,023	none	Toronto Centre for the Arts	Currently no repayment schedule	City Property
December 2009	Sony Centre	City Agency	6,650	7,002	December 2029	Sony Centre	Currently in Good Standing	City Property
July 2007	Just for Laughs Toronto Festival	Not-for-Profit	500	470	December 2010	Economic Development & Culture	In Default with Settlement Offer	None
Total @ Dec. 31/14			97,339	89,639				
Total @ Dec. 31/13			77,500	71,995				
Aggregate Limit			125,000					

* Includes transfer of \$19.9 from Loan Guarantee to Direct Loan

****Expiry Date (Effective Expiry Date)**

Expiry date is the expiry date of the loan guarantee. Effective expiry date is amortization period of the loan (the number of years it would take to repay the loan in full). If the amortization period extends beyond the loan guarantee period, the borrower would be required to repay the balance of the loan at the end of the loan guarantee period, unless the loan guarantee is extended or the lender no longer requires a loan guarantee.

Conference Centre at Exhibition Place (\$34,879,761)

In March 2007, City Council authorized extending a loan of \$21.2 million to the Board of Governors of Exhibition Place for the construction of a conference centre within the existing Automotive Building.

In December 2007 an alternative financing plan addressing the significant increase in the projected construction cost from \$29 million to \$46.88 million for the conference centre was approved. The amount of the City loan was increased from \$21.2 million to \$35.6 million (\$38.675 million with interest on advances during the construction period) to be repaid over 25 years.

The payments on the loan are up to date with an outstanding balance of \$34,879,761 as of December 31, 2014 (December 31, 2013 - \$35,821,658).

Lakeshore Arena corporation (\$19,892,469)

As previously noted, the Lakeshore Arena Corporation has a number of loans and loan guarantees from the City. On September 31, 2014, the City provided LAC with a short term interest only loan of \$18,692,469, to take out the private lenders floating rate facilities which matured on that date. The City also provided a \$1.2 million interest only loan to the Corporation at the time of its creation necessary to settle certain debts, and this amount remains outstanding. A \$1 million as a line of credit was provided by the City in September 2011 as working capital for the start-up of the new corporation, the balance of which fluctuates from day to day (and is not included in the loan amount shown). These loans are currently in good standing.

Leaside Arena (\$7,186,241)

In January 2012, City Council authorized a city capital project for the 2nd ice pad expansion at Leaside Arena, a City facility operated by the Leaside Arena Board of Management. The project cost was \$12.5 million, funded by way of city recoverable debt of up to \$7.5 million, a non-recourse loan from Infrastructure Ontario (IO) of up to \$1.5 million, \$1 million capital contribution from the City, and a community cash contribution of not less than \$2.5 million. The City issued a revenue bond to IO for their loan.

The project opened on time and on budget on September 1, 2013. By that time, the community had raised almost \$3 million in cash through fundraising, and the requirement for City's recoverable debt loan amount was reduced to \$7.3 million (inclusive of capitalized interest), and the IO non-recourse loan requirement was reduced to \$1.052 million. The City's debt is amortized over 30 years (to 2043) and the IO debt is amortized over 20 years (to 2033).

In addition to the regular loan repayments, the loan agreements require the Leaside Arena Board of Management to impose a \$20 per hour surcharge on all prime-time ice

contracts, to be put into a loan repayment reserve, until such time that one-years debt service coverage is achieved.

The payments on the loan owed to the City are up to date with an outstanding balance of \$7,186,241 as of December 31, 2014 (December 31, 2013 - \$7,302,334). The payments on the IO loan, which have no recourse to the City and is not included in the City's debt amount, are also up to date, with a balance of \$1,019,000 as of December 31, 2014 (December 31, 2013 - \$1,052,200).

Bloor Street Transformation Project (\$9,307,824)

The Bloor Street BIA was established in 2006 to finance the Bloor Street Transformation Project, a streetscape improvement plan designed to reinforce Bloor Street's status as a pedestrian-oriented, premier shopping destination. The Bloor Street Transformation Project involved the reconstruction of Bloor Street between Avenue Road and Church Street to provide wide granite sidewalks, decorative street lighting, new street furnishings, trees, raised planting beds, public art, and new parking lay-bys.

In June, 2008, the City entered into an agreement with the Board of Bloor Street BIA to complete the transformation project at an estimated cost of \$15.5 million. The BIA Board has agreed to reimburse \$11,975,000 of the project cost including interest, through the annual BIA special levies over the course of eighteen years (2027). In addition, the BIA has agreed to pay \$1,400,000 to the City to offset a portion of the Project costs and the City has secured an additional \$2,125,000 in development related contributions to further offset the project cost.

All payments through the BIA special levy are up to date with an outstanding balance of \$9,307,824 on December 31, 2014 (December 31, 2013 - \$9,808,281). The loan is expected to be fully paid off in 2027. The repayment of the loan through the BIA levies has priority lien status.

North York Performing Arts Centre (Toronto Centre for the Arts) (\$10,023,036)

Over 1992-1994, the former City of North York provided approximately \$15 million in interim financing to the North York Performing Arts Centre Corporation (NYPACC) to help fund the approximately \$45 million construction cost of the North York Performing Arts Centre (NYPAC). Accounting records show that the balance outstanding on the loan was reduced to \$10,023,036 by December 31, 2003. No subsequent loan repayments were made. The \$10,023,036 loan balance in the City's books is offset by a \$10,023,036 credit in one of the City's amalgamation legacy Deferred Revenue accounts, and by the same amount in NYPACC's Long Term Liability account.

Ontario Hydro owns all the land on which the NYPAC was built, and the City has a 99-year lease with the landlord. The City owns and operates the North York Performing Arts Centre, which is now called the Toronto Centre for the Arts (TCA) as a city agency,

managed by its own Council appointed Board. The TCA receives an annual operating subsidy from the City.

In November, 2012, City Council recognized the TCA as a community cultural asset and committed to supporting its operations, subject to a five-year business plan that shows a sustainable operation that minimizes the City's tax funding, to be presented and approved by City Council in 2013, as part of an overall review of the three major theatres. This plan was to address the outstanding financial issues between the TCA and the City including a final resolution of the \$10 million loan payable by the TCA to the City which relates back to the construction of the NYPAC some 20 years ago.

The studies were completed in the summer of 2013, and a report to Executive Committee in December 2013 outlined the establishment of a Theatres Working Group to continue "to discuss options to advance the missions of each of the three theatres while increasing the effectiveness of their operations". The issue of the TCA loan was not addressed, and based their current operating subsidy requirement it is unlikely the TCA is in any position to repay this loan. The Theatres Working Group, with the General Manager, Economic Development and Culture, is undertaking a consultant study of future governance and operating models for the 3 theatres and a report to Council with recommendations and an implementation strategy was expected by the end of the second quarter of 2014, however this work has been delayed, and is now expected later in 2015.

Sony Centre (\$7,001,783)

The Sony Centre, Canada's largest soft seat theatre (3,191 seats), was opened as the O'Keefe Centre on October 1, 1960, and has played host to a variety of international attractions and stars. The theatre was the home of the Canadian Opera Company and National Ballet Company until 2006. Programming now consists of large scale entertainment productions, cultural and educational programming, concert and event productions, and reflects a focus on diverse, ethno-specific audiences.

The theatre, designated a historical site by the City of Toronto, recently underwent extensive renovations. The theatre reopened in October 2010 with completed interior renovations, with the project budgeted for \$35.469M and actual spending of \$35.45M. The south side plaza completion, to be provided by the condominium tower developer, has been delayed. Some exterior work to fulfill the heritage easement agreement is to be completed by 2015 at an additional cost of \$2.4M. The City owns and operates the theatre through a Council appointed Board as a City Agency as well as provides subsidy for its operations (2013 Budget is \$3.405M gross, \$1.432M net).

In December 2009 and February 2011, City Council granted capital completion loans to Sony Centre for the Performing Arts in the amount of \$4.65 million and \$2 million respectively, totalling \$6.65 million for the redevelopment of the Centre. The Sony Centre committed to repay the capital completion loan in 15 annual installments of principal and interest compounded semi-annually at an interest rate of 5%, funded by ticket surcharge revenues, commencing on January 1, 2012. However, due to general

economic slowdown and resulting insufficient surcharge revenues to repay the loan, City Council granted a 2-year loan repayment deferral on interest and principal in January of 2013, with the interest accrued over the 2-year holiday being re-amortized over 15 years with principal and interest payments to commence December 31, 2014 at the original interest rate of 5%.

The loan is to be repaid using a future Facility Fee surcharge levied on ticket sales and by future naming rights proceeds. The viability of the Sony Centre in its current operating structure without ongoing operating subsidies is very questionable and deemed unlikely by the Theatre Review Committee which was established to review options for future of the three Major City Theaters: St. Lawrence Centre for the Arts; Toronto Centre for the Arts; and the Sony Centre. Toronto currently has a surplus of large theatre venues, many of which are underutilized. The current activity level at the Sony Centre can not generate sufficient funds to service both the City loan and fund the \$8.2 million in capital maintenance requirements included in its 2014-2023 Capital Plan. Council approved debt funding for the Sony Centre's 2014-2023 Capital Plan, and the Centre made its first loan repayment installment due on December 31, 2014, bringing the balance to \$7,001,783, compared to \$7,340,355 as of December 31, 2013.

As previously noted, the Theatres Working Group, with the General Manager, Economic Development and Culture, is undertaking a consultant study of future governance and operating models for the 3 theatres and a report to Council with recommendations and an implementation strategy is expected as part of a report back by the Working Group, now expected later in 2015.

Just for Laughs Toronto Festival (\$470,000)

In July 2007, City Council authorized a \$500,000 loan to Just for Laughs to establish a Just for Laughs Comedy Festival in Toronto. The loan was due in December 2009. The loan was made under a 'Tourism Event Development Loan Program' administered by the Economic Development, Culture and Tourism Division.

The first Toronto Just For Laughs Comedy Festival was held in July 2007, as a three day event that that attracted over 60,000 to the outdoor festival site on Yonge Street and to the main venues at Massey Hall and the Elgin Theatre. The 2008 event was expanded to four days and five venues and it attracted over 153,000 festival attendees.

The Toronto Just For Laughs Comedy Festival incurred a deficit in those first two years of operation, and City Council extended the loan repayment to December 31, 2010. This loan has yet to be repaid. A payment, without prejudice, was made in March 2014 in the amount of \$52,500 (\$30,000 towards principal and \$22,500 as interest), reducing the principal balance outstanding to \$470,000 as at December 31, 2014. A further payment of \$57,500 was received on January 30, 2015 (\$40,000 towards principal and \$17,500 as interest), reducing the principal balance outstanding to \$430,000.

The confidential attachment to this report recommends adopting a repayment plan from the organization, as negotiated by the General Manager of Economic Development and Culture. This recommendation will be released publically if and when the necessary agreements have been executed.

Loan and Loan Guarantee Portfolio Oversight

The front line responsibility for monitoring the operating and financial status of an organization resides with the responsible program area, who through regular monitoring, should be able to detect difficulties before they manifest into a default, and to assemble and work with the organization and appropriate City staff to find ways to mitigate these difficulties.

A Doubtful Loan Guarantee Reserve was created to provide a first line of funds in the event that the City is obligated to make payment as a result of a default of loan guarantee or direct loan, to provide time for remedies to be found. The Deputy City Manager & Chief Financial Officer reviews annually the risk of loss under a loan guarantee or direct city loan. With regular monitoring, it is possible to identify financial risks earlier and to take action to avoid or mitigate potential losses.

CONTACT

Adir Gupta, Manager, Financial Policy, Corporate Finance, 416-392-8071,
agupta@toronto.ca

Joe Farag, Executive Director, Corporate Finance, 416-392-8108, jfarag@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Confidential Attachment – Confidential Information