Request for a Capital Loan Guarantee for Artscape Triangle Lofts at 150 Sudbury Street

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<th>Date:</th>
<th>July 24, 2009</th>
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<td>To:</td>
<td>City Council</td>
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<td>From:</td>
<td>Deputy City Manager and Chief Financial Officer</td>
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<td>Wards:</td>
<td>Ward 18 (Davenport)</td>
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SUMMARY

This report seeks authority for the City to provide a $1,000,000 capital loan guarantee to Toronto Artscape Inc. (“Artscape”) to support the Section 37 benefits from a settlement between the City and Urbancorp, a private developer, which will result in 70 affordable live-work artist housing units at 150 Sudbury Street. It is proposed to be in effect for a maximum three year term from July 8, 2009 until June 30, 2012.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. a. The City provide, to Artscape’s financial institution, a guarantee of Artscape’s capital loan in the amount of $1,000,000.00 (inclusive of all interest costs payable by Artscape), for a three year term commencing on July 8, 2009 until June 30, 2012.

   b. In accordance with the City’s Capital Loan and Line of Credit Guarantee Policy, the City enter into an agreement with Artscape, and a tri-party agreement with both Artscape and its financial institution, in respect of the recommended capital loan guarantee.

2. Such guarantee and all related agreements be secured in accordance with this report and be on terms and conditions satisfactory to the City Solicitor and the Deputy City Manager and Chief Financial Officer and that the Deputy City
Manager and Chief Financial Officer be requested to negotiate appropriate and adequate safeguards, to the satisfaction of the City Solicitor.

3. Artscape provide the Deputy City Manager and Chief Financial Officer with their 2009 to 2012 inclusive audited financial statements when they become available.

4. 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 will ensure that appropriate project assets will be secured against the capital loan guarantee such that the City would assume control over Artscape’s condominiums in the unlikely event that Artscape is not able to satisfy its commitment to its financial institution. The City’s $1 million loan guarantee will be secured against an executed purchase and sale agreement between the developer of the site, Urbancorp, and Artscape which has a projected net value in the range of $8.4 million.

**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 $94.6 million have been issued by the City.

**ISSUE BACKGROUND**

City Council on September 26 and 27, 2007, adopted Motion M146 150 Sudbury Street – Settlement Offer containing confidential instructions to staff regarding an on-going Ontario Municipal Board appeal. The motion can be found at:


These instructions to staff and the associated Consolidated Settlement Offer were subsequently made public. Among other things, the offer included the development’s affordable housing requirements vis-à-vis Artscape, and can be found at:


In recent years, Artscape has played a catalytic role in the regeneration of some of Toronto’s most important creative communities. City Council at its April 29 and 30, 2009 meeting requested the General Manager, Economic Development, Culture and Tourism, to report to the Economic Development Committee with the list of projects that Artscape is initiating in 2009.
Artscape will see in 2009 the Artscape Wychwood Car Barns become fully operational and the completion of the marketing and sales phase of the innovative Artscape Lofts at 150 Sudbury Street which is the project that is in need of the capital loan guarantee as described in this report. The three other capital works being explored by Artscape in 2009 are responding to the imminent RFP for a project operator at the future Regent Park Arts and Cultural Centre; redevelopment of a vacant Toronto District School Board property at the Givins-Shaw Public School; as well as a collaboration with TEDCO working on plans to redevelop its Liberty Village Artscape headquarters at 60 Atlantic Avenue.

The above is in addition to Artscape’s expanding consulting practice and the current properties under Artscape’s management that include the Artscape Distillery Studios, Artscape Gibraltar Point, Artscape Liberty Studios, Parkdale Arts & Cultural Centre and the historic Theatre Passe Muraille.

COMMENTS

As part of a settlement agreement with respect to a development at 150 Sudbury Street, a developer was granted additional height and density permissions in exchange for, among other things, a deal whereby Artscape would be able to purchase a portion of the condominium building at cost. The benefit has been secured in a Section 37 agreement.

Artscape plans to resell individual condo units to the artist community at below market prices while retaining some units itself for rental purposes. As such, Artscape is expected to gain a significant level of equity while supporting the artist community. At this stage, the building is being constructed and Artscape is finalizing plans to begin marketing the units which are expected to be completed by spring of 2010.

From a financial standpoint, Artscape will incur costs of approximately $1 million for legal, marketing and pre-development activities prior to the units being available for sale. As a result, Artscape needs the financial capacity to incur those costs in advance of sale of units.

In a letter received from Artscape dated June 8, 2009, the City was informed that:

“We have been informed categorically by all prospective lenders that we require a City loan guarantee as security for this financing, as we will not have an asset until purchase date. Specifically, we have entered into discussions with two private foundations, two major Canadian banks and one consortium of credit unions and the response has been uniform amongst them all. They will not agree to finance unless the City loan guarantee is in place as security.”

Because of the late receipt of the formal request from Artscape for the loan guarantee, it was not possible to submit this report to Executive Committee as would normally be the case. As well, the planned schedule for marketing the condominium units and Artscape’s inability to finance the related costs prior to closing of the sales transactions creates some
urgency in responding to the organization’s request. As such, it was not possible to wait until the September 2009 meeting of the Executive Committee to submit this report.

The proposed guarantee would be secured against the purchase and sale agreement between Urbancorp, the project’s developer, and Artscape, providing a form of security against the guarantee. The market value of the units is approximately $19 million with a cost of approximately $8.4 million. The cost of the units to Artscape is locked in with the agreement and is subject to being able to secure financing. In the event of a default, the City would become the owner of Artscape’s allotment of condominiums. This provides a significant buffer for the City should the market value of the condo units fall prior to sale since the $1 million loan guarantee is secured against a net value of the asset and purchase sale agreement currently valued at $8.4 million.

If Artscape defaults on the $1 million loan guarantee, they would also have defaulted on the purchase of the condominiums and the City would have the option, as stated in the previous paragraph, through the assignment of the purchase and sale agreement with Urbancorp, to purchase the units for $8.4 million and either retain or sell them in the open market for a current estimated market value of $19 million and be able to recover the $1 million from the sale proceeds.

The loan guarantee is required to fund legal, marketing and pre-development costs prior to units being sold to the artist community. While the funds will be used to supplement working capital, they are part of the project’s capital costs. Therefore, the proposed loan guarantee is being considered under the criteria of City’s capital loan guarantee policy. The term of the loan guarantee is from immediately following the Council meeting scheduled for August 5 and 6, 2009 until a date no later than June 30, 2012. It is expected that the guarantee would be concluded prior to that date.

The project has not previously received capital funding from the City or any other order of government, and will not require operating grants.

In order to provide additional protection to the City, the audited financial statements for the 2008 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.

It is also recommended that Artscape provide the Deputy City Manager and Chief Financial Officer with their 2009 to 2012 inclusive audited financial statements when they become available.

The Artscape space, taking up the first three floors of the building, will be a mixture of affordable live/work rental and affordable ownership housing, as well as 2 units to be used as a gallery and café. The Artscape Triangle Lofts will have their own entrance, lobby and elevator. The 68 live/work units will be either rented to moderate income artists and arts professionals at no more that 80% of CMHC’s average market rent, or sold at prices approximately 25% below market rates with affordability maintained from one purchaser to the next by Artscape.
The development will provide much-needed affordable live/work space for artists. Artists and arts professionals are creative economy workers that make a valuable contribution to the creative industries sector of the local economy. As a group, artists in the West Queen West area are facing affordability challenges for both housing and work space as the area re-develops, and thus this group is under pressure to relocate. Artists in the West Queen West area have contributed to the area’s character and the Artscape Triangle Lofts will support the retention of artists in the neighbourhood.

**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**

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Cam Weldon  
Deputy City Manager and  
Chief Financial Officer