

Request for a Capital Loan Guarantee for the Centre for Social Innovation

Date:	April 1, 2010
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer General Manager, Economic Development and Culture
Wards:	Ward 19 – Trinity-Spadina
Reference Number:	P:\2010\Internal Services\Cf\Ec10012cf (AFS #11707)

SUMMARY

This report seeks authority for the City to provide a \$4,800,000 capital loan guarantee for the Centre for Social Innovation (“CSI”) to assist in the purchase of a five storey building located at 720 Bathurst Street that will be used to provide office and meeting spaces for various non-profit organizations and small businesses.

CSI has successfully operated a similar site in leased premises at 215 Spadina Avenue which provides space to 180 small non-profit and charitable groups as well as various socially-oriented businesses. The organization is experiencing increasing demand from citizens/communities and intends to replicate and adapt that model to the new space.

Since CSI is a not-for-profit organization with few assets, banks have made it very clear that they will require a loan guarantee from the city if CSI is able to access favourable bank rates. The capital loan guarantee being proposed is to be in effect for an initial five year term from May 18, 2010 until May 18, 2015.

RECOMMENDATIONS

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

1.
 - a. The City provide, to the Centre for Social Innovation’s financial institution, a guarantee of CSI’s first mortgage in the amount of

\$4,800,000.00 (inclusive of all interest costs payable by CSI), for a five year term commencing on May 18, 2010 until May 18, 2015.

- b. The guarantee be issued subject to the CSI raising \$1,328,000 from the sale of bonds and \$406,000 from the sale of a community bond that will provide the equity portion of the proposed financing for the purchase of the building.
 - c. In accordance with the City's Capital Loan and Line of Credit Guarantee Policy, the City enter into a tri-party agreement with CSI 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. CSI provide the Deputy City Manager and Chief Financial Officer with their 2010 to 2015 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 the first mortgage will be secured against the capital loan guarantee such that the City would assume control over CSI's building in the unlikely event that CSI is not able to satisfy its commitment to its financial institution.

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.

ISSUE BACKGROUND

The Centre for Social Innovation is a non-profit corporation that provides shared office space and related services in a leased building located at 215 Spadina Avenue to

approximately 180 small non-profit and charitable groups as well as various socially-oriented businesses.

Acting as a provider of efficient and affordable workspace and a community centre, CSI is supporting small businesses and non-profit organizations by providing them with the opportunity to rent affordable and serviceable office workspace at an accessible location in downtown Toronto.

COMMENTS

CSI has had six years of successful operation with local and international recognition for their work (CSI was awarded the City Innovation Award from the Canadian Urban Institute in 2009). In June, 2004, CSI leased space in the Robertson Building at 215 Spadina Avenue and has added to the initial space through several expansions over the last 5 years. They currently manage 23,000 sq. ft. of space that includes 45 private offices, 54 permanent desks with a shared large desk area that can accommodate up to 24 members at any one time as well as 8 separate meeting rooms. The CSI business model pools resources such as access to telephone and fax systems, internet and e-mail, photocopiers and meeting rooms that would normally not be affordable for smaller non-profit groups unless they are able to share the costs.

This mix of tenancy types is unique to the CSI and is based upon a belief that different people and projects have similar workspace needs and their business model was designed and has been proven to accommodate a variety of different groups and organizations and encourage them to work with each other when appropriate.

By providing these services at an affordable level, CSI acts as an incubator, supporting initiatives with social, cultural or environmental goals. Hosting more than 20,000 visitors annually, CSI provides facilities for hundreds of meetings, workshops, information sessions and community events every year.

With a market of 15,000 non-profit and charitable organizations in Toronto, there is strong market demand for the services that are provided by CSI, as evidenced by an increasing tenant waiting list. They currently have a zero vacancy rate and a growing waiting list for rental space and services that has encouraged CSI to consider expansion to provide affordable, stable space and have worked to build capacity for expansion and began to look for real estate opportunities over the past year.

The organization has not previously received capital funding from the City or any other order of government, and will not require any operating grants. However, CSI intends to apply to Ontario Trillium Fund's Capital Grant program for accessing funding over multiple years to support the building's capital improvements. The maximum funding is \$150,000 per year.

The opportunity to purchase a building located at 720 Bathurst St emerged a few months ago and CSI believes that the building provides an excellent opportunity to expand their

operations to complement the rental space that they currently occupy. The building has five stories with 36,000 sq ft and is located on the west side of Bathurst St. about a block and a half south of Bloor St.

Financial Information

The following is a summary of the proposed budget and financing for the building purchase and required construction and renovations.

Purchase Price (incl. taxes)	\$4,477,500	
Development (renovations)budget	2,355,962	
Total	\$6,833,462	
Funding:		
First mortgage financing	\$4,800,000	
Proceeds of Debt Issue	1,327,500	Sale of bonds to public
Community Bond	405,962	Sale of bonds to public
Grants	300,000	
Total	\$6,833,462	

The amount of the guarantee applies only to the first mortgage of \$4,800,000.

City Staff has reviewed the proposed purchase financing and confirms that \$1.2 million of the proceeds of the debt issue sold by CSI and the funds have been received. The loan guarantee recommendation is subject to CSI raising the remaining financing that they require for the building purchase from their bond and community bond investors. These sources of financing, used to provide an opportunity for investors and members of the community to invest in CSI, will be subordinate to the property's first mortgage and the City's guarantee. Also, the first mortgage which is secured against the City's guarantee takes priority over the debt and community bonds issued by CSI since the interest and principal payments or dividends can be interrupted at their discretion in cases where cash flow is not sufficient to fund these payments.

CSI has been informed by prospective lenders that they will require a City loan guarantee as security for the financing of the building. Specifically, they have entered into discussions with a major Canadian bank and a large credit union and the response has been uniform.

The Centre for Social Innovation creates an annual operating budget that is reconciled monthly and revised on a quarterly basis to reflect the most current projections. Cash flow is checked monthly, with particular attention paid to the status of accounts receivable.

CSI's staff and its Board of Directors have a proven record of successful financial and operations management since its inception in 2004. The Centre has generated a modest surplus in each of its last five years of operation and as of December 31, 2009, a surplus of \$35,000 was generated from revenues of \$1.5 million.

In order to provide additional protection for the City, the audited financial statements for the 2009 fiscal year have been reviewed and a cash flow forecast for the operation of the building has also been reviewed by City staff and demonstrates the project's financial viability.

RISK FACTORS:

Vacancy Rates

On the basis of the business case and cash flow forecast provided by CSI, the building should be self-sufficient and be able to pay the mortgage payments from year 1 until year 10. The cash flow model assumes a vacancy rate of 3.5% and it would have to double to over 7% before the building would be unable to handle all of its debt obligations.

Although past performance is no guarantee of future results, CSI has never experienced a vacancy rate higher than 2.5% during its 6 years of operation at its current location. CSI currently has a waiting list as well as an aggressive marketing program.

Project and Contract Management

CSI's business model depends upon managing the building renovations not to exceed their budget even though these costs represent 25% of the total project building cost and do not include any structural or foundation work.

CSI commissioned a pre-purchase building assessment of the 720 Bathurst Street building in February 2010. It was found that the exterior walls, windows and doors, roof, foundation walls, interior, stairs, heating and cooling systems, as well as elevators were deemed to be in good condition. The site has been certified as uncontaminated. This assessment indicates that the building is in good condition with a very limited need for structural renovations.

Funding Sources for Tenants

It should be recognized that CSI relies on tenancy from a number of non-profit groups who receive their funding support from a variety of sources – governments, individual donors and various grants, and a decrease in government funding may have an impact on certain types of CSI tenants.

This risk is mitigated by the flexibility and adaptability of the space to meet the needs of a wide range of small for-profit enterprises who also rent space from CSI.

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

Rita Davies, Executive Director, Cultural Services

Phone: 416-397-5323; Fax: 416-392-5600; Email: radavies@toronto.ca

SIGNATURE

Cam Weldon
Deputy City Manager and
Chief Financial Officer

Michael H. Williams
General Manager, Economic
Development and Culture