



**STAFF REPORT
ACTION REQUIRED**

**Renewal of Artscape Capital Loan Guarantees for the
Distillery District Studios and the Wychwood/Green Arts
Barn**

Date:	August 3, 2010
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2010\Internal Services\Cf\Ec10041cf (AFS #12715)

SUMMARY

This report seeks Council approval for the renewal of two capital loan guarantees for Artscape in the amounts of \$250,000 for the Distillery District Studios and \$3,200,000 for the Wychwood/Green Arts Barn project respectively from January 1, 2011 until December 31, 2014.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1.
 - a. The City approve a renewal of a capital loan guarantee on behalf of Artscape to its financial institution in the amount of \$250,000 (inclusive of all interest payable by Artscape), commencing on January 1, 2011 and ending on December 31, 2014 for the Distillery District Studios; and
 - b. the City approve a renewal of a capital loan guarantee on behalf of Artscape to its financial institution in the amount of \$3,200,000 (inclusive of all interest payable by Artscape), commencing on January 1, 2011 and ending on December 31, 2014 for the Wychwood/Green Arts Barn project; and

- c. the City enter into two agreements with Artscape with respect to the capital loan guarantees; and
 - d. the City enter into two tri-party agreements with Artscape and its financial institution(s) with respect to the capital loan guarantees.
2. Such guarantees and all related agreements be on terms and conditions satisfactory to the City Solicitor, the Deputy City Manager and Chief Financial Officer as well as Deputy City Manager Sue Corke, 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, with the City being promptly advised in the event of default or delay in the payment of interest.
3. The City retain the right to withhold a portion of outstanding grants that the City may provide to Artscape over the term of the loan if it is not retired or renegotiated by December 31, 2014.
4. Artscape provide the Deputy City Manager and Chief Financial Officer with their 2011 to 2014 inclusive audited financial statements when they become available.
5. The two guarantees be deemed to be in the interest of the municipality.
6. The appropriate officials be authorized to take the necessary action to give effect thereto.

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 the funds beyond any grant funding to Artscape withheld by the City.

DECISION HISTORY

At its meeting held on January 31, February 1 and 2, 2006, City Council adopted the report “Lease of a Portion of the City-owned Property Located at 76 Wychwood Avenue: Non-Residential Component of Wychwood Green/Arts Barn Project” whereby the City entered into a 50 year lease with Artscape for a nominal payment for the development of art-related facilities.

City Council, at its meeting held on March 6, 7 and 8, 2001, by adoption of Clause No. 3 of Report No. 2 of the Policy and Finance Committee, established the Policy of Capital Loan and Line of Credit Guarantees for cultural and community organizations that have a direct financial relationship with the City of Toronto. This policy established a limit of

\$125,000,000 for capital loan guarantees that can be issued by the City for these organizations.

At its meeting held on June 8th and 9th, 2010, City Council adopted the report EX 44.3, "Request for a Capital Loan Guarantee for the Artscape Shaw Street Centre" which contained the following recommendation:

"City Council direct that before any future loan guarantees are considered by the City, Artscape be requested to submit their business plan to the Deputy City Manager and Chief Financial Officer and the General Manager, Economic Development and Culture which achieves the objective of becoming more financially self-sufficient by placing less reliance on loan guarantees and creating more equity in its projects."

Artscape has complied with this recommendation and their business plan is discussed under the "Comments" section of this report.

ISSUE BACKGROUND

Artscape is a not-for-profit corporation and its main mandates are to provide affordable working and living space for Toronto's artists and to promote cultural activities beneficial to the community. Artscape has grown to become a significant not-for-profit, real estate development agency for the arts.

The adaptive reuse of the Wychwood Car Barns as developed by Artscape's "Green/Arts Barns Project" provides a dynamic environment that fosters ideas, collaborations and initiatives that serve the arts and green agendas. The project reflects the City's balanced vision of cultural, educational and recreational uses for the buildings which is sensitive to the surrounding neighbourhood and preserves the integrity of this historical building.

More specifically, the Green/Arts Barns, located at Wychwood and Benson Avenues, continues to provide affordable accommodation for artists and their families; affordable work studios to artists; programming and office space for 13 not-for-profit arts and environmental organizations; and a community gallery, programmable event space and a sustainable food education centre for the local community and the public.

COMMENTS

When a non-profit cultural organization such as Artscape requests a credit facility from a financial institution, there may be a requirement from the lender to obtain a guarantee. Since a portion of their funding consists of a grant approved by Council and the building being redeveloped is owned by the City and leased to Artscape, the City is being requested to provide a guarantee to the lender that it will cover any losses arising from the arrangement. There is no direct cost to the City for providing this guarantee unless the

organization defaults on its obligation and the City cannot recover any funds from them beyond any grant funding that would be withheld by the City

Artscape has requested extensions to two capital loan guarantees previously approved by Council to support two Artscape projects. These consist of the renewal of an existing loan guarantee related to capital improvements at the Distillery for \$250,000 which has been paid down by \$150,000 from its original amount of \$400,000 and \$3,200,000 for the Green Arts Barn which has been paid down by \$300,000 from its original amount of \$3,500,000.

Artscape has requested 4 year extensions for both of the capital loan guarantees in order to coincide with their respective financing terms.

Distillery District Studios

In 2001, the new owners of the Gooderham & Worts Distillery site decided to redevelop the area as an arts and cultural centre, while retaining and reusing the existing Victorian industrial buildings and structures.

Artscape's involvement in the redevelopment of the Distillery District helped to attract the arts community and other creative entrepreneurs to the potential with the acquisition of a below-market twenty year lease for two buildings on the site that was redeveloped by Artscape.

Artscape Distillery Studios is now home to sixty-three work and retail studios, offices, rehearsal and performance spaces for artists and creative entrepreneurs.

In 2007, the City provided a three year loan guarantee for the Distillery studios of \$300,000 which was reduced by \$100,000 from its original amount of \$400,000 in 2004 that will expire on December 31, 2010. Their financial institution has advised Artscape that they will continue to require a City guarantee for this requirement.

Since 2003, the studios have remained fully tenant-occupied and all of the financial obligations under the loan have been satisfied.

Wychwood/Green Arts Barn

This project was completed at a cost of \$19,000,000 that has been funded through a combination of public and private commitments.

A review of the business plan and operating forecast as well as Artscape's 2009 audited financial statements demonstrates that the project has been very successful and continues to have the financial capacity to support the future interest and principal payments of the \$3,500,000 loan. However, since the City has retained ownership of the building and has

leased it to Artscape, they are not able to secure a mortgage against the property and require a guarantee from the City.

As a safeguard for the City, the current agreement provides that the City can withhold part of the grant to the Artscape in the event of a default and it is being recommended that this provision be continued in the renewal. In 2009, the City provided Artscape with an operating grant of \$253,800.

Artscape's Business Plan

City staff have reviewed Artscape's Business Plan, June 2010 and have concluded that their objective of become more financially self sufficient by placing less reliance on City loan guarantees and creating additional equity in its projects is reasonable and achievable. This conclusion is based on the strategies of acquiring assets through new capital project development, explore opportunities to purchase assets at below-market values and increasing working capital and reserve funds while locating and securing alternative and low-interest financing opportunities.

By working to achieve these objectives, Artscape plans to decrease its reliance on City loan guarantees to finance the development phase of its properties.

A primary objective of the business plan is to increase assets under management through the acquisition and development of future properties as well as increasing the leverage and financial capacity of the Artscape Foundation to support Artscape's strategic priorities.

During the next two years, the number of square feet under Artscape management will essentially double, from about 240,000 square feet to approximately 450,000 square feet. Of the new space, Artscape will retain ownership of approximately 60,000 square feet, with a current market value of about \$28 million.

Long-term debt on Artscape-owned buildings will continue to be secured by the property while long-term debt on City-owned properties will continue to require a loan guarantee from the City, which will diminish over the life of the loan. Artscape continues to work with lenders to increase their confidence level in the rental revenue stream, which services this debt consistently, with the future expectation that additional security from the City in addition to the rental cash flows, would not be required.

Once a building has been developed and where Artscape holds an equity position, it will no longer require a City loan guarantee to secure a long term mortgage. For example, the Artscape Triangle Lofts has a residual mortgage for less than \$1.0 million that will be secured by the rental units that Artscape has retained and the cost of this debt will be serviced by the rental revenue.

The City Solicitor has reviewed this report and, if approved, will assist in the preparation of the required documents in conjunction with Artscape and its financial institution.

CONTACT

Len Brittain, Director, Corporate Finance

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

Rita Davies, Executive Director, Economic Development, Tourism and Culture

Phone: 416-397-5323; Fax: 416-392-5600; E-mail: rdavies@toronto.ca

Martin Willschick, Manager, Capital Markets

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

SIGNATURE

Cam Weldon
Deputy City Manager and Chief Financial Officer