Amendments to the Operating Line of Credit and Loan Guarantee Policies and Approval of the Capital Loan Policy

Date: June 3, 2011
To: Executive Committee
From: Deputy City Manager and Chief Financial Officer
Wards: All
Reference Number: P:\2011\Internal Services\Cf\Ec11017cf (AFS #13381)

SUMMARY

This report recommends a capital loan guarantee policy and amendments to the approved operating lines of credit and capital loan guarantee policies for the guidance of City staff and Council in considering and evaluating requests for:

- operating lines of credit and loan guarantees for cultural and community-based organizations, and
- capital loans and loan guarantees for other purposes.

The recommendations will enhance the reporting requirements to Council and provide additional financial protections to the City.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council adopt the Capital Loan Policy contained in Appendix “A” to this report, with the total amount all loans provided by the City under the Capital Loan Policy outstanding at any time limited to an aggregate total of $250 million and the City's capital loan activity be reported to Council annually.

2. The City's Operating Lines of Credit Guarantee Policy be amended by adding the following:
a. The Deputy City Manager and Chief Financial Officer, in recommending approval to Council of any Operating Line of Credit guarantee under this policy, will determine if:

- an equity contribution is required from the organization, depending upon the individual circumstances of the organization; and

- whether the City should take any security for the guarantee, depending upon the nature of the organization and if they have any real property or appropriate assets.

b. Organizations receiving operating line of credit guarantees under this policy be required to provide annual audited financial statements to the Deputy City Manager and Chief Financial Officer as soon as they are available after year-end but not later than six months after year-end as well as an annual updated cash flow forecast and business plan within ninety days of year-end and the Deputy City Manager and Chief Financial Officer will monitor and manage these requirements.

c. The Deputy City Manager and Chief Financial Officer report to City Council annually on the status of operating line of credit guarantees 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.

3. The Capital Loan Guarantee Policy be amended by making the following changes:

a. The total of all capital loan guarantees provided by the City outstanding under this policy at any time be limited to an aggregate total of $300 million and an individual loan guarantee be limited to a maximum of $10 million.

b. In considering providing a capital loan guarantee to an organization, the level of firm financial commitment from the organization to the capital project must be presented to the satisfaction of Council and, as a guideline, the minimum amount of this commitment should be 15 percent of the overall capital project cost.

c. Applicant organizations be required to pay all legal costs associated with establishing the loan guarantee and other agreements as required.

d. For large capital loan guarantees that include capital construction, City operating divisions assign a project manager to monitor construction progress and financial status during construction, require the organization to provide quarterly reports on the construction and financial status and
review and analyze such reports, conduct site visits on a periodic basis, document interaction with the organization, and conclude with a final report on the completion of construction.

e. The Deputy City Manager and Chief Financial Officer report to City Council annually on the status of all capital loan guarantees issued, including: total amounts, actual repayments and current amounts outstanding, and costs associated with defaults or claims paid, if any.

4. In the event of a default on a guarantee entered into under the Operating Line of Credit or the Capital Loan Guarantee Policies and the Capital Loan Policy, the Deputy City Manager and Chief Financial Officer be authorized to fund immediate legal obligations of the City, if any, and seek Council authority for a recommended legal obligations of the City, if any, and seek Council authority for a recommended funding strategy.

5. The appropriate officials be authorized to take the necessary action to give effect thereto.

Financial Impact

Issuance of a line of credit or 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 it was required to pay under its guarantee upon such default.

Loan and line of credit guarantees are recorded as contingent liabilities in the City’s financial statements. The credit rating agencies assess the level of exposure regarding contingent liabilities when assessing the City’s borrowing capacity and credit rating. For this reason, it is important for the City’s financial position that Council adheres to a policy that recognizes the potential financial impact of loan and line of credit guarantees.

This report recommends that the total amount of all financial guarantees other than direct loans provided by the City under the Capital Loan Guarantee Policy be limited to an aggregate total of $300 million. It is further recommended that the Policy be amended to limit an individual capital loan guarantee to a maximum of $10 million to ensure an appropriate level of portfolio diversification and that a single project does not use a disproportionate amount of the overall limit to the detriment of other possible applicants.

It is also recommended that the current limit of $10 million under the Operating Line of Credit Guarantee Policy be maintained.

Direct loans provided by the City are, in effect, investments since the City's cash flow and working capital would have otherwise been able to earn investment returns. Granting these loans incurs an opportunity cost to the City which must be recovered by charging an interest rate that, at a minimum, will compensate the City at the rate of return that would have been earned if the funds were invested in financial assets. Alternatively,
loans with interest rates below market rates create an implied City subsidy. This report recommends, though the newly created Capital Loans Policy, that the total for all direct loans under the Capital Loan Policy be limited to $250 million.

In the unlikely event of a default from an organization receiving a loan guarantee or line of credit guarantee, the City is obligated to step in to make the required payments. This usually consists of paying the full amount guaranteed by the City to the third party lender; however, the City may have the option of making the required regular payments required under the terms of the agreement with the lender. To date, there has been only one incident of default where the City was called on to pay under its guarantee, as described in this report.

Should the City have to make payments upon defaults, there are a variety of options to fund such payments:

a. renegotiate the terms of the commitment with the third party lender (if the third party lender is willing to do so);
b. assume control of the asset or any other securities which have been provided by the organization to which the loan or guarantee has been made (if available); and/or
c. fund outstanding amounts from City funds such as reserve funds, or if there is an underlying asset that reverts to City ownership, through debt.

It is recommended that the Deputy City Manager and Chief Financial Officer be authorized to fund any immediate legal obligations of the City in the event of a default under the recommended policies and seek Council authority for a recommended funding strategy.

**DECISION HISTORY**

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 financial relationship with the City of Toronto. This policy established a cumulative limit of $5,000,000 in line of credit guarantees that can be issued by the City for these organizations, which limit had subsequently been increased to $10,000,000 by Council at its meeting of February 1, 2 and 3, 2005.


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. Capital Loan Guarantees are limited to a total of $125 million.
A number of direct loans and capital loan guarantees have also been separately approved by Council, not under the provisions of the above policies, to City agencies or businesses incorporated by the City such as Toronto Economic Development Corporation (TEDCO - currently Toronto Port Lands Company) or Build Toronto. Examples include the Ricoh Coliseum and the Conference Centre at Exhibition Place. Previously, there was no policy in place that addressed these types of direct loans to ABCC's.

ISSUE BACKGROUND

When a non-profit cultural or other non-profit organization requests a credit facility from a financial institution, the lender may require a third party to act as a guarantor prior to extending credit. When the City acts as a guarantor, the organization usually receives a more advantageous interest rate and credit terms.

The recommended policy amendments set limits on the total amount of guarantees to be provided by the City. The existing policies state that guarantees will only be considered from organizations that have a direct financial relationship with the City and have been denied sufficient and reasonable funding from all other sources.

In addition to loan guarantees, individual loans have been negotiated and approved by Council such as the loans granted to TEDCO for the development of First Waterplace/Corus and the Conference Centre at Exhibition Place. To date, the City does not have an overall loan policy.

The City's Internal Audit Division conducted a review of the Line of Credit and Loan Guarantees and Direct Loans programs and issued a report with several recommendations in September 2010. The focus of this review was to determine the extent of monitoring conducted by the City after guarantees and loans were extended to third parties and whether adequate policies and procedures were in place. Action has been taken by management to address these recommendations, including recommending amendments to the line of credit and loan guarantee policies to include annual reporting to Council on the status of outstanding commitments.

Due to the report from Internal Audit, interest from the City's credit rating agencies as well as the increasing frequency of requests and the changing requirements of various organizations who are requesting guarantees and loans from the City, it was felt that the existing policies needed to be updated to assist City staff and Council in the management of this function.

COMMENTS

Grants, loans and credit guarantees are authorized by section 83(1) and (2) of the City of Toronto Act 2006 (the "Act") for any purpose Council considers to be in the interest of
the City, but due to section 82 of the Act grants, loans and credit guarantees are only authorized to be provided by the City to not-for-profit organizations.

Financial assistance may be provided to a non-profit organization by using the following methods:

1. A direct grant that is not required to be paid back by the recipient;

2. A loan guarantee whereby the organization obtains a loan from a third party lender who is provided with a loan guarantee from the City. The organization is required to make payments on the loan in accordance with its terms and there is no financial impact on the City unless the organization is unable to meet its obligations. However, should the organization default, the City is liable for the outstanding amount of the loan.; and

3. A line of credit guarantee which is similar to a loan guarantee as discussed in (2). However, the City’s exposure can vary with this type of arrangement since the organization can access and repay the line of credit at various intervals. The City is only liable if the organization is unable to repay the credit line.

Typically, the organization can secure a more advantageous interest rate and credit terms if they have obtained a guarantee from the City.

Due to the City’s position as the cultural centre of Canada and a major participant in the North American market, there are potentially more non-profit organizations that may be seeking various forms of assistance than would be found in other municipalities.

Providing financial guarantees to these organizations can be beneficial to the City since these groups provide important services to the community that in many cases could not be provided by the City.

**Operating Line of Credit Guarantee Policy**

This existing policy allows the City to support cultural and community-based endeavours while limiting its financial exposure. Operating and line of credit guarantees are not available under this Policy to anyone other than cultural and community organizations. Guidelines and criteria for evaluating requests define a process for these organizations to follow, ensure equity and discourage the application of exception-based approvals. Adhering to these requirements ensures that only organizations that have not been able to access loans or lines of credit at reasonable interest rates and terms without a City guarantee will be eligible.

In order to protect the City’s financial interests in cases where the City provides an operating line of credit guarantee to an organization with a direct financial relationship with the City, grants can be withheld to the organization if the City is called to make payment to the lender under its guarantee.
The provision of these guarantees does expose the City to a limited but manageable financial risk. However, the policy as well as the continued review of an organization’s audited financial statements, cash flow forecasts and business plans by the appropriate Deputy City Manager (depending on the type of organization) and the Deputy City Manager and Chief Financial Officer minimizes the City’s exposure to risk.

These organizations must demonstrate sound financial management and have high and increasing participation/membership levels particularly where the majority of active members reside within the City.

It is recommended that the current policy maintains the existing cumulative $10 million limit for all operating line of credit guarantees provided by the City of Toronto. At this level, the risk is considered to be manageable while providing adequate room for new requests that will not adversely affect the City’s credit rating. If requests are considered that would cause this amount to be exceeded, Council approval must be obtained to amend the policy.

The recommended changes to the existing policy will enhance the requirements for organizations to provide timely financial information to allow the City to monitor the guarantees and will require regular status reports to Council reporting. As well, there is a requirement that for the Deputy City Manager and Chief Financial Officer to consider, in recommending new guarantees to Council, if an equity contribution is required and whether the City should take some security for the guarantee. This will help ensure that the organizations participate in the financial commitments being provided by the City.

The following table illustrates the operating lines of credit, guaranteed by the City, that are currently in place for cultural organizations:

<table>
<thead>
<tr>
<th>Date Approved</th>
<th>Name of Organization</th>
<th>Amount Authorized $(000)</th>
<th>Expiry Date</th>
<th>Operating Division</th>
<th>Guarantee in Good Standing</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2009</td>
<td>Lorraine Kisma Theatre for Young People</td>
<td>250</td>
<td>December 2012</td>
<td>Economic Development and Culture</td>
<td>Yes</td>
</tr>
<tr>
<td>November 2009</td>
<td>Canadian Stage</td>
<td>800</td>
<td>October 2012</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td>October 2010</td>
<td>Toronto Symphony Orchestra</td>
<td>3,000</td>
<td>October 2015</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td>May 2009</td>
<td>Toronto Philharmonia*</td>
<td>250</td>
<td>May 2012</td>
<td>&quot;</td>
<td>Currently in Default</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4,300</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The North York Symphony Association, operating as the Toronto Philharmonia, was founded in 1971 as a community orchestra and re-organized in 1996 to become a professional orchestra, with its performing home located at the George Weston Recital Hall in the Toronto Centre for the Arts.

The City received notice from the Bank of Nova Scotia, dated May 5, 2010, demanding payment from the City for the amount of $244,000 plus accrued interest since the Toronto Philharmonia had defaulted on its obligation to make payments owing to the Bank.
The Bank of Nova Scotia also informed the City on May 28, 2010 that a judgement of $43,000 has been registered against the Philharmonia by its former landlord who was successful in his legal action of suing the group for unpaid lease payments.

Staff has taken the following actions:

a. made payment to the Bank on November 5, 2010 and took an assignment of the Bank’s security interest;

b. the 2010 City receivable accounts were adjusted to reflect an allowance of that amount;

c. instructed the Toronto Arts Council (TAC) to withhold 2010 and 2011 grants to the Toronto Philharmonia ($31,000 annually);

d. put the TAC on notice that the future portion of their funding that would have been provided to the Toronto Philharmonia will be withheld by the City until such time as any amount of money written off by the City in relation to the Toronto Philharmonia is fully offset;

e. initiated a process of investigating what if any steps can be taken to recover funds from the Toronto Philharmonia.

A receivable was set up and the City will seek recovery if it makes economic sense to pursue.

**Capital Loan Guarantees**

From time to time, requests are received from various organizations for Council to guarantee loans to support the initiatives of organizations that will assist in increasing participation in sports, recreation, culture and community-based activities and help to ensure the viability and sustainability of these organizations. The need for the proposed facility must be based on a sound business case supported by current needs and requirements and a community benefit must also be demonstrated by the project.

It is important that these requests are handled in a consistent and appropriate manner to ensure equitable treatment for the organizations and to manage and minimize the financial risk to the City. Since the size of these capital projects varies, each business case and loan guarantee must be analyzed according to its individual circumstances. A cumulative limit of $300 million with an individual limit of $10 million for a capital loan guarantee is considered to be a reasonable and manageable risk given that the City can usually take a security interest in the project that is not available when providing a line of credit guarantee for a cultural organization under the Operating Lines of Credit Policy.

This recommended limit takes into account previous Council commitments of $244.5 million and provides additional room of $55.5 million for possible future commitments should Council determine that they are justified and necessary.

The offering of loan guarantees will be considered in conjunction with all other funding options and only if the project and the organization’s financial position is demonstrated to meet the principles outlined in this policy.

The following table illustrates the capital loan guarantees issued by the City that are currently in place for cultural and community organizations:
<table>
<thead>
<tr>
<th>Date Approved</th>
<th>Name of Organization</th>
<th>Amount Authorized ($000)</th>
<th>Expiry Date</th>
<th>Operating Division</th>
<th>Guarantee in Good Standing</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2010</td>
<td>Evergreen Brickworks</td>
<td>7,500</td>
<td>June 2014</td>
<td>Parks, Forestry and Recreation</td>
<td>Yes</td>
</tr>
<tr>
<td>December 2008</td>
<td>Theatre Direct</td>
<td>150</td>
<td>November 2013</td>
<td>Economic Development and Culture</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Artscape:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Organization</th>
<th>Amount Authorized ($000)</th>
<th>Expiry Date</th>
<th>Operating Division</th>
<th>Guarantee in Good Standing</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2011</td>
<td>Wychwood Barns</td>
<td>3,200</td>
<td>December 2014</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td>January 2011</td>
<td>Distillery District</td>
<td>250</td>
<td>December 2014</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td>May 2010</td>
<td>Shaw Street Centre</td>
<td>5,800</td>
<td>May 2013</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td>January 2009</td>
<td>FCM Loan Wychwood Barns</td>
<td>600</td>
<td>January 2019</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td>July 2009</td>
<td>150 Sudbury Street Condominiums</td>
<td>1,000</td>
<td>June 2012</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td><strong>Artscape Subtotal</strong></td>
<td><strong>10,850</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 2010</td>
<td>Centre for Social Innovation</td>
<td>5,800</td>
<td>May 2015</td>
<td>&quot;</td>
<td>Yes</td>
</tr>
<tr>
<td>March 2000</td>
<td>Growing Tykes Childcare</td>
<td>1,350</td>
<td>March 2015</td>
<td>Children's Services</td>
<td>Yes</td>
</tr>
<tr>
<td>September 2006</td>
<td>Lakeshore Lions</td>
<td>34,000</td>
<td>September 2044</td>
<td>PF&amp;R</td>
<td>Yes</td>
</tr>
<tr>
<td>2002</td>
<td>Ricoh Coliseum Hockey Arena</td>
<td>20,000</td>
<td>2022</td>
<td>Exhibition Place</td>
<td>Yes</td>
</tr>
<tr>
<td>2010</td>
<td>Build Toronto*</td>
<td>160,000</td>
<td>2015</td>
<td>Build Toronto</td>
<td>Yes</td>
</tr>
<tr>
<td>2010</td>
<td>Public Bike System Company BIXI</td>
<td>4,800</td>
<td>2020</td>
<td>Transportation Services</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>244,450</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*In the case of Build Toronto, the City requires regulatory amendment to allow it to proceed with the guarantee. Subject to receiving this amendment, the City has approved the granting of $160 million loan guarantee which would be in effect for five years. If this amount of $160.0 million is subtracted from the above total, the amount of outstanding capital loan guarantees is currently $84.5 million.

The recommended policy amends the overall dollar limit, adds a requirement for equity participation to ensure that the organization is motivated to complete the project on time and on budget since they have a proportion of funds at risk. Reporting to Council on an annual basis has being recommended as an addition to the Policy.

**Capital Loans for City Purposes**

The following table illustrates the capital loans provided by the City:
<table>
<thead>
<tr>
<th>Name of Organization</th>
<th>Date Approved</th>
<th>Amount O/S as of December 31, 2010 ($000)</th>
<th>Expiry Date</th>
<th>Operating Division</th>
<th>Loan Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference Centre at Exhibition Place</td>
<td>2007</td>
<td>35,600</td>
<td>2032</td>
<td>Exhibition Place</td>
<td>Monthly repayment commenced in Nov 2010</td>
</tr>
<tr>
<td>First Waterfront Place/Corus (to TEDCO)</td>
<td>2008</td>
<td>128,500</td>
<td>2028</td>
<td>TEDCO</td>
<td>Expected recovery of outstanding amount from proceeds of sale of building</td>
</tr>
<tr>
<td>Filmport (to TEDCO)</td>
<td>2009</td>
<td>6,700</td>
<td>2019</td>
<td>TEDCO</td>
<td>Repayment of principal and accrued interest expected during summer of 2011</td>
</tr>
<tr>
<td>Bloor Street Transformation Project</td>
<td>2008</td>
<td>20,000</td>
<td>2024</td>
<td>Transportation</td>
<td>Repayment by the BIA</td>
</tr>
<tr>
<td>North York Performing Arts Centre</td>
<td>1993 (Facility Opening)</td>
<td>10,000</td>
<td>None</td>
<td>Culture</td>
<td>Currently, no repayment schedule</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200,800</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The recommended capital loan policy limits the amount of loans that can be granted by the City to a maximum amount outstanding at any time of $250 million. This limit is being recommended as being manageable in relation to the amount of working capital that the City is willing to commit to providing loans without impairing its cash management and operational requirements and resources. It also recognizes that these loans are approved with the objective of providing capital financing until the loan is either paid or another more permanent source of financing is identified, thus creating additional capacity within the limit when loan payments are received and the loans are eventually paid off. With the recommended policy amendments, there is additional room of approximately $50 million for future initiatives should Council so desire.

**Internal Audit Review**

The Internal Auditor, in a report to staff dated September 23, 2010, reviewed the existing policies with the following objectives:

- To assess the adequacy of monitoring by City staff of capital projects and financial status of organization after a guarantee has been extended.
- To assess whether adequate processes and procedures are in place for granting and monitoring direct loans to organizations.
- To identify additional actions, if any, that could be taken to improve the monitoring of loan and line of credit guarantees and direct loans.
It was recommended that the City examine the possibility of establishing a loan loss reserve that would be adequate to cover any potential defaults that may occur. Implementation of this recommendation would require a funding source. Staff examined this recommendation in the context of the City's financial situation, the relatively low risk of default, the varying nature of each loan or guarantee, and the fact that the City has taken security in these loans and guarantees. Instead of creating and funding a dedicated reserve, it is recommended that, in the event of a default on a guarantee entered into under these policies, the Deputy City Manager and Chief Financial Officer be authorized to fund any immediate legal obligations of the City and seek Council authority for a recommended funding strategy, including the use of security interests to cover any potential losses.

It has also been recommended that the Corporate Finance Division consider implementing several risk sharing strategies and the ones that are feasible such as requesting that the organization provide an equity contribution, when possible, has been included in the loan and line of credit guarantee policy. These amendments are included in the recommendations in this report.

Internal Audit has requested that an annual compliance with the loan and line of credit guarantee policy report be created that is presented to Council annually. This report recommends that the loan and line of credit guarantee policy be updated to include this requirement.

CONTACT

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SIGNATURE

Cam Weldon
Deputy City Manager and Chief Financial Officer

ATTACHMENTS

Appendix A – Direct Capital Loan Policy
Appendix A

Direct Capital Loan Policy

Purpose:

The purpose of this policy is to provide a framework for Council to consider requests from City agencies, boards, commissions and corporations (ABCC) to issue a loan to contribute to the financing of a project that will create or enhance a capital facility.

The loan for the capital facility should contribute to achieving the City's economic development objectives that will benefit the public by increasing its tax base, creating jobs and stimulating the local economy by encouraging new economic activities or the expansion of existing activities.

Providing a loan will be considered in conjunction with all other funding options for the project with the ABCC's financial position being demonstrated to meet the principles as outlined in this policy.

Principles:

Council recognizes the value of its ABCC's investing in capital projects within the City and its role in helping them to provide facilities that will contribute to their ongoing sustainability, viability and provision of services.

Background:

On occasion, requests from various ABCC's for Council approval of loans are received. It is important that these requests are handled in a consistent and appropriate manner to ensure equitable treatment and to manage and minimize the financial risk to the City.

It is also important for Council to ensure that projects that are supported in this manner are sustainable and that the due diligence function is performed to provide a high degree of confidence that the project will achieve the City's objectives as stated in the Purpose of this Policy.

Loans are recorded as assets in the City’s financial statements but any loan provided to entities for which the accounts are consolidated with the City's accounts are eliminated upon consolidation.

The credit rating agencies assess the quality and performance of these assets when assessing the City’s borrowing capacity and credit rating. For this reason, it is important for the City’s financial position that Council adheres to a policy that recognizes the financial impact of these approved loans.
Policy Objective:

Direct loans provided by the City are, in effect, assets and investments since the City’s cash flow and working capital would have otherwise been able to earn investment returns. Granting these loans incurs an opportunity cost to the City and should be recovered by charging an interest rate that, at a minimum, should compensate the City at the rate of return that would have been earning if the funds were invested in financial assets.

Policy Statement:

Council will consider providing a capital loan to an ABCC and when the following can be demonstrated to the satisfaction of Council.

1. Funding Options and Council’s Financial Limits:

Other sources of funding have been exhausted. The total amount of all outstanding loans provided by the City of Toronto under this policy at any time is limited to $250 million in aggregate. If requests are considered that would cause this amount to be exceeded, Council approval must be obtained to amend this policy.

2. Purpose and Size of the Loan:

The loan is being used to upgrade or establish capital facilities and not to fund operations or support operating deficits.

3. Justification of the Project:

The need for the facility proposed is based on a sound business case supported by current needs and requirements.

The loan provided by the City is 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 is demonstrated by the project.

Assessment of the Organization’s Financial Viability:

- Financial stability including audited financial statements for the past 2 years with financial projections that take into account the additional loan/lease repayments where applicable.

- Sound history of financial and project management including a Business Plan.
4. Requirement for an Equity Contribution by the Organization

The Deputy City Manager and Chief Financial Officer, in recommending approval to Council of any loans under this policy, will determine if an equity contribution is required for the granting of a loan, depending upon the individual circumstances of the organization.

5. Review of Leases / Licences, if Applicable:

Existing lease/licence arrangements and rental fees will be updated and reviewed to take into account changes as a result of the proposed project.

Loan terms must be no longer in duration than the remaining term of the relevant leasing and/or operating agreements.

6. Other Considerations:

Loan information and supporting documentation will be required for the due diligence to be performed by the Deputy City Manager and Chief Financial Officer, the City Solicitor and other City staff or external consultants, when deemed to be applicable.

The duration of the loan shall not exceed the effective life of the facility to be constructed.

The organization must demonstrate the ability to operate the project in an efficient and profitable manner.

Preference will be given when a capital facility is constructed on City-owned property so that it would be possible for the project to revert back to the City in case of a default or as part of the terms of an agreement.

7. Provision of Information:

The ABCC agrees to provide the Deputy City Manager and Chief Financial Officer with annual audited financial statements for the duration of the loan.

8. Payment of Costs:

The applicant must be willing to pay all legal costs and external consultant costs, when applicable, associated with establishing the loan and other agreements as required.

9. Annual Reporting to Council
The Deputy City Manager and Chief Financial Officer will report to City Council annually on the status of direct loans including: total amounts of loan issued, repayment expectations, actual repayments and current amounts outstanding, and costs associated with defaults or claims paid.

10. Policy not Retroactive

This policy is not retroactive and becomes effective after approval by Council.

June 3, 2011
Corporate Finance