STAFF REPORT
ACTION REQUIRED

Leaside Arena 2nd Pad Expansion Project

Date:	January 5, 2012
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer, and General Manager, Parks, Forestry and Recreation
Wards:	Ward 26
Reference Number:	P:\2012\Internal Services\Cf\Bc12002cf (AFS #14961)

SUMMARY

This report seeks the necessary authorities to receive financing from Infrastructure Ontario ("IO"), to make a loan to the Leaside Memorial Community Gardens ("LMCG") Arena Board of Management (the "Arena Board) and to enter into all the necessary agreements, to facilitate the construction of a second ice pad at the Leaside Memorial Community Gardens Arena (the "Project"). Funding for the project is contained in the Parks, Forestry and Recreation ("PF&R") 2012/2013 Capital Budget submission.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and General Manager, Parks, Forestry and Recreation recommend to Council that:

1. City Council delegate authority to the Mayor and Deputy City Manager and Chief Financial Officer to enter into a Financing Agreement with IO during 2012 to borrow from IO and to issue a revenue bond to IO upon such terms and conditions generally as are set out in Attachment A to this report, so as to provide an amount not exceeding $1.5 million for the purposes of the Project, and that By-law No. 330-2011 be amended accordingly.

2. The City's Financing of Capital Works Policy and Goals be amended as set out in Attachment B to this report to include the issuance of revenue bonds by the City.

3. City Council approve the granting of a loan to the Arena Board in an amount not to exceed $9.0 million, consisting of a loan from the City of up to $7.5 million and the proceeds of up to $1.5 million from the loan from IO received by the City

pursuant to Recommendation 1, on terms and conditions generally as are set out in Attachment C to this report, and that authority be granted to enter into a loan agreement with the Arena Board in respect of this loan on such terms and conditions as are satisfactory to the Deputy City Manager and Chief Financial Officer in consultation with the City Solicitor.

4. The loan recommended in Recommendation 3 be deemed to be in the interests of the City.

5. Authority be granted to receive funds for the Project through cash donations and contributions from The East York Foundation (the "Foundation") and/or the community directly, and that agreements be entered into between the City, the Arena Board, IO and the Foundation to ensure that all donations received by the Foundation and the Arena Board for the Project, after the initial fundraising capital campaign of $2.5 million, net of reasonable fundraising costs, are solely applied to the IO Loan, and further, that all expenses paid from the fundraised donations collected for the Project are valid documented expenses which are necessarily incurred as a direct consequence of securing the donations.

6. Despite the standard composition policy for Board membership previously established by Council:

    a. City Council appoint a representative from IO to the Arena Board for a term or terms commensurate with the duration of the IO Loan,

    b. City Council provide for this representative to also sit on the Audit/Finance Committee of the Arena Board; and,

    c. City Council amend the Relationship Framework for Boards of Management to give effect to this limited change.

7. City Council grant authority to establish the Leaside Memorial Community Gardens Arena Debt Service Reserve Fund for the purpose of providing a source of funding for any shortfalls in loan payments for the Revenue Bond issued to IO or the City's recoverable debt, as further described in Attachment D of this report, and that the City of Toronto Municipal Code Chapter 227, Schedule 15, Third Party Agreements Obligatory Reserve Funds, be amended to add this reserve fund.

8. City Council grant authority to enter into all such other agreements and documents as may be required, desirable, or necessary in relation to the implementation of the recommendations of this report, all on substantially such terms and conditions as are set out in this report and as are satisfactory to the Deputy City Manager and Chief Financial Officer in consultation with the General Manager of PF&R, and in a form acceptable to the City Solicitor.

9. City Council grant authority for the introduction of the necessary Bills in Council to give effect to the recommendations of this report.

10. City Council authorize and direct the appropriate City officials to take the necessary action to give effect hereto.

Financial Impact

PF&R has projected a total construction cost for the arena Project of $12.5 million. Of this total, $9.5 million has been provided in the 2010 and 2011 PF&R Capital Budgets. This includes $7 million of City recoverable debt and $2.5 million raised by the Arena Board through a community capital fundraising campaign.

In 2011, an initial tender process determined that $9.5 million was not adequate for the Project and that $3 million of additional funding would be required. The 2012 Recommended Capital Budget for PF&R includes a change of scope Project for the additional $3 million. Project cash flows were reviewed and it was determined that they can support $7.5 million in recoverable debt provided by the City with minimal financial risk. IO, in providing a $1.5 million subordinated non-recourse loan will assume the financial risk of the Project generating excess cash flow and from external fundraising. PF&R will provide $1.0 million from reserve funding. Outside of the design and construction costs of $12.5 million, the City had previously budgeted, from Parkland Acquisition Reserves, funding of $1.287 million for the purchase of 1075 Millwood Avenue and $0.600 million to demolish the building on the site and prepare it for construction. Thus the total City contributions from Parkland Acquisition and Parkland Development Reserve Funds will be $2.887 million.

The financial risk to the City has been minimized by the use of funds from the community, existing funding from the capital program, and a non-recourse loan from IO.

Since this additional ice pad will be operated in conjunction with the first Leaside Gardens pad by the Arena Board, no direct operating impact as a result of the Project is expected, as the City's Arena Boards operate on a break-even model.

DECISION HISTORY

Since 2001, the Arena Board, in cooperation with PF&R staff, have been exploring the feasibility of constructing a second ice pad to meet the needs of facility users and community residents for ice time.

In 2008, Council authorized the acquisition of 1075 Millwood Road from the Province. Parkland Acquisition Reserve Funds totalling $1.887 million were budgeted for this acquisition, including demolition and site preparation costs. In doing so, staff were directed by Council to work with the Arena Board to establish a business plan for the development and management of an additional indoor ice pad at the expanded site.
http://www.toronto.ca/legdocs/mmis/2008/cc/decisions/2008-05-26-cc21-dd.pdf

City PF&R and Corporate Finance Staff received and reviewed a business plan from the Arena Board in late 2009, followed by a revised business plan in February 2010.

In February 2010, during consideration of the report entitled "Ice Allocation Practices in City Arenas Operated by Arena Boards of Management" Council reaffirmed its position that staff continue negotiations and develop a business plan with the Arena Board on the 'twinning' of the existing ice pad which includes financial impact and community benefits of the Project, and if suitable terms can be reached, staff report on the business requirements and necessary approvals for the 2011 Capital Budget.
http://www.toronto.ca/legdocs/mmis/2010/cc/decisions/2010-02-22-cc46-dd.htm

At its meeting in July 2010, during consideration of the report entitled "Amendment to the 2010 PF&R Capital Budget to Accept a Donation from The East York Foundation for Leaside Memorial Gardens," Council approved the acceptance of a donation from The East York Foundation in the amount of $525,000 to fund the schematic and detailed design of the proposed second ice pad at LMGC. This advance donation was the first portion of the $2.5 million commitment from the Leaside community.
http://www.toronto.ca/legdocs/mmis/2010/ex/bgrd/backgroundfile-30909.pdf

COMMENTS

In 2010, City PF&R and Corporate Finance Staff reviewed the 2010 business plan for the additional indoor ice pad at the site. The plan estimated the capital cost of the Project at that time at $9.5 million. City Corporate Finance staff estimated that $7 million of City recoverable debt could be supported from the additional cash flow the Project would generate, and the Arena Board advised they would raise $2.5 million from fundraising from the Leaside community, the initial fundraising capital campaign.

By August 2011, the Leaside community had raised $2.1 million ($1.9 million cash in hand, and $200,000 in pledges; of this, $525,000 has been provided to the City to fund the architectural and detailed design work).

In mid-September 2011, with information from an initial bid process, it was determined that the cost of construction would require an additional $3 million for the Project. Through the fall of 2011, a review of the cash flows in the business plan determined that an additional $0.5 million of City recoverable debt funding was warranted, PF&R staff determined that $1.0 million of Parkland Development funds were available, given the service potential of the Project, and a $1.5 million loan was secured from IO. Some specifications and options for the Project will be reviewed and a new bid process initiated shortly.

The Leaside community is committed to meet their $2.5 million fund raising target by providing the balance of $0.400 million (part of the original $9.5 million Project cost) over the current cash and pledges in hand. Together, this makes up a $3.4 million gap in the financing of the Project, meeting the $12.5 million cost.

To close this funding gap, PF&R has allocated $1.0 million in the 2012 recommended Capital Budget with 2013 cash flow, funded by reserve funds, towards the Project. Corporate Finance staff have also agreed the pro-forma Project revenues can support up to an additional $500,000 in recoverable debt with minimal risk, which has also been included in the 2012 recommended Capital Budget with cash flow in 2013.

IO, through its Loan Program, has offered a $1.5 million non-recourse loan for the Project, with 2013 cash flow. From IO's review of the Leaside Business Plan, they believe that up to an additional $1.5 million could be supported from a combination of Project net revenues above which are required to repay the City's recoverable debt of $7.5 million on a 30-year amortized schedule, and future Leaside fundraising after the initial fundraising capital campaign target of $2.5 million is reached, at minimal risk to them.

As such, IO will provide such loan on a non-recourse basis to the City without an interest in real property, secured only by a subordinate position on net Project cash flow, and on a first priority position on external fundraising beyond the initial fundraising capital campaign.

Chart1 below identifies the funding sources for this Project.

Chart 1 - Summary of Funding Sources

	$M's	
Previously Approved:		
City - Recoverable Debt	7.0	
Leaside Fundraising	2.5	
		9.5
Recommended Additional Funding:		
City - PF&R Additional Capital contribution	1.0	
City - Increase in Recoverable Debt	0.5	
Infrastructure Ontario Loan	1.5	
		3.0
Total Funding		12.5
Less:		
Design/Architectural Work:		-0.5
Total Available Funding		12.0

Infrastructure Ontario Non-Recourse Loan

The non-recourse loan from IO will be structured as a revenue bond issued by the City to IO. A revenue bond is a bond issued by a municipality to finance a specific public works project which is secured by the revenues of that project. Ontario Regulation 610/06 under the *City of Toronto Act, 2006*, provides the City with the authority to issue such a revenue bond, and the City of Toronto is the only Ontario municipality given such power, having been granted the power pursuant to such Act.

This report recommends this approach to obtain $1.5 million in funding without imposing any additional financial risk to the City. Repayment of the Revenue Bond will be limited to the Project net cash flow after repayment of the City's recoverable debt, and external fundraising after the Arena Board's initial $2.5 million capital fundraising campaign has been met. If there is excess cash flow from the project, it will first be applied to build-up a Debt Service Reserve Fund until such time that one year's debt service cost has been accumulated in the reserve fund, and then thereafter to pay down principal on both the City's loan and the IO loan on a pro-rata basis. External fundraising after the community's initial $2.5 million capital fundraising campaign will go directly to reducing the principal on the IO loan. A capital levy surcharge of not less than $20.00 per hour on contracted prime time ice rental rates will also be required in the start-up years until such time that that one year's debt service cost has been accumulated in the reserve fund (the "Reserve Limit").

In the event that the project net cash flow and external fundraising is insufficient to meet the debt repayment obligations in any period, then such amounts will be drawn down from the Debt Service Reserve Fund. Furthermore, an escalation of non-contracted prime-time ice rental rates to a level of up to 90% of market rates will be imposed, as may be required by IO. The reinstatement of the capital levy surcharge on contracted prime time ice rentals will also be required, if not already being levied. At no time will the City be required to make any debt repayments for the IO loan.

Revenue Bond

In structuring a non-recourse loan for long term financing of the Project, the City is limited by its authority under the *City of Toronto Act, 2006* and under Ontario Regulation 610/06 (the "Regulation") to issuing a revenue bond to IO.

A revenue bond is defined by the Regulation as "an agreement entered into by the City for the borrowing of money whereby the City secures its obligation under the agreement, (i) with an interest in fees, charges or any other revenues that are not tax revenues of the City, or (ii) with an interest in any other property of the City".

City Council has delegated the authority to enact by-laws for the issuance of debentures and other long-term debt instruments to the Debenture Committee. However, in order for the Debenture Committee to be authorized to enact such by-laws, the Mayor and the Deputy City Manager and Chief Financial Officer must have entered into an agreement to issue the debt instrument pursuant to the authority delegated to them, and up to the annual borrowing limit delegated to them by Council pursuant to By-law No. 330-2011.

The authority delegated to the Mayor and the Deputy City Manager and Chief Financial Officer under By-law No. 330-2011 requires an amendment to include the authority to enter into agreements to issue revenue bonds. Accordingly, this report recommends that such authority be delegated to the Mayor and Deputy City Manager and Chief Financial Officer and that By-law No. 330-2011 be amended accordingly.

Furthermore, the *City of Toronto Act, 2006* requires the City to have a Financing of Capital Works Policy and Goals (the "Capital Financing Policy"). The Capital Financing Policy adopted by Council contemplated amendment should the City wish to issue revenue bonds in the future. Accordingly, the Capital Financing Policy requires amendment to address the issuance of revenue bonds. Attachment B to this report sets out the recommended amendments to the Capital Financing Policy.

CONCLUSION:

The Project cash flows can support $7.5 million in recoverable debt by the City with minimal financial risk. IO, in providing a $1.5 million subordinated non-recourse loan will assume the financial risk in the Project generating excess cash flow and from external fundraising. PF&R will provide $1.0 million in their Capital Program. The Arena Board will provide a total of $2.5 million raised from the community, to meet the estimated Project construction cost of $12.5 million ($12.0 exclusive of design costs already expended).

In total, the City's direct contribution will be $2.887 million from parkland acquisition reserve funds, including the $1.887 initial acquisition and site preparation as well as the $1.0 million contribution for construction. The community's direct contribution will be at least $2.5 million, with additional amounts to be fundraised. The City's indirect contribution is $7.5 million as a recoverable loan. The Province has also indirectly contributed through the IO $1.5 million non-recourse loan.

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ATTACHMENTS:

Attachment A – General Terms and Conditions Associated with $1.5 million Infrastructure Ontario Non-Resource Loan
Attachment B - Amendments to the "City of Toronto's Financing of Capital Works Policy and Goals" to address revenue bonds
Attachment C - General Terms and Conditions Associated with $9.0 million City Loan to LMCG Arena Board of Management
Attachment D- Leaside Memorial Community Gardens Arena Debt Service Reserve Fund

Attachment A
General Terms and Conditions Associated with
$1.5 million Infrastructure Ontario Non-Recourse Loan

Loan Details:

Borrower:

City of Toronto

Purpose:

For construction of a second ice pad at the Leaside Memorial Community Gardens Arena (the "Project") located in Toronto, Ontario.

Amount Requested:

$1,500,000 20 year term loan with quarterly payments of principal and interest will be paid based on a 20 year amortization (the "IO Amortizing Loan").

Term proposed by IO and Indicative Interest Rate:

Quarterly payments (Nov., Jan., Mar., and Jun.) will be paid based on a 20 year term at an underwriting rate of 3.59% on an equivalent basis as at December 19, 2011. The interest on the IO Amortizing Loan is based on a fixed rate basis for the entire term of the loan.

The Borrower shall notify IO in advance of the date(s) on which substantial completion of the Project will be achieved and the Borrower requires the IO Amortizing Loan to be advanced.

The interest rate shall be fixed by IO based on IO's cost of funds plus IO's prevailing spread assigned to the borrower sector for program delivery costs and risks. A rate confirmation letter will be sent to the Borrower by IO after confirming the interest rate to be offered and the Borrower's acceptance of such offer shall be conclusive proof of acceptance of the rate offered.

Sources and Uses:

IO's Terms and Conditions are based on the following sources and uses:

Financing Program	$	% of Total Cost
Total Project Costs	$12,205,000	100%
Sources of Funds		
Borrower's Loan	$7,500,000	61%
Borrower's Capital Contribution	$1,230,000	10%
Arena Board Fundraising	$1,975,000	16%
IO Amortizing Loan	$1,500,000	12%
Total	$12,205,000	100%

In the event that the cost of the Project is less than $12,205,000 any reduction up to $500,000 in the cost of the Project will reduce the amount of the Borrower's Loan by the amount of such reduction (the Borrower's Loan will be in the minimum amount of $7,000,000) and any reduction in the cost of the Project in excess of $500,000 will reduce the amount of the IO Amortizing Loan by the amount of such reduction (in the event of a $2,000,000 reduction in the cost of the Project, there would be no IO Amortizing Loan).

Cash Flow Distributions:

The Borrower shall cause the Arena Board to first apply net business revenues generated in respect of the Leaside Memorial Community Gardens Arena (the "Arena"), after expenses, (the "Unrestricted Cash Flows"), to pay scheduled payments of principal and interest on the Borrower's Loan. The Borrower shall then cause the Arena Board to apply the remaining Unrestricted Cash Flows to pay any outstanding scheduled principal and interest on the IO Amortizing Loan. Thereafter, subject to Section 11, the Borrower shall apply any remaining Unrestricted Cash Flows to prepay principal on the Borrower's and the IO Amortizing Loans on a pro-rata basis.

For clarity, Unrestricted Cash Flows represent net revenue items which include: ice rental fees, concession earnings, advertising revenue, and annual naming rights revenues

Fundraising Funds:

Subject to Section 17, the Arena Board will actively fundraise annually and collect donations which, net of fundraising expenses, will be solely applied to pay down the IO Amortizing Loan. Any fundraising proceeds, after the initial fundraising capital campaign of $2,500,000 (the "Initial Fundraising Campaign"), net of fundraising expenses, will be solely applied to pay the IO Amortizing Loan. For greater certainty, the Initial Fundraising Campaign will end when the Arena Board has raised donations in the aggregate amount of $2,500,000, net of fundraising expenses (the Arena Board has to date raised $525,000).

Proposed Terms and Conditions

Security:

1. Revenue bond of the Borrower pursuant to which the Borrower provides to IO an interest in the following in respect of the Arena (the "Pledged Funds"): 2nd priority rights and assignments of all Unrestricted Cash Flows of the Arena.
2. Agreement between the Borrower, the Arena Board, The East York Foundation and IO to ensure that all donations received after the end of the Initial Fundraising Campaign, net of fundraising expenses, will be solely applied to pay the IO Amortizing Loan.
3. A 2nd assignment of the proceeds of insurance by way of dual oblige rider. The insurance policies must show IO as the Loss Payee or the Dual Oblige Rider with the correct name and address as follows:

   Ontario Infrastructure and Lands Corporation
   9th Floor, 777 Bay Street
   Toronto, ON, M5G 2C8

4. The revenue bond will be without recourse to any assets of the Borrower other than the Pledged Funds and the donations in respect of the Arena.

Covenants for the IO Amortizing Loan:

5. The IO Amortizing Loan may be prepaid at any time without penalty, in an amount up to 15% of the principal outstanding in any year.
6. The Arena Board and the Borrower, as applicable, shall seek to maximize net revenue in respect of the Arena (subject to the provisions below) for the benefit of the Borrower and IO respectively while the IO Amortizing Loan remains outstanding, and shall not reduce any fees or charges relating to the Arena, from the amounts of such fees and charges as set out in the Arena Board's Business Plan without the prior consent of IO. For greater clarity, the Business Plan refers to the Leaside Memorial Community Gardens February 2009 Business Plan which was prepared by HLT Advisory and the related financial model prepared by HLT Advisory and updated by the Arena Board in November 2011.
7. No additional long-term debt in respect of the Arena or its assets ranking in priority to the IO Amortizing Loan shall be incurred without prior consent from IO.
8. The Borrower shall continue to be financially responsible for all major capital maintenance works of the Arena to keep it in a state of good repair in a timely manner and fully operational.
9. The Borrower shall not revoke or amend any material agreements affecting the Arena without substituting a comparable agreement to ensure the security of IO is preserved.
10. Upon the request of IO, the Borrower shall appoint a representative from IO to the Arena Board, who shall also sit on the Audit Committee of the Board.
11. In each month during the term of this financing, the Unrestricted Cash Flows, after payment of scheduled payments of principal and interest on the Borrower's Loan and/or the IO Amortizing Loan, as the case may be, shall be deposited into the Debt

Service Reserve until such account holds funds equal to one year of such scheduled payments. Thereafter, excess cash flows can be distributed to the Borrower’s Loan and the IO Amortizing Loan for prepayment of principal.

12. Commencing in the first year of operations of the Project, the Arena Board shall levy a surcharge on all contracted prime time ice rental of not less than $20 per hour, at the Arena Board’s discretion, until such time as the Debt Service Reserve is fully funded as contemplated in Section 11. The funds raised shall be deposited into the Debt Service Reserve held by the Borrower to pay scheduled principal and interest payments to the City and IO, if required.

13. The Arena shall maintain a Debt Service Coverage Ratio (“DSCR”)* at 1.05 to 1 or higher for the term of the IO Amortizing Loan. This ratio shall be tested annually upon receipt of the Arena’s audited year-end financial statements.

    *Debt Service Coverage ratio is defined as the Earnings (including fundraising) before Interest, Taxes, Depreciation and Amortization (EBITDA) minus annual contributions to any maintenance reserve divided by the sum of principal and interest payments in respect of the Borrower’s Loan and the IO Amortizing Loan. The requirement to maintain a DSCR at this level shall be waived in the first year of operation of the Project.

14. If in any month the Unrestricted Cash Flows, as per the Cash Flow Distribution, in addition to the donation funds raised are insufficient to pay the scheduled payments of principal and interest on the Borrower’s Loan and/or the IO Amortizing Loan, and any outstanding payment and accrued interest, IO shall first access funds held in the Debt Service Reserve to satisfy such scheduled payments. In the event that some or all of such scheduled payments remain unpaid, or in the event that the Arena’s DSCR falls below 1.05 to 1 after the first year of operation of the Project, the Arena Board shall:

    a. Increase the ice rental rates for all non-contracted users (including community users) of prime time ice time at the Arena (both ice pads) up to 90% of Market Rates, at the written direction of IO, for winter or summer periods as the case may be, in order to maximize income available to repay outstanding loan amounts. This increase shall be effective no later than 90 days from the first date of failure to meet the scheduled payments of principal and interest on either the Borrower’s Loan or the IO Amortizing Loan or failure to meet the DSCR covenant.

    b. Provided the Debt Service Reserve is fully funded, levy a surcharge on all contracted Prime time ice rental of not less than $20 per hour, at the written direction of IO, if not already levied. This increase shall be effective no later than 90 days from the first date of failure to meet the scheduled payments of principal and interest on either the Borrower’s Loan or the IO Amortizing Loan or failure to meet the DSCR covenant. Thereafter, all new contracted ice rentals, or renewals for the subsequent seasons, shall be set at a level up to 90% of Market Rates.

The surcharge and rate increases shall be maintained until the Unrestricted Cash Flows are sufficient to pay the scheduled payments of principal and interest and any outstanding amounts in full and the Debt Service Reserve is fully replenished as contemplated in Section 11.

15. The Borrower shall comply in all material respects with all applicable laws, regulations and directives including all applicable environmental laws and regulations, and shall notify IO immediately of any material violation of such applicable laws, regulations and directives.

16. The Borrower will not dispose of the Arena or make any significant change in its usage, and ownership until the IO Amortizing Loan is paid in full.

17. The Borrower will require the Arena Board to provide an annual fundraising plan as part of its annual budget during the term of this financing unless no fundraising is required in any year, as may be specified from time to time by IO. Without limiting the Borrower's ability to approve, amend or reject budgets of its local boards, including the Arena Board, until the IO Amortizing Loan is paid in full, the Arena Board shall be required to submit an annual budget to the Borrower which, when considered together with its fundraising plan (if any), shall provide for the payment in full of the scheduled payments of the Borrower's Loan and of the IO Amortizing Loan.

18. The Borrower will require the Arena Board to engage or set up, if permissible, at its option, a registered charity (including, without limitation, The East York Foundation) for the collection of fundraising dollars on a multi-year basis

19. The Borrower will require the Arena Board to ensure that all expenses paid from the fundraised donations collected are valid documented expenses which are necessarily incurred as a direct consequence of securing the donations. IO shall be notified of all individual fundraising expenses between $1000 and $3000. IO shall approve all individual fundraising expenses above $3000.

Reporting requirements shall include:

I. The Borrower and the Arena Board will work together to ensure the timely delivery of financial statements of the Arena Board for the term of this financing.

II. The Borrower and the Arena Board will work together to ensure submission of annual Operating Budgets & Capital Budgets for the Arena in a timely manner for the term of this financing.

III. The Borrower and the Arena Board will work together to ensure submission of internally prepared quarterly financial statements of the Arena in a timely manner for the term of this financing.

IV. Submission of a copy of a substantial completion certificate upon completion of the construction, together with a final report prepared by the Project Manager.

Conditions Precedent to the IO Amortizing Loan Advance

20. Substantial completion of the Project will have been achieved.

21. Satisfactory review of the duly executed fixed price Construction Contract by IO. The aggregate amount of the Construction Contract is at a price not greater than what has been stipulated in the Project budget. The Construction Contract is to be assigned to IO and the contractors are satisfactory.
22. Satisfactory review by IO of written pledge commitment letters (with payment schedules)
23. No default on any of the Borrower's other long-term indebtedness shall exist that is not being contested by the Borrower.
24. Security in form satisfactory to IO will have been delivered.

Attachment B
Amendments to the "City of Toronto's Financing of Capital Works Policy and Goals" to address revenue bonds

This policy was approved by Council at its meeting held on February 23, 2011.

Link to "City of Toronto' Financing of Capital Works Policy and Goals"

Financing of Capital Works Policy and Goals and Multi-Year Debenture and Temporary Borrowing Authorities

(http://www.toronto.ca/legdocs/mmis/2011/bu/bgrd/backgroundfile-35761.pdf)

Revenue Bonds

The issuance of revenue bonds will be addressed by a statement that will amend this policy when available.

Amendments:

General Description of Revenue Bonds and Comparison to Debentures Issued by the City of Toronto:

Revenue bonds are secured by a specific income stream that is generated from a City capital project that is being financing by the bonds and the bonds are non-recourse to the City if there is a default. As a comparison, the City generally issues debentures that are unsecured. Debentureholders rely upon the City's credit rating and promise to repay the principal and to fund the interest payments from its general revenues. Debentures are often referred to as general obligation bonds.

Municipal revenue bonds are considered to be bonds that finance income-producing projects without recourse to other municipal assets. The income generated by these projects pays the bondholders their interest and principal.

Income being generated from the capital project is placed into a reserve fund. From this fund, expenses for operations are paid first. Only after operational expenses are paid do revenue bondholders receive their payments.

Unlike unsecured general obligation bonds, revenue bonds are secured by specific collateral--the income produced by the projects that are being funded by the revenue bonds. The revenues (fees, tolls, concessions, rent, etc.) produced by the projects are used to pay the bondholders.

Credit rating firms can provide a credit rating for revenue bond issuers, based upon their ability to generate sufficient revenue to pay bond interest and principal. The success of the bonds ultimately depends on the projects' ability to produce revenue.

A City of Toronto revenue bond must be issued with a fixed rate of interest.

A revenue bond may be issued in United States dollars and will be governed by the conditions for issuing a foreign currency debenture as contained in Ontario Regulation 610/06 (Financial Activities) under the *City of Toronto Act, 2006*.

The City cannot secure a revenue bond with debentures or other securities issued by the City or by an assignment of an interest in real property of the City including a mortgage, charge or lease on the property.

Attachment C

General Terms and Conditions Associated with
$9.0 million City Loan to LMCG Arena Board of Management

The Loans:

"Unrestricted Cash Flows" means net business revenues (after expenses) of the Arena, which include but are not limited to ice rental fees, concession earnings, advertising revenues and annual naming rights revenues.

"Cash Flow Distribution" means Unrestricted Cash Flows, which shall be applied first to pay any outstanding scheduled principal and interest on the City's Loan, then any remaining funds applied to pay any outstanding scheduled principal and interest on the Subordinated Loan.

1. The City will provide to the Leaside Memorial Community Gardens Arena Board (the "Arena Board") for the purpose of financing the Leaside Memorial Community Gardens Arena Expansion Project (the "Project") the following two loans (together referred to as the "Loans"):

    i. Up to $7.5 Million, 30 year amortization loan commencing upon substantial completion of the Project, with a fixed-interest rate at the City's borrowing rate to be set at the time of the issuance of the City's debenture to finance the loan(the "City Loan"); and,

    ii. Up to $1.5 Million over a 20 year term commencing upon substantial completion of the Project, from proceeds of the loan to the City from IO, subject to all applicable terms of the loan to the City from IO ("IO") as set out in Attachment A (the "Subordinated Loan")

Advances and Commencement of Work on the Project:

2. The Arena Board agrees to provide a total of $2.5 million in cash to the City, after which the Initial Capital Fundraising Campaign for the Project shall be complete. The City will not award a construction contract for the Project or commence any work on the Project until the Arena Board has paid the $2.5 million to the City and the Initial Capital Fundraising Campaign for the Project is complete.

3. No amounts will be advanced by the City to the Arena Board directly. All advances on the loans will be used by the City to fund the construction of the Project or to reimburse the City for funds previously advances by it for the construction of the Project.

4. Interest on funds used by the City to fund the construction of the Project during the construction period and before substantial completion shall be accrued at an interest rate equivalent to the prevailing prime borrowing rate, compounded on a monthly basis and calculated daily, and upon substantial completion, capitalized and included within the loan provided for in 2(i) above.

Repayment of Loans:

5. The Arena Board agrees to make four principal and interest payments annually on the City's Loan and on the Subordinated Loan from its Unrestricted Cash Flows (together referred to as the "Scheduled Payments"), as set out in a payment schedule for each loan to be established when the loan draws are complete.

6. The payments are due no later than the last business day of each of November, January, March and June of each year (the "Payment Dates"). If a payment or portion of payment is not made, any outstanding amount shall be added to the respective loan and shall accrue interest. Interest shall be compounded on a monthly basis, and calculated daily.

7. The Loans can be prepaid at any time without penalty in an amount up to 15% of the principal outstanding in any year.

8. The Arena Board will actively fundraise and collect donations which, net of fundraising expenses, will be applied to further pay down the Subordinated Loan in accordance with the terms and conditions of that loan as set out in Attachment A.

Failure to Meet Loan Repayment Obligations:

9. The terms and conditions in respect of failure by the Arena Board to meet its loan repayment obligations or other obligations in respect of the Subordinated Loan from IO to the City as set out in Attachment A will similarly apply to any failure by the Arena Board to meet its loan repayment obligations or other obligations to the City in respect of both the City Loan and the Subordinated Loan.

    (i) For greater certainty, market rates ice time rental rates shall be calculated as the simple average of the published 'rack' rates for prime-time single hour use of commercial indoor ice rink providers in the City of Toronto, for winter or summer prime time use as the case may be, excluding those arenas regularly used by professional sports teams such as the Mastercard Centre, Ricoh Centre, and Air Canada Centre.

    (ii) Notwithstanding any obligations of the Arena Board in respect of ice time rental rates or ice time rental surcharges, the Arena Board shall adhere to the City’s Ice Allocation Policy.

Debt Service Reserve:

10. All Unrestricted Cash Flows after the Scheduled Payments of principal and interest on the Loans, shall be deposited monthly into the Debt Service Reserve Fund established by the City until that reserve fund holds funds equal to one year of Scheduled Payments. Thereafter, Unrestricted Cash Flows shall be distributed to the City for prepayment on principal on both Loans on a pro-rata basis.

11. Commencing in the first year of operations of the Project, the Arena Board shall levy a surcharge on all contracted prime time ice rental of not less than $20 per hour at the Arena Board's discretion, until such time as the Debt Service Reserve Fund is fully funded. The funds raised shall be deposited into the Debt Service Reserve Fund.

Ice Rental Rates / Market Rates:

12. While the Loans are outstanding, the Arena Board shall not charge ice rental rates less than that indicated below without the prior written consent of both the City and IO. For greater certainty, the following minimum ice rental shall apply for the 2012/2013 season:

Proposed Rental Rate Structure Year 1 (Revised)

		Market Rates		
	Community Prime	Prime	Non-Prime Daytime	Non-Prime Late Night
Winter				
Existing Pad	$ 225.00	$ 280.00	$ 125.00	$ 190.00
New Pad	$ 225.00	$ 280.00	$ 125.00	$ 190.00
Summer				
Existing Pad (floor rental)	n/a	$ 85.00	$ 85.00	$ 75.00
New Pad	n/a	$ 228.57	$ 207.55	$ 195.30

n/a - not applicable

Note: Rates have been revised to blend the community rate on the existing pad with prime time rate on new pad for community user groups.

(i) For subsequent seasons, the minimum ice rental rates shall be adjusted to reflect increases in Consumer Price Index – All Items – Toronto for the preceding 12 months ending in June, unless otherwise indicated in writing by the City and IO.

Recourse in the event of Operating Deficit in a Year:

13. Should the Arena Board meet its repayment obligations in respect of both Loans, but incur an Operating Budget deficit in any year, the Arena Board will be deemed to be in default under the Loans, and the amount of the Operating Budget deficit will be added to the balance of the City Loan outstanding.

Board Representation:

14. The City shall appoint a representative of IO to the Arena Board, who shall also sit on the Finance/Audit Committee of the Arena Board

Timely settlement of Accounts:

15. The Arena Board shall work with the City to establish a process to settle accounts between the City and the Arena Board on a timely basis.

Attachment D
Leaside Memorial Community Gardens Arena
Debt Service Reserve Fund

1. Location within the Consolidated Reserves/Reserve Funds Schedule

   Schedule No. 15- Third Party Agreements Obligatory Reserve Funds.

2. Statement of Purpose

   This account will be used exclusively to hold funds for funding for any shortfalls in loan payments for the Revenue Bond issued to IO, or the City's recoverable debt related to this Project.

3. Service Area or Beneficiary Program

   The Deputy City Manager and Chief Financial Officer shall have primary responsibility for the Account.

4. Target

   The target is one year of debt service cost on the IO Revenue Bond and the recoverable debt provided by the City.

5. Contribution Policy

   Capital Levy Surcharge imposed by the LMCG Arena Board of Management on contracted prime time ice rental and /or annual Operating Budget surplus shall be contributed to the Reserve to maintain the equivalent of one year's debt service cost on both the City and the IO loans. Any Operating Budget surpluses may also be contributed to the maximum of the target.

6. Withdrawal Policy

   Funds will be withdrawn on the authority of the Deputy City Manager and Chief Financial Officer if necessary to fund any shortfalls in loan payments for the Revenue Bond issued to IO, or the City's recoverable debt related to this Project.

7. Review Cycle

   The account will be closed when the loans for the Revenue Bond issued to IO and the City's recoverable debt related to this Project has been repaid in full.