TORONTO

STAFF REPORT
ACTION REQUIRED
with Confidential Attachment

Comprehensive Review of City's Loan Guarantee and Loan Portfolio

Date:	April 9, 2013
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reason for Confidential Information:	This report is about litigation or potential litigation that affects the City or one of its agencies or corporations.
Reference Number:	P:\2013\Internal Services\Cf\Ec13002cf (AFS# 16811)

SUMMARY

Non-profit organizations that have no tangible assets often require a city loan guarantee in order to obtain credit necessary to deal with operating cash flow fluctuations that occur during the year or in order to acquire assets to further their objectives. Providing financial guarantees to organizations that qualify is beneficial to the City since these groups provide important services to the community that complement or offset the need for government providing those services. The City also occasionally provides direct loans to its agencies and corporations to contribute to the financing of a project that will create or enhance a capital facility. Such loans increase the value of City assets and supports new activities and expansion of activities that directly benefit the public.

The City is currently guaranteeing three operating lines of credit and eleven capital loans under the policies for line of credit and loan guarantees for cultural and community-based organizations. In addition to the guarantees, the City is providing eight direct loans to City agencies and corporations, and one to an external organization.

This report presents the results of a comprehensive review of the City's loan and loan guarantee portfolio. A combination of qualitative and quantitative measures were applied to the financial results of the organizations in order to assess the status of the loans and loan guarantees and the City's financial risk in the relationship with those organizations.

This report provides recommendations in respect of certain loan and loan guarantees, and additional recommendations to clarify and strengthen the policies for such loans in order to minimize the City's financial risks and exposure in its loan and loan guarantee portfolio.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. City Council grant authority to establish a Doubtful Loan Guarantee Reserve for the purpose of providing a source of funding for any shortfalls or defaults in interest and/or principal payments by an organization under which the City has provided a loan guarantee or loan, such draws and payments to be made at the discretion of the Deputy City Manager and Chief Financial Officer, as further described in Attachment 1 of this report, and that the City of Toronto Municipal Code Chapter 227 (Reserves and Reserve Funds), Schedule 1, Corporate Reserves, be amended to add this reserve.

2. City Council request the Deputy City Manager and Chief Financial Officer to review annually the adequacy of funds in the Doubtful Loan Guarantee Reserve, and to make any necessary adjustments at year end where the cost or risk of loss under a loan guarantee or direct loan is determined to be likely and should be recognized.

3. In the event that the City is obligated to make payment as a result of a default under a loan guarantee or direct loan:

    a. City Council authorize the Deputy City Manager and Chief Financial Officer to fund the immediate legal obligations of the City; and,

    b. City Council direct that the responsible program area report to the next available Executive Committee meeting on the circumstances of the default.

4. Council adopt the consolidated and amended Line of Credit Guarantee Policy contained in Attachment 2 of this report.

5. Council adopt the consolidated and amended Capital Loan Guarantee Policy contained in Attachment 3 of this report.

6. Council adopt the consolidated and amended Direct City Loan Policy contained in Attachment 4 of this report.

7. With respect to the default by the Toronto Philharmonia of a loan guaranteed by the City, and the payment in the amount of $249,479.16 made by the City to the lender in November 2010, which payment has been written off:

a. The Toronto Arts Council be requested to return funds to the City in the amount of $112,800, which was provided by the City to the Toronto Arts Council as grants for the Toronto Philharmonia for the years 2010-2012, which is currently being held in reserve by the Toronto Arts Council;

b. The Toronto Arts Council pay $37,600 per year to the City's Doubtful Loan Guarantee Reserve, starting in 2013, until the principal of the Toronto Philharmonia loan is recovered by the City; and,

c. The amount of $112,800 referred to in the Recommendation 7(a) above, once received, be placed in the Doubtful Loan Guarantee Reserve established by Recommendation 1 of this report.

8. Council write off the capital loan to Squirrel's Nest Child Care Centre in the amount of $121,808, against the existing - Allowance for Doubtful Accounts – Former City of Scarborough (Squirrel's Nest) which has a provision in the same amount, thus resulting in no net financial impact.

9. Council adopt the confidential instructions to staff in Attachment 5 – Confidential Information.

10. City Council not authorize the public release of Attachment 5 – Confidential Information, as this attachment contain confidential information relating to litigation or potential litigation that could affect the City.

Financial Impact

As at December 31, 2012, there were 3 outstanding operating line of credit guarantees with a maximum exposure of $4.0 million, 11 outstanding capital loan guarantees in the amount of $75.2 million, and 9 direct city loans with an outstanding balance of $73.2 million.

A loan guarantee is considered to be a financial commitment of the City. However, there is no direct cost to the City for providing the guarantee unless the borrower defaults on its obligation and the City cannot recover any funds paid out under the guarantee.

Three loans are in default. One was written-off in late 2012 in the amount of $250,000, another is being recommended for write-off in the amount of $121,808, and the confidential instructions to staff are being recommended in respect of the third. A fourth loan is experiencing difficulty and is the subject of a concurrent report from the responsible program area. The total value of loans or loan guarantees for which loan payments are in default or past due is $4.77 million, or approximately 3% of the portfolio value, as shown in the Chart in following page.

Total Value of Loans and Loan Guarantees

	No. of Loans	Total Exposure ($ Thousands)	No. of Loans in Default or Past Due	Total Value of Loans in Default or Past Due ($ Thousands)	% of Value
Line of Credit Guarantees	4	$4,000	1	$250	6%
Capital Loan Guarantees	11	$75,174	1	$3,900	5%
Direct City Loans	9	$73,248	2	$622	1%
Total	24	$148,426	4	$4,772	3%

The quantum of the financial risk associated with the other loans and loan guarantees is difficult to establish for the reason that default, mitigation and recovery processes can vary from project to project and actual losses cannot be determined until such processes come to a conclusion. With regular monitoring recommended in this report, it will be possible to identify financial risks earlier and to take action to avoid or mitigate potential losses.

DECISION HISTORY

A policy for Capital Loan and Line of Credit Guarantees for cultural and community organizations was first approved by City Council in March 2001. The policy was updated in March 2008 to provide further guidance to City staff and Council in dealing with requests for capital and operating line of credit guarantees, particularly to provide expanded guidance for recreational and sports-based loans for capital facilities. This amendment established eligibility criteria including that guarantees only be considered for cultural and community organizations that have a direct financial relationship with the City and that have been denied sufficient and reasonable funding from all other sources.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.EX17.3

In September 2010, the City's Internal Audit group completed a Program Review of the line of credit guarantee and loan guarantee undertakings. At that time, no organization had defaulted on their line of credit or loan guarantees. That review identified areas where controls and performance oversight could be strengthened. It identified, amongst other things, an absence of:

- procedures for assessing and accounting for potential losses that could occur in the event of a default;
- formal monitoring and reporting on the status of the loan and line of credit guarantees;
- sharing of the risk of loss between the City and the borrower (and lender);
- consistencies in taking security and monitoring the security taken for loan guarantees;
- a policy in respect of direct loans to agencies, boards and commissions.

Stemming from this program review, Council at its meeting held on July 12, 2011, adopted the report "Amendments to the Operating Line of Credit and Loan Guarantee

Policies and Approval of the Capital Loan Policy". The amendments addressed a number of the issues raised through the Program Review.

That report introduced a policy for direct capital loans for City agencies and corporations relating to public/private partnerships that create a benefit to the City.

It also provided for, in respect of future requests for line of credit guarantees, that an equity contribution be made by the organization, depending on the individual circumstances, and in respect of future requests for capital loan guarantees, as a guideline and to the satisfaction of Council, a minimum financial contribution from the organization of 15 percent of the overall project cost be made. Further, for large capital loan guarantees, the responsible program area will be required to assign a project manager to monitor construction progress and financial status during construction.

The amendments also set the aggregate limit for line of credit guarantees to $10 million, for capital loan guarantees to $300 million in the aggregate (with an individual project limit of $10 million), and for capital loans to agencies and corporations to $125 million in the aggregate.

The policy also requires the Deputy City Manager and Chief Financial Officer to report to Council annually on the status of all loan and loan guarantees under this policy, 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.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX7.7

ISSUE BACKGROUND

A loan guarantee is a commitment to pay all or part of the principal and interest on a loan obligation in the event of default by the borrower. A loan guarantee to organizations outside of the City is a contingent liability of the City. Loans to agencies and corporations of the City are already recorded in the consolidated financial statements of the City. A provision for loss is recorded when it is determined that a loss is likely.

Credit rating agencies assess the level of exposure regarding contingent liabilities when assessing the City's borrowing capacity and credit rating.

Without adequate monitoring of a loan or loan guarantee, financial difficulties and potential loss would not be known until a default is evident or the organization is already in default, when it may be too late to attempt to address the financial difficulties.

For these reasons, it is important for the City's financial position that Council adheres to a policy that provides loan and loan guarantees only as a last resort, that the level of support is properly founded by the business case, and that the responsible program area with direct oversight take responsibility for the continuous monitoring of the organization receiving the loan or loan guarantee.

COMMENTS

As part of this comprehensive review and in respect on reporting on the status of these loan guarantees and loans, consideration was given to whether:

1. the financial statements of the borrower showed a decline in financial position in the area of liquidity, as evidenced by a deficiency in working capital or cash flow or an excess of liabilities over assets;
2. there has been a recent default in making the required principal or interest payment when due, or a failure to meet other debt covenants;
3. economic conditions affecting the environment in which the borrower operates have changed in ways that may affect income earning potential or in ways that could affect the likelihood that the borrower will be able to repay the loan in the future;
4. there are any independent credit reports indicating concern about the borrower's ability to meet its current liabilities; and,
5. there has been a recent request to increase financing or modify/extend loan terms in order to meet cash flow requirements and/or debt covenants.

A finding that an organization is experiencing any of the above conditions is not an indication of insolvency or imminent failure. However, such conditions if not mitigated could lead to financial difficulties that, in the extreme, could lead to a demand for payment by a lender of all or a portion of the loan guaranteed by the City. Typically, there would be a notice and remedy period wherein the borrower, lender and City could work together to attempt to address the financial difficulties. Failing that, the City could assume control of the operation in order to minimize its losses, or exercise on any security that may have been provided as part of the loan guarantee or loan.

It is important to distinguish that the City's loan guarantees are intended to support non-for-profit organizations and charities, whereas direct City loans generally support City agencies and corporations, which are under Council's control, either directly or through controlling shareholder directions.

Not-for-Profit organizations serve an important role in the City's societal fabric. They provide public service such as contributing to the arts, culture and recreational make-up of the City and providing employment an affordable housing opportunities. They also provide services that complement or offset the need of government providing those services, and if they had to reduce their services, it may very well be that government's expenditure would increase in providing such services. The board members of not-for-profit organizations are usually volunteers from the community.

Not-for-profit organizations operate in a different financial environment than for-profit enterprises. For example, profit margins do not apply. Revenue streams and equity are different. Not-for-profit organizations do rely on a greater degree of funding from government and donors compared to for-profit enterprises. Operating deficits from own revenues is not uncommon, and fundraising and government subsidies are sometimes core to not-for-profit sustainability. For these reasons, while some financial ratios are meaningful for all enterprises, other financial ratios typically used in the measure of the financial performance of for-profit enterprises may not necessarily transpose equitably on not-for-profit service providers. A degree of professional judgement is required in evaluating and comparing not-for-profit enterprises.

Non-profit organizations that have no tangible assets often require a city loan guarantee in order to obtain credit necessary to deal with operating cash flow fluctuations that occur during the year or in order to acquire assets to further their objectives. Providing such loan guarantees, or in some cases, direct loans, is in the interest of the City in that it furthers the City's objectives, and with that in mind, is authorized under Section 83(1) and (2) of the *City of Toronto Act 2006*.

Review of the Status of Loans Guarantees and Loan

Line of Credit Guarantees:

Under the City's current policy, lines of credit guarantees are only available to cultural and community organizations. The intended purpose of such guarantees is to enable eligible organizations to obtain a line of credit for working capital purposes and to deal with seasonal fluctuations in cash flow.

Such guarantees will only be considered when the organization provides documentation that they have been denied sufficient reasonable funding from all other sources. The total amount of all line of credits provided by the City under this policy is limited to $10 million in the aggregate. Organizations must submit audited financial statements as well as a business plan that demonstrates the financial viability and capacity to repay the funds within operating funds to the satisfaction of the Deputy City Manager and Chief Financial Officer. Organizations must also submit audited statements and operating budgets on an ongoing basis as long as the loan remains outstanding.

Line of credit guarantees will only be considered from cultural and community organizations that have an existing financial relationship with the City of Toronto. Because such organizations usually have little in the way of assets, security for the line of credit will be through the ability to withhold grants or other financial contributions from the City to the organization.

As of the date of this report, there were 3 lines of credit guarantees outstanding, representing a maximum City guarantee of $4 million, as shown in Table 1 below. It should be noted that the actual amount outstanding in any line of credit will fluctuate from day to day.

Table 1 - Summary of Line of Credit Guarantees

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized $000's	Expiry Date	Responsible Program Area	Loan Status	Security
October 2012	Young People's Theatre	Not-for-Profit	200	December 2014	Economic Development & Culture	Currently in Good Standing	City Grants (via TAC)
October 2012	Canadian Stage Company	Not-for-Profit	800	October 2014	Economic Development & Culture	Currently in Good Standing	City Grants (via TAC)
July 2010	Toronto Symphony Orchestra	Registered Charity	3,000	October 2015	Economic Development & Culture	Currently in Good Standing	City Grants (Major Cultural Grants)
	Total		**4,000**				
	Aggregate Limit		**10,000**				

No longer included:

May 2009	Toronto Philharmonia	Registered Charity - Revoked	250	May 2012	Economic Development & Culture	Defaulted – Written off	City Grants (via TAC)

Young People's Theatre ($200,000):

Young People's Theatre (YPT) is the oldest continuously operating professional theatre in the GTA and is the only large-scale theatre in Ontario dedicated to producing and presenting shows specifically for young people. YPT operates in a City Below-Market-Rent facility at 165 Front Street. More than 60,000 people attend YPT's theatrical productions and educational programs annually. At the core of its mandate, YPT is committed to having the broadest and most diverse audience of any cultural institution in the GTA and to ensuring that it remains accessible through reasonably-priced regular tickets and subsidized pricing for theatre and educational programs. YPT receives annual grants from the City, through the Toronto Arts Council and through other programs.

YPT has had some form of line of credit from the municipality dating back to the early 1990's, and has a successful history in the community and in meeting its financial obligation under the loan guarantee. YPT has not drawn upon its line of credit in its fiscal 2012 period, and has recently reduced its request from the previous guaranteed amount of $250,000 to $200,000 for the next two years ending December 31, 2014.

Canadian Stage Company ($800,000):

Canadian Stage Company was founded in 1987 and is a charitable, not-for-profit organization whose purpose is to create, produce and present the best in Canadian and international contemporary theatre, and to promote and develop Canadian talent both locally and internationally. It operates from its headquarters at 26 Berkeley Street and entered into a 10-year Below Market Rent lease agreement with the City in 2011 for that site. Canadian Stage is also the anchor tenant of the St. Lawrence Centre for the Arts (a

City agency) and pays over $1 million in annual rent for use of that City-owned civic theatre.

In addition, Canadian Stage produces the annual "Shakespeare in High Park", a production of Shakespeare plays for families, which celebrated its 30th summer in 2012. Annual attendance is approximately 20,000 and is provided to the public on a "pay-what-you-can" basis, making it one of the most accessible professional arts activities in the city.

Canadian Stage has had some form of line of credit from the City since 2001, to which it has met its financial obligations under the loan guarantees and subsequent renewals.

In their 2011 fiscal year (ending June 30th), Canadian Stage experienced an operating deficit of close to $500,000. They took strong measures to control expenditures and in their 2012 fiscal year, posted a small surplus on an operating budget of approximately $8 million. Canadian Stage has, on occasion, drawn to its maximum limit of $800,000 in the preceding 12 month period. It is also carrying an accumulated deficit from prior years. Canadian Stage has provided the City and their lenders with a deficit reduction plan. This plan entails achieving continued small operating surpluses through expenditure containment and reductions in the areas of administration and production, and elimination of excess capacity in appropriate operational areas. Sponsorship opportunities and a special fundraising campaign are also being explored to raise revenues towards the deficit reduction plan.

Toronto Symphony Orchestra ($3,000,000):

Founded in 1922, the Toronto Symphony Orchestra (TSO) is one of Canada's leading cultural institutions. Today, more than 225,000 patrons and over 50,000 students attend performances at Roy Thomson Hall each year, and an additional five million Canadians tune in to concert broadcasts on CBC Radio. The Orchestra continues to develop its international presence touring to venues in the United States, Europe, and Asia, as well as attracting distinguished guest artists and conductors to performances at Roy Thomson Hall.

TSO's cash requirements are cyclical and seasonal, affected by differences in timing of revenues and expenses. Subscription sales revenues are predominant in the earlier part of the year, and revenues from grants and distributions from the Toronto Symphony Foundation occur later in the year. Cash requirements peak during the January through April period.

The TSO has a demand revolving loan with HSBC Bank Canada for $6,450,000, which is in part secured by the guarantee from the City in the amount of $3,000,000 and a guarantee from the TSF in the amount of $3,450,000. TSF is a registered charity (foundation) established to aid the Toronto Symphony and to receive, administer and invest gifts and makes annual distributions to the Toronto Symphony. TSF's 2011 financial return indicates financial assets in excess of $27 million. In July, 2010, City

Council authorized an extension of the guarantee to October 31, 2015. This extension followed several other extensions and increases in the guarantee amount dating back to 2004. The loan guarantees have been in good standing since inception.

The TSO has incurred operating losses in 2010 and 2012 (fiscal year ending June 30th) in the amount of approximately $400,000 and $900,000 respectively, while returning a slight surplus in 2011 on an annual operating budget of approximately $25 million. It is also carrying an accumulated deficit from prior years. Greater programming expenditures (increase of $1.1M) related to the 90th Anniversary celebrations contributed to the overall operating deficit in the 2011-2012 season combined with lower overall fundraising revenues.

In October 2012, the TSO requested and was granted a temporary increase in its credit facility by $1,000,000 (to $7.45 million) for the period December 1, 2012 to April 30, 2013 to address a working capital shortfall anticipated during this period. Security for this increase was provided by the TSF.

In support of the request for a temporary increase in the credit facility, in August 2012 the TSO provided the City and their lenders with a cash management and deficit reduction strategy, which includes adjustments in timing of payables and receivables, reducing expenses, identifying revenue maximization opportunities and fundraising. More recently, however, the TSO has advised that fundraising has been slower than anticipated, and that an extension in temporary increase in the credit facility may be required beyond April 30, 2013 to support their working capital needs.

Toronto Philharmonia ($250,000):

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 organization had received a line of credit guarantee from the City of Toronto since 2002. This line of credit in the amount of $250,000 was most recently renewed by the City in May 2009 for a three year period ending May 2012.

In May 2010, the City received notice for the Bank of Nova Scotia that the Toronto Philharmonia had defaulted on its obligation to make the loan payments owing to the Bank, and demanded payment in the amount of $244,000 plus accrued interest. The City was also informed that a judgement of $43,000 had been registered against the Philharmonia by its former landlord for unpaid lease obligations.

In November 2010, the City made a payment to the lender in the amount of $249,479.16 pursuant to the guarantee. No real property was provided as security for this loan. The City gave notice to the Toronto Arts Council to withhold the future portion of their grant funding that would have been provided to the Toronto Philharmonia until such time as any amount of money written off by the City in relation to the Toronto Philharmonia is fully offset.

In accordance with this instruction, the Toronto Arts Council has held in reserve $37,600 annually from the City's grant between 2010 and 2012, to which they are holding $112,800.

The City ultimately established there was no reasonable basis to believe that the City would be able to recover any monies from the Toronto Philharmonia because they had no assets and was no longer a going concern. Revenue Canada has also revoked it's charity status. The amount of $249,479.16 was written off by the City in May 2012. http://www.toronto.ca/legdocs/mmis/2012/gm/bgrd/backgroundfile-46342.pdf

Since the amount has now been written off by the City, this report recommends the Toronto Arts Council be requested to return funds to the City in the amount of $112,800 provided by the City to the Toronto Arts Council as grants for the Toronto Philharmonia for the years 2010-2012, and as is being held in reserve by the Toronto Arts Council. It is further recommended that the Toronto Arts Council pay back $37,600 per year from its grants from the City to the City's Doubtful Loan Guarantee Reserve, starting in 2013, until the principal amount of the Toronto Philharmonia loan is fully recovered.

Capital Loan Guarantees:

Under the City's current policy, capital loan guarantees may be provided to non-profit community organizations and recreational and sports based organizations. Sports and community organizations seeking to purchase or improve property sometimes require a City guarantee to obtain capital financing because banks are usually not willing to provide a mortgage to a community organization for a property that is in the City's ownership or otherwise not in the organizations ownership. In other cases, where such an organization is purchasing a property, banks may provide a mortgage to a certain level secured by the property, with the City being requested to provide a guarantee on amounts above that if required.

The intended purpose of such guarantees is to enable eligible organizations to acquire or upgrade community facilities to further initiatives that will assist in increasing participation in cultural and sport and recreation activities and will ensure the viability and sustainability of the organizations. The need for the proposed facility must be based on a sound business case supported by current recreation needs and requirements, and a community benefit must also be demonstrated by the project.

Such guarantees will only be considered when the organization provides documentation indicating they have exhausted all other sources of funding and/or funding guarantees. Furthermore, 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.

Where the organization contemplates purchasing a property, the organization may be required to provide an appraisal prepared by a qualified third party appraiser of the value of the asset for which the loan is required. The organization may be required to pay for the property appraisal required by the City, and for legal costs, if any, associated with establishing the loan guarantee and other agreements as required.

For large capital loan guarantees that include capital construction, since the 2011 amendments, the responsible program area must assign a project manager to monitor construction progress and financial status during construction. The organization is required to provide quarterly reports verified by a qualified third-party cost consultant on the construction and financial status, and the assigned City project manager must 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.

The total amount of all capital loan guarantees provided by the City under this policy is limited to $300 million in the aggregate. As of the date of this report, there were 11 capital loan guarantees with an outstanding balance of $75.2 million, as shown in Table 2 below.

Table 2 - Summary of Capital Loan Guarantees

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized $000's	Current Balance (Dec. 31/12) $000's	Expiry Date (Effective Expiry Date*)	Responsible Program Area	Loan Status	Security
November 2011	Evergreen at the Brickworks	Registered Charity	7,500 (jointly with TRCA)	7,100	June 2016	Economic Development & Culture, Parks, Forestry & Recreation, TRCA	Currently in Good Standing	Leasehold Improvements to City/TRCA lands
August 2009	Lakeshore Lions Arena (now Lakeshore Arena Corporation)	City Services Corporation	35,500	34,700	October 2042	Parks, Forestry & Recreation	Currently in Good Standing	Leasehold Interest of facility on TDSB lands
February 2003	Growing Tykes Childcare	Service Agreement	650	76	December 2013	Children's Services	Currently in Good Standing	Assets (chattels), City subsidy
2002	Ricoh Coliseum Arena	City Agency	20,000	15,240	July 2022 (Jul 2025)	Exhibition Place	Currently in Good Standing	Leasehold Improvements to City lands
May 2010	BIXI Toronto Inc.	Business Corporation	4,800	3,900	April 2016	Transportation Services	See Concurrent Report	Assets (chattels)
December 2008	Theatre Direct	Not-for-Profit	150	36	November 2013	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands, TAC Grants
May 2010	Centre for Social Innovation	Registered Charity	4,800	4,520	May 2015 (May 2035)	Economic Development and Culture	Currently in Good Standing	1st Mortgage
	Sub-Total		**73,400**	**65,572**				

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized $000's	Current Balance (Dec. 31/12) $000's	Expiry Date (Effective Expiry Date*)	Responsible Program Area	Loan Status	Security
	Artscape:							
April 2010	Distillery District Studios	Not-for-Profit	250	200	December 2014 (August 2022)	Economic Development and Culture	Currently in Good Standing	Assets (chattels)
May 2010	Shaw Street Centre	Not-for-Profit	5,800	5,800	May 2013 (2033)	Economic Development and Culture	Currently in Good Standing	2nd Mortgage
August 2010	Wychwood Barns	Not-for-Profit	3,200	3,075	December 2014 (March 2038)	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands
January 2009	FCM – Wychwood Barns	Not-for-Profit	600	527	August 2029	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands
	Sub-Total Artscape		**9,850**	**9,602**				
	Total		**83,250**	**75,174**				
	Aggregate Limit		**300,000**					

*** Expiry Date (Effective Expiry Date)**

Expiry date is the expiry date of the loan guarantee. Effective expiry date is amortization period of the loan (the number of years it would take to repay the loan in full). If the amortization period extends beyond the loan guarantee period, the borrower would be required to repay the balance of the loan at the end of the loan guarantee period, unless the loan guarantee is extended or the lender no longer requires a loan guarantee.

Evergreen Brick Works ($7,100,000)

Evergreen is a national charity with a mandate to make cities more liveable through green design and urban sustainability. In 2006, Evergreen entered into a ground lease with TRCA and the City for the restoration and adaptive re-use of the heritage structures at the Don Valley Brick Works to create a centre for environmental learning and urban ecology.

In 2006, the City jointly with TRCA provided a loan guarantee for $3 million towards the construction financing of the Brick Works Project, with a term to expire 4 years after substantial completion. At that time, the construction cost was estimated at $38 million. In 2007, due to an increase in project cost to $55 million, the City and TRCA were requested to increase their loan guarantee to $7.5 million, with the guarantee expiring on December 31, 2014.

The Brick Works site operations and programming commenced in late 2010, providing a dynamic public space in the heart of Toronto's Don Valley. The facility is now engaging visitors through interactive workshops and community festivals, and offers a full suite of programs combining ecology, design, technology and the arts in a hands-on, multi-sensory educational experience.

Due to a fundraising shortfall of $4.5 million in 2011, Evergreen needed an extension of the loan guarantee of 18 months in order to satisfy the loan lender requirements, which City Council extended to June 30, 2016, with the requirement that the outstanding financing be reduced to $4.8 million by December 31, 2013, and $1.0 million by December 2014.

The outstanding loan balance as of December 31, 2012 was $7.11 million and Evergreen's cash flow projections are to meet the loan covenant requirements for 2013 and 2014, and extinguishing the loan prior to June 2016.

Lakeshore Arena Corporation ($34,700,000):

In September 2006, City Council authorized the execution of a long-term sub-lease to be entered into with the Lakeshore Lions for the property at 400 Kipling Avenue owned by the TDSB to facilitate the development of a new four-pad arena complex by the Lakeshore Lions. As part of this authority, Council provided a capital loan guarantee totalling $29 million in relation to the financing arrangements between the Lakeshore Lions and their lender to facilitate the construction of the four-pad arena.

For various reasons, as reported to Council between 2007 and 2009, the cost of this project escalated to $44 million, with a commensurate increase in the City's loan guarantee. The capital loan guarantee provided to the lender consists of one fixed term facility of approximately $21 million with a 35-year amortization period and two interest-only floating rate facilities totalling approximately $14.5 million (a total of $35.5 million in guaranteed loans). In addition to this, the lender provided an additional interest-only floating rate loan in the amount of $4.66 million, which did not require a loan guarantee from the City but was secured by a first priority charge on the leasehold interest in the property. The outstanding balance on the capital loans guaranteed by the City was $34.7 million as at December 31, 2012. The outstanding balance on the third non-guaranteed floating rate facility was $4.54 million as at December 31, 2012.

By early 2011, it became apparent that the arena managed by the Lakeshore Lions could no longer meet its debt obligations. As a result, in September 2011, the City assumed control of the facility through a municipal services corporation – Lakeshore Arena Corporation (LAC). As part of this transition, City Council advanced a $1.2 million direct city loan to settle certain debts arising from the transfer, and a $1.0 million direct city loan as a line of credit for working capital.

Since assuming control, revenues from Arena operations have exceeded projections. The Arena is generating income of more than $1.7 million per year after expenses but before debt service and depreciation. Meeting current debt service cost, however, consumes most of the income from the facility.

The floating rate facility term comes up for renewal in September 2014, and the lender has indicated the current sub-prime rates from them will not be available at that time. The LAC will be faced with significant financial pressure once interest rates increase in 2014. Core business ice-rental revenue is already at top market rates. There is some vacant space available for rental, however, no suitable tenant has been found thus far. If favourable tenant leases for the second floor can be secured, the LAC may be able to absorb the 2014 refinancing increases.

Growing Tykes Childcare ($76,000)

In February 2003, City Council approved a $650,000 loan guarantee for Growing Tykes Childcare to make leasehold improvements to its facility at 5150 Dundas Street West. The guarantee was for 10 years matching the term of the loan amortization, ending December 2013. The outstanding balance on the loan as of December 31, 2012 was $76,485, and it is expected the loan will be fully paid off by the end of the amortization period.

Ricoh Coliseum Arena ($15,240,000)

Located on the Exhibition Place grounds, Ricoh Coliseum is home to AHL's Toronto Marlies Hockey Club. The 8,200 seat arena offers ice rentals, concerts, special and corporate events and was designed with sightlines and acoustics in mind.

In November 2003, City Council approved the renovation of Ricoh Coliseum at a total cost of $38.0 million and entered into a 49-year lease agreement with BPC Coliseum Inc. (BPC), an affiliate of OMERS. Both BPC and the City each contributed $9.0 million in equity investment to the project. In addition, the City guaranteed a $20.0 million loan borrowed by BPC from the Bank of Montreal initially for a term of 10 years which was later amended to 20 years.

The construction of the Ricoh coliseum was completed on time and on budget and the Coliseum opened in November 2004. After the initial subtenant was not able to comply with the financial obligations, the BPC entered into a new sub-lease agreement in July 2005 with Maple Leafs Sports and Entertainment Ltd. (MLSE) with the condition that the annual rent payable be sufficient to pay the debt (with a 20 year amortization to July, 2025), the property taxes, and provide an annual return to the equity contributors, BPC and Exhibition Place.

The payments on the loan are up to date with an outstanding balance of $15,239,006 as of December 31, 2012.

BIXI Toronto Inc. ($3,900,000):

Bixi Toronto Inc. ("BIXI") is a company created to operate a public bike system in the City of Toronto. BIXI is a wholly owned company of Public Bike System Company (PBSC), which in turn is owned by the City of Montreal.

In May 2010, the City entered into an agreement with PBSC to implement and operate the Toronto public bicycle program, with the City providing a capital loan guarantee to PBSC's lender in the amount of up to $4,800,000 (including interest) for a ten year term ending November 2020 for the entire start-up capital to enable BIXI to acquire 1,000 bikes, 80 stations and 1500 docking points to be placed throughout Toronto’s downtown core. The actual amount of the term loan was $4,500,000. The security for the loan guarantee is that the City may assume the ownership and operation of the BIXI Toronto public bicycle program. The loan balance as at December 31, 2012 was $3,900,000.

BIXI Toronto launched operations in May 2011. While subscription revenue is around that forecasted, revenues from casual users, rides exceeding the 30 minute time allotment, and from sponsorship have fallen below expectations, resulting in operating deficits exacerbated by the high debt service cost. BIXI has not been making loan payments since November 2012. An informal arrangement with the lender is allowing operations to continue. Service contracts have also not been paid (for the companies that move the bikes around and maintain the bikes and docking stations, and PBSC which runs the call centre from Montreal). Aside from the parent company, PBSC, the other creditors are owed over $600,000.

The City's Transportation Services Division have submitted a concurrent report to this report that discusses BIXI's current financial situation and presents a plan for the future of BIXI Toronto. That report seeks Council authority on a number of actions, which if approved, will allow operations to continue in the interim while a longer-term business plan is developed for the bike share program.

Theatre Direct ($36,000):

Since its inception in 1976, as a charitable non-profit organization, Theatre Direct has held over 85 productions, many of which toured schools and theatres. In 2009, Theatre Direct opened the doors to two new creation/education and performance venues in the Wychwood Barns where it engages a diverse community of families and over 30 local schools. The Theatre mandate is to present theatre for, with and by young people that is socially conscious and reflects and interprets the diversity of the Canadian experience. The company has received numerous nominations and awards as well as the Canada Council Theatre for Young Audiences Prize.

In November 2008, City Council provided a capital loan guarantee on behalf of Theatre Direct in the amount of $150,000, commencing December 1, 2008 until November 30, 2013. The outstanding balance as at December 31, 2012 was $36,000. The expected balance at the end of the guarantee period will be about $10,000 and Theatre Direct has confirmed that no further guarantee will be required from the lender beyond the currently authorized term.

Centre for Social Innovations ($4,500,000)

The Centre for Social Innovation (CSI) is a non-profit corporation that provides shared affordable office space and related services to small non-profit and charitable groups as well as various socially oriented businesses in accessible locations in downtown Toronto. The CSI business model pools common resources such as access to telephone and fax systems, internet and email, photocopiers and meeting rooms that would normally not be affordable for smaller non-profit groups unless they are able to share the cost.

The CSI started initial operations in a leased building located at 215 Spadina Avenue in June 2004. In 2010, CSI purchased and renovated a 5 story 36,000 sq ft office building located in the Annex at 720 Bathurst Street, and in September 2012, CSI opened a 10,000 sq ft space in Regent Park, Canada's largest public housing community.

In May 2010, City Council authorized a capital loan guarantee in the amount of up to $4,800,000 for a five year period ending May 2015 to help facilitate CSI's purchase of the building at 720 Bathurst and to make the necessary improvements to the building. The total project cost was approximately $6.8 million, and CSI raised the balance of the financing through an innovative issuance of $2 million in community bonds. In the event that the loan guarantee is called upon, the City's security is through the assignment to the City by the lender of the mortgage held by it as collateral to the capital loan. The community bonds are a subordinated mortgage backed debt instrument.

The project was substantially completed in early 2012. The final actual amount of the capital loan drawn in March 2012 under the guarantee was $4,619,106. The payments of the mortgage are up to date with an outstanding balance on the mortgage in January 2013 of $4,519,495. It is expected that at the end of the guarantee in May 2015 the outstanding mortgage/loan balance will be about $4.36 million. The lender may require an extension of the loan guarantee at that time.

Artscape (Total of Guarantees - $9,600,000)

Toronto Artscape Inc. (Artscape) is a not-for-profit corporation established in 1986 with the mandate of developing and managing affordable working and living space for artists and to promote cultural activities in the community. A related party, Artscape Non-Profit Homes Inc. (ANPHI) was created in 1994 to develop and manage Artscapes projects intended to meet affordable housing and live/work studios for low and middle income artists.

Over time, Artscape has significantly increased its asset holdings. Artscape currently operates multi-tenant complexes in Toronto including the Wychwood Barns, and studios in the Queen Street West, Liberty Village, Toronto Island, Regent Park, Shaw Street and The Distillery districts. In developing these projects, Artscape has relied on, for some projects but not all, capital loan guarantees from the City.

With their latest project, the Artscape Youngplace at 180 Shaw Street, the City provided a loan guarantee in May 2010 of $5.8 million. In doing so, Council directed "Before any future loan guarantees are considered by the City, Artscape be requested to submit their business plan to the Deputy City Manager and CFO 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".

In response, Artscape submitted a Business Plan (June 2010) that indicates their intent to increase their flexibility by re-financing and leveraging of existing assets to improve working capital or for major capital projects, and reducing their reliance on City loan guarantees. However, where projects are located on properties owned by the City, long term debt will continue to require a loan guarantee, as the City cannot pledge its assets as security to lenders.

Currently Artscape has the following projects supported by capital loan guarantee from the City of Toronto.

Artscape Wychwood Barns ($3,075,000)

In August 2010, City Council authorized a capital loan guarantee in the amount of $ 3.2 million for the Wychwood/Green Arts Barn Project for the period of January 2011 to December 2014. The term loan secured by Artscape assumes an amortization term of 25 years.

The City owned facility, located at Wychwood and Benson Avenue, covers 60,000 sq. ft. and is leased by Artscape from the City for 50 years. It provides affordable accommodation for 26 artists and their families, 17 individual artists in work studios, affordable work studio to artist, and programming and office space for 13 not-for-profit arts and environmental organizations. It also has a community gallery, programmable event space and a sustainable food education centre for the local community and the public.

The repayment of the loan is up-to-date according to the amortization schedule with an outstanding balance of $3.075 million as of December 31, 2012. The expected outstanding balance at the end of the loan guarantee period in June 2014 will be approximately $2.98 million, at which time repayment of the loan in this amount will be due by Artscape unless the City guarantee is extended. Artscape has indicated an extension of the loan guarantee will likely be required at that time.

FCM Wychwood Barns ($527,000)

In August 2009, the City borrowed $600,000 from the Federation of Canadian Municipalities (FCM) under the Green Municipal Fund Initiative for the purpose of financing energy efficiency project cost of the Artscape Wychwood Barns. The loan is to be paid by Artscape to the City over 20 years. The City in turn provided a $600,000 direct loan to Artscape for this project. In effect, by borrowing on behalf of Artscape, the City is guaranteeing to FCM that the payments will be made. All payments are up-to-date, with an outstanding balance of $526,572 as at December 31, 2012. The loan is expected to be repaid by August 2029.

Distillery District Studios ($200,000)

In 2001, the Gooderham & Worts Distillery site was redeveloped by the owners into an arts and cultural centre, while retaining and re-adapting the existing Victorian industrial buildings. In order to attract the arts community and other creative entrepreneurs, the owners provided below-market rent leases to Artscape for two buildings in the Distillery District, which were redeveloped in 2003, and are now home to sixty-three work and retail studios, offices, rehearsal and performance spaces for artists and creative entrepreneurs.

To this end, City Council approved two loan guarantees on behalf of Artscape. An initial loan guarantee advanced in April 2009 for $400,000 for the Distillery District was paid back in full, and the guarantee extinguished in April, 2012.

Another capital loan guarantee was also made, most recently renewed by City Council in August 2010 in the amount of $250,000 for the period January 2011 to December 2014. This term loan, with an amortization period of 19 years (to 2022), has been paid according to the amortization schedule with an outstanding balance of $199,716 as of December 31, 2012. The expected outstanding balance at the end of the loan guarantee in December 2014 will be approximately $169,500 at which time repayment of the loan in this amount will be due by Artscape unless the City guarantee is extended. As Artscape does not own the property, Artscape has indicated an extension of the loan guarantee will likely be required at that time.

Artscape Youngplace - 180 Shaw Street ($5,800,000)

In 2010, Artscape purchased the 180 Shaw Street School, which was declared surplus to the educational needs of Toronto District School Board. Artscape is developing the 70,000 sq. ft. building as a centre for arts and community programming with a youth focus, including work only units. Artscape intends to sell 35% of the space, under its affordable non-residential ownership program, to tenants meeting their eligibility criteria, while retaining the remainder for their own purposes for arts and community organizations. Substantial completion was originally anticipated for the spring of 2013.

In June 2010, City Council authorized a capital loan guarantee in the amount of $5,800,000 for the construction and development of Artscape Youngplace for the period May 1, 2010 until May 31, 2013, essentially secured as a second mortgage on the property. The lender registered a 1st mortgage on the property for the $5.7 million to make up the balance of the $11.5 million anticipated project cost.

In May, 2012 the City was advised that due to construction delay and cost escalation, the project cost had risen from $11.5 million to $14 million, and with City's consent, an additional loan of $1.5 million was obtained by Artscape from its lender, secured by a 3rd mortgage on Artscape's Triangle Lofts at 38 Abell Street.

In December, 2012 the City was advised that the estimated project cost had further escalated to $16 million, with Artscape requiring additional financing in the amount of $2.5 million. The City consented to this second increase in financing, being registered as a 4th mortgage on the Shaw Street property (not fettering the City's position) and by Artscape increasing its equity contribution by $1.8 million (to $2.8 million). Substantial completion is now anticipated in September 2013.

At completion of the project, the construction financing demand loans will be partly settled with proceeds from the sale of condominium work only units (35% of the space to be sold) within the project, Artscape's own equity from fundraising, and a take-out mortgage for the balance. The revised business plan contemplates a 25-year take-out mortgage in the amount of $4.5 million funded from operations and a 5-year take-out mortgage in the amount of $2.3 million funded from donor pledges.

As a result of the increased costs, the project risk has increased. Artscape has not yet sold $1.9 million in work only units that have to be sold, but if necessary, plan to rent at market rates the space to uses that are within the allowable zoning. There is also some risk around the $2.3 million in fundraising still to be raised, however, their fundraising has been successful in the past. Should Artscape default under the terms of the mortgage guaranteed by the City and the City's loan guarantee is called upon in full, under the guarantee agreement, the lender will assign to the City any security held by it as collateral to the capital loan (e.g. the second mortgage in the amount of $5.8 million). As added security, the City holds a third mortgage for $5.8 million on the property, registered at the time it gave the loan guarantee.

Artscape has advised that their lender will likely not require an extension of the City's loan guarantee beyond May 31, 2013, as the project is anticipated to be sufficiently advanced that the lender could assume the City's second priority on the property, but such is subject to Artscape meeting certain covenants by that time.

Direct City Loans:

Under the City's current policy, direct city loans may be provided to City agencies and corporations to contribute to the financing of a project that will create or enhance a capital facility. In one exception, the City made a direct loan to an external organization.

In considering such requests, the City agency or corporation must demonstrate that all other potential sources of funding have been exhausted. The loan must be used to upgrade or establish capital facilities and not to fund operations or support operating deficits. The need for the facility proposed must be based on a sound business case supported by current needs and requirements and the duration of the loan must not exceed the effective life of the facility to be constructed.

The loan provided by the City must be 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 must also be demonstrated by the project in order to be in the interest of the City. The requirement for an equity contribution by the agency or corporation may be required, depending upon the individual circumstances of the agency or corporation, as may be recommended by the Deputy City Manager and Chief Financial Officer.

The total amount of all direct loans provided by the City under this policy is limited to $125 million in the aggregate. As of the date of this report, there were 9 direct loans under this policy with an outstanding balance of $73.2 million, as shown in Table 3 on the following page.

Table 3 - Summary of Direct City Loans

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized $000's	Current Balance (Dec. 31/12) $000's	Expiry Date (Effective Expiry Date*)	Responsible Program Area	Loan Status	Security
July 2011	Lakeshore Arena Corporation	City Services Corporation	1,000	315	none	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
July 2011	Lakeshore Arena Corporation	City Services Corporation	1,200	1,200	none	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
January 2012	Leaside Arena	City Agency	7,500	7,500	September 2043	Arena Board	Currently in Good Standing	City Property
December 1997	Squirrel's Nest Child Care Centre	Service Agreement	122	122	December 2004	Children's Services	Uncollectable – to be written off	City Property, Service Agreement
2007	Conference Centre at Exhibition Place	City Agency	38,453	36,646	2032 (2035)	Exhibition Place	Currently in Good Standing	City Property
2008	Bloor Street Transformation Project	BIA	11,975	10,285	2027	Transportation Services	Currently in Good Standing	Priority Lien
1993	North York Performing Arts Centre	City Agency	10,000	10,000	none	Toronto Centre for the Arts	Currently no repayment schedule	City Property
December 2009	Sony Centre	City Agency	6,650	6,650	December 2029	Sony Centre	Currently in Good Standing	City Property
July 2007	Just for Laughs Toronto Festival	Not-for-Profit	500	500	December 2010	Economic Development & Culture	In Default	None
	Total		**77,400**	**73,218**				
	Aggregate Limit		**125,000**					

* Expiry Date (Effective Expiry Date)

Expiry date is the expiry date of the loan guarantee. Effective expiry date is amortization period of the loan (the number of years it would take to repay the loan in full). If the amortization period extends beyond the loan guarantee period, the borrower would be required to repay the balance of the loan at the end of the loan guarantee period, unless the loan guarantee is extended or the lender no longer requires a loan guarantee.

Conference Centre at Exhibition Place ($36,700,000)

In March 2007, City Council authorized extending a loan of $21.2 million to the Board of Governors of Exhibition Place for the construction of a conference centre within the existing Automotive Building.

In December 2007 an alternative financing plan addressing the significant increase in the projected construction cost from $29 million to $46.88 million for the conference centre was approved. The amount of the City loan was increased from $21.2 million to $35.6 million ($38.675 million with interest on advances during the construction period) to be repaid over 25 years.

The payments on the loan are up to date with an outstanding balance of $36,645,609 as of December 31, 2012.

Lakeshore Arena corporation ($1,515,000):

As previously noted, the Lakeshore Arena Corporation has a number of loans and loan guarantees from the City. A $1 million line of credit was provided by the City in September 2011 as working capital for the start-up of the new corporation. The Corporation has utilized this line of credit from time to time, and on December 31, 2012, an outstanding amount of $315,000 was reported. The City also provided a $1.2 million loan to the Corporation at the time of its creation necessary to settle certain debts, and remains outstanding. These loans are currently in good standing.

Leaside Arena ($7,500,000)

In January 2012, City Council authorized a city capital project for the 2nd ice pad expansion at Leaside Arena, a City facility operated by the Leaside Arena Board of Management. The project cost is $12.5 million, funded by way of city recoverable debt of up to $7.5 million, a non-recourse loan from Infrastructure Ontario of up to $1.5 million, $1 million capital contribution from the City, and a community cash contribution of $2.5 million.

The project is currently in the construction stage, managed by Parks, Forestry and Recreation Construction Management and Capital Projects staff, with an anticipated completion date of October of 2013. The final amounts of the respective loans will be established on substantial completion. Repayment of the loans will commence in the first year of operation. Agreements are in place between the City, Infrastructure Ontario, and the Leaside Arena Board of Management to manage the lending partners' risks in the loans.

Squirrel's Nest Child Care Centre ($122,000):

The Squirrel's Nest Child Care Centre is located in a City-owned facility on Ellesmere Road in Scarborough. In 1997, the former Council of the City of Scarborough authorized a capital loan of $122,000 to Squirrel's Nest for leasehold improvements.

Squirrel's Nest is operated under agreement with the City's Children's Services Division, and funding is cost shared with the provincial government. Currently, 65% of the children enrolled in the centre received child care fee subsidy from Children's Services.

The former Council of the City of Scarborough's approval of this loan in September 1997 occurred at the time of amalgamation. The loan was advanced to Squirrel's nest and the leasehold improvements were made to the City-owned facility. However, no properly executed loan documents can be found, nor was there any formal request by the City to collect on this loan.

The former City of Scarborough had made a provision for the $121,807.68 in respect of this loan with a corresponding allowance for doubtful accounts for the same amount. In effect, the amount was allowed for, resulting in an asset value of zero, but was not written off formally.

Children’s Services staff have reviewed the audited financial statements of the agency for the past three years and confirms that their ability to repay the loan at this time is unlikely and would threaten the stability and financial viability of the program. Furthermore, the *Limitations Act* would likely exclude recovery at this time. The General Manager of Children's Services recommends forgiveness of the loan. Accordingly, this report recommends formally writing off this loan in the amount of $121,807.68 against an existing allowance for doubtful accounts for the same amount, with no net financial impact on the City.

Bloor Street Transformation Project ($10,300,000)

The Bloor Street BIA was established in 2006 to finance the Bloor Street Transformation Project, a streetscape improvement plan designed to reinforce Bloor Street’s status as a pedestrian-oriented, premier shopping destination. The Bloor Street Transformation Project involved the reconstruction of Bloor Street between Avenue Road and Church Street to provide wide granite sidewalks, decorative street lighting, new street furnishings, trees, raised planting beds, public art, and new parking lay-bys.

In June, 2008, the City entered into an agreement with the Board of Bloor Street BIA to complete the transformation project at an estimated cost of $15.5 million. The BIA Board has agreed to reimburse $11,975,000 of the project cost, including interest through the annual BIA special levies over the course of eighteen years (2027). In addition, the BIA has agreed to pay $1,400,000.00 to the City to offset a portion of the Project costs and the City has secured an additional $2,125,000 in development related contributions to further offset the project cost.

All payments through the BIA special levy are up to date with an outstanding balance of $10,284,907 on December 31, 2012. The loan is expected to be fully paid off in 2027. The repayment of the loan through the BIA levies has priority lien status.

North York Performing Arts Centre (Toronto Centre for the Arts) ($10,023,000)

Over 1992-1994, the former City of North York provided approximately $15 million in interim financing to the North York Performing Arts Centre Corporation (NYPACC) to help fund the approximately $45 million construction cost of the North York Performing Arts Centre (NYPAC). Accounting records show that the balance outstanding on the loan was reduced to $10,023,036 by December 31, 2003. No subsequent loan repayments were made. The $10,023,036 loan balance in the City’s books is offset by a $10,023,036 credit in one of the City’s Deferred Revenue accounts, and by the same amount in NYPACC’s Long Term Liability account.

Ontario Hydro owns all the land on which the NYPAC was built, and the City has a 99-year lease with the landlord. The City owns and operates the North York Performing Arts Centre, which is now called the Toronto Centre for the Arts (TCA) as a city agency, managed by its own Council appointed Board. The TCA receives annual net Operating Budget support from the City.

In November, 2012, City Council recognized the TCA as a community cultural asset and committed to supporting its operations, subject to a five-year business plan that shows a sustainable operation that minimizes the City's tax funding, to be presented and approved by City Council in 2013, prior to the 2014 Budget process. This plan will include several recommendations to resolve outstanding financial issues between the TCA and the City including a final resolution of the $10 million loan payable by the TCA to the City which relates back to the construction of the NYPAC some 20 years ago.

Sony Centre ($6,650,000)

The Sony Centre, Canada’s largest soft seat theatre (3,191 seats), was opened as the O’Keefe Centre on October 1, 1960, and has played host to a variety of international attractions and stars. The theatre was the home of the Canadian Opera Company and National Ballet Company until 2006. Programming now consists of large scale entertainment productions, cultural and educational programming, concert and event productions, and reflects a focus on diverse, ethno-specific audiences.

The theatre, designated a historical site by the City of Toronto, recently underwent extensive renovations. The theatre reopened in October 2010 with completed interior renovations, with the project budgeted for $35.469M and actual spending of $35.45M. The south side plaza completion, to be provided by the condominium tower developer, has been delayed until 2013. Some exterior work to fulfill the heritage easement agreement is to be completed by 2015 at an additional cost of $2.4M. The city owns and operates the theatre through a Council appointed Board as a City Agency as well as provides subsidy for its operations (2013 Budget is $3.405M gross, $1.432M net).

In December 2009 and February 2011, City Council granted capital completion loans to Sony Centre for the Performing Arts in the amount of $4.65 million and $2 million respectively, totalling $6.65 million for the redevelopment of the Centre. The Sony Centre committed to repay the capital completion loan in 15 annual installments of principal and interest compounded semi-annually at an interest rate of 5%, funded by ticket surcharge revenues, commencing on Jan 1, 2012. However, due to general economic slowdown and resulting insufficient surcharge revenues to repay the loan, City Council granted a 2-year loan repayment deferral on interest and principal in January of 2013, with the interest accrued over the 2-year holiday being re-amortized over 15 years with principal and interest payments to commence December 31, 2014 at the original interest rate of 5%.

Just for Laughs Toronto Festival ($500,000)

In July 2007, City Council authorized a $500,000 loan to Just for Laughs to establish a Just for Laughs Comedy Festival in Toronto. The loan was due in December 2009. The loan was made under a 'Tourism Event Development Loan Program' administered by the Economic Development, Culture and Tourism Division.

The first Toronto Just For Laughs Comedy Festival was held in July 2007, as a three day event that that attracted over 60,000 to the outdoor festival site on Yonge Street and to the main venues at Massey Hall and the Elgin Theatre. The 2008 event was expanded to four days and five venues and it attracted over 153,000 festival attendees.

The Toronto Just For Laughs Comedy Festival incurred a deficit in those first two years of operation, and City Council extended the loan repayment to December 2010. This loan has yet to be repaid, and the General Manager of Economic Development is currently negotiating a repayment plan from the organization.

Strengthening the Loan and Loan Guarantee Portfolio Oversight

Since the last report on the status of the loan and loan guarantee portfolio, a default or past due by two organizations has come to light (Toronto Just for Laughs - $500,000 and Squirrels Nest Child Care Centre - $122,000), and an impending default by a third organization is being addressed (BIXI Toronto Inc. - $3,900,000). Concerns around the status of several other loan and loan guarantees are also raised in this review, where such organizations are experiencing operating deficits and growing accumulated deficits, or facing economic conditions where increases in interest rates could affect their ability to make loan payments.

The front line responsibility for monitoring the operating and financial status of an organization resides with the responsible program area, who through regular monitoring, should be able to detect difficulties before they manifest into a default, and to assemble and work with the organization and appropriate City staff to find ways to mitigate these difficulties.

To this end, the Deputy City Manager and Chief Financial Officer will work with the responsible program area staff with direct oversight for organizations to which the City has provided loan guarantees and/or direct City loans to external parties under this policy to formalize a protocol for monitoring the performance and financial status of those organizations, and for documenting such reviews on not less than an annual basis, or with more frequent updates for those organizations where controls and performance oversight should be strengthened. Loans to City agencies are monitored through the City's Operating Budget and budget variance reporting processes.

Further, this report recommends the creation of a Doubtful Loan Guarantee Reserve to provide a first line of funds in the event that the City is obligated to make payment as a result of a default of loan guarantee or direct loan. The Deputy City Manager and Chief Financial Officer will be transferring $1.5 million from the 2012 year end surplus to the Doubtful Loan Guarantee Reserve as an initial provision for losses from those loan guarantees and loans that are in default, past due, or likely to default. The Deputy City Manager and Chief Financial Officer will also be reviewing annually the adequacy of funds in the Doubtful Loan Guarantee Reserve, and will make any necessary adjustments where the cost or risk of loss under a loan guarantee or direct loan is determined to be likely and should be recognized.

Finally, with any new Capital Loan Guarantees to be entered into or renewed, the expectations of the lender with respect of the amortization term of the loan in relation to the term of the loan guarantee will be documented and reported to Council as part of the approval process. For example, some of the existing capital loan guarantees that Council has approved for "a three year term" in effect will require the guarantee to continue to be extended to the end of the loan amortization period, which in some cases is 25 years. This change will provide greater transparency and clarity as to the likely term of the loan guarantee.

CONTACT

Adir Gupta, Manager
Financial Policy
Corporate Finance
416-392-8071, agupta@toronto.ca

Joe Farag
Director
Corporate Finance
416-392-8108
jfarag@toronto.ca

SIGNATURE

____

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Attachment 1 – Doubtful Loan Guarantee Reserve
Attachment 2 – Consolidated and Amended Line of Credit Guarantees Policy
Attachment 3 – Consolidated and Amended Capital Loan Guarantees Policy
Attachment 4 – Consolidated and Amended Direct City Loans Policy
Confidential Attachment 5 – Confidential Information

Attachment 1 – Doubtful Loan Guarantee Reserve

1. Location within the Consolidated Reserves/Reserve Funds Schedule

   Schedule No. 1- Corporate Reserves.

2. Statement of Purpose

   This account will be used provide a source of funding for any shortfalls or defaults in interest and/or principal payments by an organization under which the City has provided a loan guarantee or loan.

3. Service Area or Beneficiary Program

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

4. Contribution Policy

   An amount will be $112,800 provided from the Toronto Arts Council, as a recovery of past grants made for the Toronto Philharmonia, followed by annual payments by the Toronto Arts Council of 37,600 starting in 2013 until the full principal of the Toronto Philarmonia loan is recovered. An amount of $1.5 million from the 2012 year end surplus will also be contributed as start-up funding.

   The Deputy City Manager and Chief Financial Officer will also be reviewing annually the adequacy of funds in the Doubtful Loan Guarantee Reserve, and will make any necessary adjustments where the cost or risk of loss under a loan guarantee or direct loan is determined to be likely and should be recognized.

5. Withdrawal Policy

   Funds will be withdrawn on the authority of the Deputy City Manager and Chief Financial Officer as necessary to fund any shortfalls or defaults in loan payments by organizations under which the City has provided a loan guarantee.

6. Review Cycle

   The need for this reserve will be reviewed every five years.

Attachment 2 – Consolidated and Amended Line of Credit Guarantees Policy

Purpose:

It is recognized that many local community and cultural organizations receive operating grants from the City of Toronto and Council views these arrangement to be in the public's interest to continue on a longer-term basis. These non-profit groups have issues with cash flow management due to the seasonality of their operations and require lines of credit to assist in their daily operations. In most instances, financial institutions such as banks will not provide these organizations with an operating line of credit unless they are guaranteed by a third party.

Requirements:

Line of credit guarantees will only be considered from cultural and community organizations that have an existing financial relationship with the City of Toronto.

Line of credit guarantees will only be considered when the organization provides documentation that they have been denied sufficient and reasonable funding from all other sources.

Line of credit guarantees will only be considered where the business plan demonstrates the financial viability and capacity to repay the funds within operating funds to the satisfaction of the Deputy City Manager and Chief Financial Officer.

Line of credit guarantees shall not be used to address structural operating deficits.

Information to be supplied with application:

A minimum of three years of audited financial statements shall be provided to the responsible program area, unless otherwise agreed to by the responsible program area, with a copy provided to the Deputy City Manager and Chief Financial Officer, together with a business plan, budget and cash flow, in form and content satisfactory to the Deputy City Manager and Chief Financial Officer.

Equity Contribution:

The appropriate Deputy City Manager, in consultation with 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.

Terms of Guarantee Agreements:

The nature and terms of the proposed guarantee be subject to the concurrence and approval of the Deputy City Manager and Chief Financial Officer and the appropriate Deputy City Manager, and as approved by Council.

Security:

The Deputy City Manager and Chief Financial Officer in consultation with the City Solicitor, in recommending approval to Council of any Operating Line of Credit guarantee under this policy, will determine 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, and the agreement may provide for the withholding of grants or other financial contribution by the City to the organization, as may be deemed appropriate by the Deputy City Manager and Chief Financial Officer.

Agreements:

The legal and financial arrangements related to the loan and line of credit must protect the rights of the City of Toronto in the event of default and are subject to the approval of the Deputy City Manager and Chief Financial Officer, City Solicitor and the appropriate Deputy City Manager. The City requires an agreement between itself and the organization as well as a tri-party agreement between itself, the organization and the lender. If the City takes security under these agreements, it is subject to registration as to title in order to provide the City with additional protection.

Monitoring of Performance:

The responsible program area staff with direct oversight for organizations to which the City has provided a line of credit guarantee under this policy shall be responsible for monitoring the performance and financial status of those organizations, and documenting such reviews on not less than an annual basis, and to provide an update on the status of the loan guarantee to the Deputy City Manager and Chief Financial Officer on not less than an annual basis, and more frequently if financial circumstances warrant.

Annual Audited financial statements, budgets, and cash flow:

Organizations receiving operating line of credit guarantees under this policy shall be required to provide annual audited financial statements to the responsible program area as soon as they are available after fiscal year-end but not later than six months after fiscal year-end, as well as an annual updated budget, cash flow forecast and business plan within ninety days of fiscal year-end. The responsible program area shall, after review of this information, provide a report on the status of the loan guarantee to the Deputy City Manager and Chief Financial Officer.

Event of Default:

In the event that the City is obligated to make payment as a result of a default under any new loan guarantees entered into, the Deputy City Manager and Chief Financial Officer is authorized to fund the immediate legal obligations of the City, and the responsible program area shall report to the next available Executive Committee meeting on the circumstances of the default.

Council Financial Limits:

The total amount of all financial guarantees provided by the City of Toronto under this policy is limited to $10 million in aggregate. If requests are considered that would cause this amount to be exceeded, Council approval must be obtained to increase the limit under this policy.

Attachment 3 – Consolidated and Amended Capital Loan Guarantees Policy

Purpose:

The purpose of this policy is to provide a framework for Council to consider requests from sporting and community organizations to act as a loan guarantor that will allow eligible organizations to acquire or upgrade community facilities to further initiatives that will assist in increasing participating in sport and recreation activities, particularly where the majority of active members reside within the City, and will ensure the viability and sustainability of the organizations. Such loan guarantees must be in the interest of the City.

Requirements:

Capital loan guarantees will only be considered from sports and community organizations that have an existing financial relationship with the City of Toronto.

Capital loan guarantees will only be considered when the organization provides documentation that they have been denied sufficient and reasonable funding from all other sources.

Capital loan guarantees will only be considered where the business plan demonstrates the financial viability and capacity to repay the funds within operating funds to the satisfaction of the appropriate Deputy City Manager, in consultation with the Deputy City Manager and Chief Financial Officer. Capital loans must not be used for operating purposes or to address operating deficits.

Equity Contribution:

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.

Information to be supplied with application:

A minimum of three years of audited financial statements shall be provided, unless otherwise agreed to by the responsible program area, with a copy provided to the Deputy City Manager and Chief Financial Officer, together with a business plan, budget and cash flow, to the satisfaction of the Deputy City Manager and Chief Financial Officer.

Appraisal and Fees:

At the discretion of the Deputy City Manager and Chief Financial Officer, the applicant organizations may be required to provide an appraisal prepared by a qualified third party appraiser of the value of the asset for which the loan is required.

The applicant organization may be required to pay all external legal costs or other costs incurred by the City, if any, associated with establishing the loan guarantee and other agreements that may be required.

Audited financial statements, budgets, and cash flow:

Organizations receiving capital loan guarantees under this policy shall be required to provide annual audited financial statements to the responsible program area as soon as they are available after fiscal year-end but not later than six months after fiscal year-end, as well as an annual updated budget, cash flow forecast and business plan within ninety days of fiscal year-end. The responsible program area shall, after review of this information, provide a report on the status of the loan guarantee to the Deputy City Manager and Chief Financial Officer.

Terms of Guarantee Agreement:

The nature and terms of the proposed guarantee be subject to the concurrence and approval of the Deputy City Manager and Chief Financial Officer and the appropriate Deputy City Manager.

The duration of the loan shall not exceed the effective life of the facility to be constructed, and be no longer in duration than the remaining term of the relevant leasing and/or operating agreements.

The expectations of the lender with respect of the amortization term of the loan in relation to the term of the loan guarantee shall be documented and reported to Council, for greater transparency and clarity as to the likely term of the loan guarantee.

Monitoring of Performance:

The responsible program area staff with direct oversight for organizations to which the City has provided a capital loan guarantee under this policy shall be responsible for monitoring the performance and financial status of those organizations, and documenting such reviews on not less than an annual basis, and to provide an update on the status of the loan guarantee to the Deputy City Manager and Chief Financial Officer on not less than an annual basis, and more frequently if financial circumstances warrant.

For large capital loan guarantees that include capital construction, the responsible program area shall assign a project manager to monitor construction progress and financial status during construction, require the organization to provide quarterly reports verified by a qualified third-party cost consultant 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, with a copy to the Deputy City Manager and Chief Financial Officer.

Event of Default:

In the event that the City is obligated to make payment as a result of a default under any new loan guarantees entered into after adoption of this policy, the Deputy City Manager and Chief Financial Officer is authorized to fund the immediate legal obligations of the City, and the responsible program area shall report to the next available Executive Committee meeting on the circumstances of the default.

Council Financial Limits:

The total amount of all financial guarantees provided by the City of Toronto under this policy is limited to $300 million in aggregate, with individual loan guarantees being limited to a maximum of $10 million. If requests are considered that would cause this amount to be exceeded, Council approval must be obtained to increase the limit under this policy.

Attachment 4 – Consolidated and Amended Direct City Loan Policy

Purpose:

The purpose of this policy is to provide a framework for Council to consider requests from City agencies and corporations 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 agency or corporation's financial position being demonstrated to meet the principles as outlined in this policy.

Principles:

Council recognizes the value of its agencies and corporations 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 agencies and corporations 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 City agencies or corporations when the following can be demonstrated to the satisfaction of Council through inclusion in the 10 Year Capital Plan:

1. Funding Options and Council's Financial Limits:

Other sources of funding have been exhausted, including the agency Capital Budget 10 year debt target. The total amount of all outstanding loans provided by the City of Toronto under this policy at any time is limited to $125 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. The project should not increase the requirement for City Operating Budget funding.

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.

4. Assessment of the Organization's Financial Viability:

Financial stability including audited financial statements for the past 3 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 must be presented, including cash flow projections for the term of the loan.

5. 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. Such a contribution can take various forms, such as fundraising, or sponsorship support.

6. 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.

7. 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.

8. Interest to be Charged:

The interest rate charged shall be, as a minimum, at the City's rate of return that would have been earning if the funds were invested in financial assets.

9. Provision of Information:

The agency or corporation agrees to provide the Deputy City Manager and Chief Financial Officer with annual audited financial statements for the duration of the loan. The agency or corporation shall also provide an annual updated budget and cash flow forecast, if requested.

10. Payment of Costs:

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

11. Event of Default:

In the event that the City is obligated to make payment as a result of a default under any new loan guarantees entered into after adoption of this policy, the Deputy City Manager and Chief Financial Officer is authorized to fund the immediate legal obligations of the City, and the responsible program area shall report to the next available Executive Committee meeting on the circumstances of the default.

12. Monitoring of Performance:

The agency or corporation shall be responsible for monitoring the performance and financial status of those organizations, and documenting such reviews on not less than an annual basis, and to provide an update on the status of the loan guarantee to the Deputy City Manager and Chief Financial Officer on not less than an annual basis, and more frequently if financial circumstances warrant.