



STAFF REPORT ACTION REQUIRED

Request for a Capital Loan Guarantee by Theatre Centre at 1115 Queen Street West

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| Date: | June 18, 2013 |
| To: | Executive Committee |
| From: | General Manager, Economic Development and Culture Deputy City Manager and Chief Financial Officer |
| Wards: | Ward 18 – Davenport |
| Reference Number: | P:\2013\Internal Services\Cf\Ec13013cf (AFS# 17858) |

SUMMARY

In April, 2010, City Council authorized a Below Market Rent lease agreement with the Theatre Centre at 1115 Queen Street West for the purpose of adaptively reusing the heritage designated Carnegie Library as a performing arts hub and community meeting space. Theatre Centre, a not for profit organization, has partnered with other levels of government and the private sector to undertake the extensive renovations required of this City-owned facility, with a capital investment in this project estimated at \$6.225 million (the "Project").

Theatre Centre has secured funding for over 70% of the Project cost (\$4.5 million), leaving \$1.725 million to be funded by Theatre Centre itself. It proposes to do so by way of a capital fundraising campaign, which is underway but not yet completed. To date, Theatre Centre has raised \$1.02 million in pledges and cash, and the campaign is forecast to reach its full fundraising goal within the next 4 years.

Theatre Centre needs to bridge finance the shortfall. Because Theatre Centre has no tangible assets (the property is owned by the City), their lender will require a loan guarantee. Theatre Centre's lender is prepared to advance a \$1.5 million loan, of which \$1 million would be secured by the City and \$0.5 million would be unsecured.

This report seeks Council approval of a capital loan guarantee to be issued by the City in favour of Theatre Centre in the amount of \$1.0 million for a four year period ending in December 2017, subject to the terms and conditions described herein.

RECOMMENDATIONS

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

1.
 - a. Council approve the provision of a capital loan guarantee on behalf of the Theatre Centre to their lender (the “Lender”) in an amount not to exceed \$1.0 million, inclusive of all interest costs payable by the Theatre Centre, for a period ending on December 31, 2017 (the “Guarantee”) to secure \$1.0 million of a \$1.5 million loan to be provided by the Lender to Theatre Centre for the Project (the “Loan”);
 - b. Council authorize City staff to enter into an agreement with the Theatre Centre, and a tri-party agreement with the Theatre Centre and with the Lender, with respect to the Guarantee, to secure the terms and conditions set out in Recommendation 2.
2. Council authorize the guarantee and all related agreements to be on terms and conditions satisfactory to the City Solicitor and the Deputy City Manager and Chief Financial Officer, including but not limited to the following terms:
 - a. Prior to the issuance of the Guarantee, the Theatre Centre be required to submit a satisfactory quantity surveyor's report providing evidence that total cost of the Project will not exceed \$6.225 million;
 - b. The secured portion of the Loan be required to be retired on a pro-rata basis with the \$500,000 unsecured portion of the loan also to be taken out by the Theatre Centre for the Project;
 - c. Theatre Centre be required to repay and retire both the secured and unsecured portions of the Loan in accordance with the following schedule:

| <u>Date</u> | <u>Maximum Amount Outstanding</u> |
|-------------------|---------------------------------------|
| December 31, 2013 | 1,405,000 |
| December 31, 2014 | 1,134,500 |
| December 31, 2015 | 784,500 |
| December 31, 2016 | 404,500 |
| December 31, 2017 | 0 |

- d. In the event that the Lender calls on the City to make payment under the Guarantee, the City be authorized to recover the amount of the grant ordinarily made by the Toronto Arts Council to the Theatre Centre, either by reducing funding to the Toronto Arts Council or recovering the amount that would be allocated to the Theatre Centre, until such time as any funds the City had to pay on the Guarantee have been satisfied; and,
 - e. The Theatre Centre be required to annually submit its annual audited financial statements and capital and operating budgets to the General Manager of Economic Development and Culture.
3. Council deem the guarantee to be in the interest of the municipality.

Financial Impact

Issuance of a capital loan guarantee is considered to be a financial commitment of the City. However, there is no direct cost to the City for providing this guarantee unless the organization defaults on its obligation and the City cannot recover its funds.

Theatre Centre has secured \$3.5 million in funds from the other orders of government and \$1.0 million in Section 37 funds from local developers towards the capital construction costs of \$6.225 million, leaving \$1.725 million to be raised from its own sources. Theatre Centre's lender has proposed a \$1.5 million loan of which \$1 million would be secured through a City guarantee. Theatre Centre's business plan acknowledges there is no capacity to meet debt obligations through operating revenues. Theatre Centre plans to raise these funds from private donors through a capital fundraising campaign over the next four years. The significant equity contribution (\$4.5 million towards the project cost of \$6.225 million) reduces the risk around debt repayment on the Project. This report recommends the City provide a loan guarantee for this project subject to certain terms and conditions to mitigate the City's financial risk.

The applicant and the Project meet all of the eligibility requirements established for loan guarantee requests as amended and adopted by Council in 2013. Furthermore the amount of the guarantee being requested falls within Council's financial limit for total loan guarantees outstanding.

DECISION HISTORY

City Council on March 31 and April 1, 2010, authorized a Below Market Rent lease agreement with Theatre Centre for the property at 1115 Queen Street West for a term of ten years with two renewal options of 5-years each. The purpose of the lease is to facilitate the adaptive reuse of the heritage designated Carnegie Library as a performing arts hub and a community meeting space. That decision can be viewed at: <http://www.toronto.ca/legdocs/mmis/2010/gm/bgrd/backgroundfile-28128.pdf>

The City's policy in respect of loans and loan guarantees was most recently updated by City Council at its meeting of May 7-9, 2013. The request by Theatre Centre for a capital

loan guarantee meets the eligibility criteria of the policy. The policy requirements can be viewed at:

<http://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-57447.pdf>

ISSUE BACKGROUND

Pre-construction work on the Project started in early 2012, with actual construction commencing in early 2013. Funding from the Province, the Ontario Trillium Foundation and the Canadian Department of Heritage is by way of progress payments when certain construction milestones are evidenced. Funds dedicated to the building restoration secured by the City through a Section 37 agreement have already been dispersed. The Project's capital cash flow budget shows a construction funding deficit beginning in October 2013, due to a timing difference in expenditures and receipt of funds from the other levels of government and the capital fundraising campaign. As such, the Project requires bridge financing to complete construction. Theatre Centre proposes to repay this financing through a capital fundraising campaign over the next four years.

COMMENTS

The subject property is owned by the City and contains a 9,300 square foot building constructed in 1909 as a public library funded under the Carnegie Corporation. The heritage designated building ceased use as a public library in 1964 and thereafter had been used as a City public health facility. More recently, City Council authorized the below market rent lease to Theatre Centre, and the Toronto Public Health Office moved to a new building nearby at 45 Lisgar Street in 2012.

Theatre Centre was established in 1981 as a charitable not-for-profit organization. Theatre Centre is a nationally recognized arts incubator, serving as a research and development hub for the cultural sector by providing space, subsidy and mentorship to new generations of arts leaders. Theatre Centre is supported by the City through the Toronto Arts Council grant program, with an operating grant of \$110,000 having been provided for 2013.

In 2010, Theatre Centre had presented a capital program for the renovation of the building to accommodate its operation as a cultural centre. Renovation of the building was estimated at that time to cost approximately \$5.2 million, with funding projected to be secured from a \$1 million Section 37 contribution agreement and from other levels of government, foundations and private donations.

An updated business plan and capital program was prepared in October 2012, indicating that the cost of renovation of the Carnegie Library building had increased to \$6.225 million. The increase was attributed to additional excavation and restoration work necessary in and around the basement of the building. Evidence of secured funding was also presented in this business plan. The sources and uses of funds are shown in the chart below.

Sources and Uses of Funds – Carnegie Library Renovations

| Sources | Amount | Uses | Amount |
|---|--------------------|--------------------------|--------------------|
| Canada – Dept Heritage | \$1,800,000 | Construction | \$4,510,000 |
| Ontario – Min. Culture | \$1,200,000 | Professional Fees (arch) | \$730,000 |
| Ontario – Trillium | \$ 500,000 | Equipment | \$183,000 |
| Toronto – Sec. 37 | \$1,000,000 | Permits & Insurance | \$70,000 |
| Theatre Centre Capital Fundraising Campaign | \$1,725,000 | Campaign expenses | \$359,500 |
| | | Admin. General & Fees | \$372,500 |
| TOTAL | \$6,225,000 | TOTAL | \$6,225,000 |

Formal contribution agreements with the Canadian Department of Heritage for funding in the amount of \$1.8 million, and with the Ontario government and Trillium Foundation for funding totalling \$1.7 million towards the Project have been executed and the funding is secured. The \$1 million Section 37 contribution has also been received.

Consequently, Theatre Centre will be responsible for raising the balance of \$1.725 million in funding, for which it has prepared a capital fundraising campaign. It has already collected \$364,000 and has a further \$651,000 in pledges, leaving an additional \$710,000 in donations to be solicited to reach its targets shown in the chart below.

Capital Fundraising Campaign Targets

| Year | Fundraising Targets |
|------------|---------------------|
| Pre 2013 | \$320,000 |
| 2013 | \$270,500 |
| 2014 | \$350,000 |
| 2015 | \$380,000 |
| 2016 | \$404,500 |
| Total goal | \$1,725,000 |

Due to differences in timing of expenditures and receipt of funds from the other levels of government and the capital fundraising campaign, the Project will experience a cash flow deficit beginning in October 2013 through to end of 2016. Theatre Centre's business plan acknowledges that there is no capacity in its operating revenues to fund this cash flow deficit.

Theatre Centre has been offered a \$1.5 million loan, provided that a guarantee in the amount of \$1 million is provided by a third party. With no significant assets to secure against (as the property is owned by the City), Theatre Centre is requesting a capital loan guarantee from the City.

The Project meets the eligibility requirement for a City capital loan guarantee as it is for capital improvements to a City facility, the organization has a long standing financial relationship with the City, and external equity funding well in excess of the minimum 15% of project cost guideline has been secured. Further, a city project manager from the

Economic Development and Culture Division has been assigned to monitor the Project and to review reports verified by a qualified third-party cost consultant on the construction and financial status of the Project.

Theatre Centre's audited financial statement for the 2010, 2011 and 2012 (fiscal year ending June 30th) and a detailed cash flow forecast to 2017 have been received and reviewed, indicating acceptable financial results and cash management. Theatre Centre operates on a modest annual budget of approximately \$500,000 annually. The company is debt free with a modest accumulated surplus of approximately 7% of its average annual budget.

The significant equity contribution (\$4.5 million towards the Project cost of \$6.225 million) reduces the risk around debt repayment on the Project. Given these facts, and that the Theatre Centre has already embarked on a capital fundraising campaign to raise the residual balance of the Project cost, it would be reasonable to grant a loan guarantee to this Project.

It must be acknowledged however, as is common in capital fundraising campaigns, that fundraising results may be slower than anticipated. If this occurs, an extension in the loan guarantee term may be required. This report recommends certain terms and conditions to mitigate the City's financial risk.

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