STAFF REPORT
ACTION REQUIRED

Annual Report on City's Loan and Loan Guarantee Portfolios

Date:	April 4, 2016
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2016\Internal Services\Cf\Ec16010cf (AFS #22510)

SUMMARY

This report provides an annual update on the City's loan and loan guarantee portfolios.

The City currently guarantees three operating lines of credit and seven capital loan guarantees under Council approved policies for line of credit and loan guarantees for cultural and community-based organizations. In addition to the guarantees, the City currently has outstanding a total of seven direct loans: six to City agencies and corporations, plus one to an external organization. All loans and guarantees are in good standing with one loan behind repayment target and another under a repayment settlement plan. These noted two loans are being monitored and will be the subject of a future report.

The City has also from time to time provided loans to other City initiatives, which have not previously been part of this annual review of cultural and community facilities loans. A review of these other city loans will be undertaken, with a view to include in a future report on city loans.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council request the General Manager of Economic Development and Culture, in consultation with the Deputy City Manager & Chief Financial Officer, to report to Executive Committee in the fall of 2016, on options and

recommendations for bringing the loan repayments of the Theatre Centre into compliance with the terms and conditions of a $1 million capital loan guarantee provided by the City.

2. City Council request the Board of Governors of Exhibition Place, in consultation with the Deputy City Manager & Chief Financial Officer, to report to Executive Committee in the fall of 2016, on options and recommendations for the Board to maintain the long term sustainable repayment of the loan for the Conference Centre based upon a revised business plan and/or other such measures.

3. City Council request the City Manager and Deputy City Manager & Chief Financial Officer to report out in the fall of 2016 with a revised loan amortization schedule for the Leaside Memorial Gardens Arena Board or other remedy measures to reconcile any remaining previous year end operating deficits in accordance with the loan agreement.

Financial Impact

As at December 31, 2015, there were:

- 3 outstanding operating line of credit guarantees with a maximum exposure of $3.9 million,
- 7 outstanding capital loan guarantees in the amount of $40.3 million, and
- 7 direct city loans with an outstanding balance of $80.3 million.

A loan guarantee is considered to be a financial commitment of the City, and impacts the City's borrowing capacity and potentially its credit rating. 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.

As at December 31, 2015, one direct City loan to Just for Laughs in the original amount of $500,000 was in default, and is now subject to payments terms under a settlement agreement described later in this report, with a 2015 year end balance of $430,000.

A loan, guaranteed by the City, (Theatre Centre) was also behind repayment targets by $103,000 as at December 31, 2015 although all interest payments on the loan are up to date. Since the loan does not have regular amortization payments (repayments based on annual donor pledge receipts), the loan is not in default, as detailed further in this report.

The total value of direct City loans or loans that are guaranteed by the City for which loan payments are in default or past due is $533,000 (December 31, 2014 - $470,000) as identified in this report, or approximately 0.4% of the portfolio value, as shown in the following Chart.

Total Value of Loans and Loan Guarantees

	No. of Loans	Total Exposure ($000's)	No. of Loans in Default or Past Due	Total Value of Loans in Default or Past Due ($000's)	% of Value
Line of Credit Guarantees	3	$3,905	0	$0	0%
Capital Loan Guarantees	7	$40,317	1	$103	0.3%
Direct City Loans	7	$80,331	1	$430	0.5%
Total @ Dec. 2015	17	$124,553	2	$533	0.4%
Total @ Dec. 2014	18	$135,668	1	$470	0.3%

The Deputy City Manager & Chief Financial Officer reviews and reports annually on the risk of loss under the City's loan guarantee and loan portfolios. With regular monitoring, it is possible to identify financial risks earlier and to take action to avoid or mitigate potential losses.

DECISION HISTORY

In April 2013, City Council adopted a revised framework for loans and loan guarantees made by the City. That report arose as a result of recommendations made by the City's Internal Audit group to strengthen controls and oversight of the line of credit guarantee and loan guarantee undertakings, including formal monitoring and reporting 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=2013.EX31.14

In the 2014 Annual Report on City's loan and loan guarantee portfolio, additional criteria were added concerning limiting fundraising as a source of funds to repay loans. That report can be viewed at:
http://www.toronto.ca/legdocs/mmis/2014/ex/bgrd/backgroundfile-68407.pdf

The 2015 Annual Report on City's loan and loan guarantee portfolio provided direction for staff to consider a plan for permanent financing of a temporary interest only loan to a City services corporation (Lakeshore Arena Corporation) and acceptance of settlement terms on a loan in default (Just for Laughs). That report can be viewed at:
http://www.toronto.ca/legdocs/mmis/2015/ex/bgrd/backgroundfile-78949.pdf

In November 2015, Council adopted recommendations from the Deputy City Manager & Chief Financial Officer to write off loans to two civic theatres (Sony Centre and Toronto Centre for the Arts) and partially write-down a loan to an arena (Lakeshore Arena Corporation), as recovery of the loans was considered unlikely and further, to set those entities on a more sustainable footing for future operations.

That report can be viewed at:
http://www.toronto.ca/legdocs/mmis/2015/ex/bgrd/backgroundfile-84484.pdf

ISSUE BACKGROUND

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.

Non-profit organizations operate in a different financial environment than for-profit enterprises. Operating deficits from own revenues are not uncommon, and fundraising and government subsidies are sometimes core to not-for-profit sustainability.

Providing financial guarantees to qualifying organizations is beneficial to the City since these groups provide important services to the community that complement or offset the need for government to provide those services. The City also occasionally provides direct loans to its agencies and corporations, and in one instance to a third party, 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 support new activities and/or expansion of activities that directly benefit the public.

However, such loans and loan guarantees are not without risk. A number of projects have experienced financial difficulties requiring financial intervention by the City.

Most recently, in late 2015, the City wrote off direct loans to two civic theatres (Sony Centre and Toronto Centre for the Arts) totalling $17.1 million, as recovery of the loans was considered unlikely, and wrote down $8.1 million from a $19.9 million direct interest only loan to the Lakeshore Arena Corporation (LAC), a corporation of the City, with the expectation the remaining balance of $11.8 million be permanently financed from a third party financier, under a City guarantee.

For these reasons, it is important that the level of financial support be properly founded by business case analysis, and that the responsible program area with direct oversight take responsibility for the continuous monitoring of the organization receiving the loan or loan guarantee.

Other loans, not currently under the mandate of this annual reports, have been made by the City over the years mostly to social and affordable housing providers. A list of those loans categories together with a 2014 year-end outstanding balance of approximately $110 million is contained in Appendix A. A review of these other city loans will be undertaken, with a view to include in a future report on city loans.

COMMENTS

As part of this annual review on the status of loan guarantees and loans provided by the City, consideration was given to the following matters:

1. financial statements of the borrower and liquidity metrics;
2. status of payments and debt covenants;
3. economic conditions affecting the environment in which the borrower operates; and,
4. independent credit reports.

A finding that an organization is experiencing difficulties in any of the above conditions is not necessarily an indication of insolvency or imminent failure. However, in respect of loan guarantees, 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, and may impact on the City's credit and/or cash flow. 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.

Under the current policy, the City provides assistance in three ways:

a. lines of credit guarantees are intended to allow non-profit cultural and community organizations to obtain a line of credit for working capital purposes and to deal with seasonal fluctuations in cash flow;
b. capital loan guarantees are intended to assist non-profit cultural, community and recreational based organizations purchase or improve property; and
c. direct city loans which are intended to provide City agencies and corporations financing for projects that create or enhance a capital facility.

A. 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 & Chief Financial Officer. Organizations must also submit audited statements and operating budgets on an ongoing basis as long as the loan remains outstanding.

As of the date of this report, there were 3 lines of credit guarantees outstanding, representing a maximum City guarantee of $3.9 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. The table below shows the current maximum line of credit amounts and expiry dates.

Table 1 - Summary of Line of Credit Guarantees

Most Recent Date Approved	Name of Organization	Relation-ship to City	Amount Authorized $000's	Expiry Date	Responsible Program Area	Loan Status	Security
May, 2014	Young People's Theatre	Registered Charity	$175	December 2017	Economic Development & Culture	Currently in Good Standing	City Grants (via TAC)
May, 2014	Canadian Stage Company	Registered Charity	$730	October 2017	Economic Development & Culture	Currently in Good Standing	City Grants (via TAC)
July 2010	Toronto Symphony Orchestra	Registered Charity	$3,000	October 2018	Economic Development & Culture	Currently in Good Standing	City Grants (Major Cultural Grants)
	Total		**$3,905**				
	Aggregate Limit		**$10,000**				

Young People's Theatre ($175,000)

Young People's Theatre (YPT) operates in a City Below-Market-Rent facility at 165 Front Street. YPT is the only large-scale theatre in Ontario dedicated to producing and presenting shows specifically for young people. More than 60,000 people attend YPT’s theatrical productions and educational programs annually. YPT receives annual operating grants from the City, through the Toronto Arts Council and through other programs.

YPT has had some form of line of credit guarantee 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 the guaranteed portion of its line of credit during its fiscal 2015/16 period. It is noted YPT reduced the amount of its line of credit guarantee request from $200,000 to $175,000 in 2014, which was a further reduction from the City's guarantee of $250,000 made in 2012. The line of credit guarantee agreement with the City comes due in 2017, whereby the guaranteed amount may be reviewed once again at that time.

Canadian Stage Company ($730,000)

Canadian Stage Company operates in a City Below-Market-Rent facility at 26 Berkeley Street. Canadian Stage is also an anchor tenant of the St. Lawrence Centre for the Arts (a City agency).   Canadian Stage produces and presents Canadian and international contemporary theatre.

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 guaranteed credit line and subsequent renewals. Canadian Stage has experienced operating deficits in 2011 and prior years, but has since taken measures to control expenditures and has posted small surpluses over the past four years (fiscal year ending June 30th) on an operating budget of approximately $9 million.

Canadian Stage Company also has an externally restricted endowment fund held by the Ontario Arts Foundation. In the 2015 audited financial statement the endowment stood at $1.771 million.

Canadian Stage has followed through on the deficit reduction plan presented to City staff and their lenders at the time of the last line of credit renewal in 2014. It is noted Canadian Stage reduced the amount of its guaranteed line of credit request from $800,000 to $730,000 in 2014. The line of credit agreement is up for renewal again in 2017, whereby the guaranteed amount may be reviewed once again at that time.

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 roughly 50,000 students attend performances at Roy Thomson Hall each year. The Orchestra continues to develop its international presence touring to venues in the United States, and Europe, and Asia, as well as attracting distinguished guest artists and conductors to performances at Roy Thomson Hall. The Orchestra has completed highly successful and fully-funded tours to Europe in 2014 and Florida in 2015 which has provided additional revenues. The TSO has recently been commissioned by the federal government to produce a series of concerts and original pieces to commemorate Canada's Confederation Sesquicentennial in 2017, with committed Heritage Canada grants of $7.5 million over the next two years.

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 experienced operating losses between 2010 and 2013, but has since took actions to grow revenues, and has posted small surpluses in both 2014 and 2015. The TSO is forecasting another modest surplus again in 2016 on an operating budget of $28 million. The TSO does still carry an accumulated deficit from those prior years, which is being gradually reduced by these surpluses and a dedicated campaign.

The TSO has a demand revolving loan with HSBC Bank Canada for $9,200,000, which is secured by the guarantee from the City in the amount of $3,000,000 and a guarantee from the Toronto Symphony Foundation (TSF) in the amount of $6,200,000. The guarantees are structured such that in the event of default, the lender would first demand funds from the TSF guarantee up to $6,200,000, and if the default is in an amount greater than that, then from the City guarantee up to $3,000,000.

Based on the 2015 annual review, the City's guarantee was extended for a three year period ending October 31, 2018. The line of credit guarantee has been in good standing since inception. 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. Its 2015 financial statements indicate financial assets in excess of $34 million (most of which are restricted, however). The TSO is also supported through the City's Major Cultural Organizations Grant Program, with the grant allocation to TSO being $1.220 million in 2015.

B. 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. Such 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 not in the organizations ownership. In the 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, sports or recreational 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 demonstrated community benefit.

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 7 capital loan guarantees with an outstanding balance of $40.3 million, as shown in Table 2 below. For comparison, at this time last year, there were 7 capital loan guarantees with outstanding balance of $42.1 million. However, this balance will increase next year as a temporary direct City loan to LAC is authorized to be reduced and converted to a loan guarantee. A corresponding reduction in the balance of direct City loans will also occur as a result.

Table 2 - Summary of Capital Loan Guarantees

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized $000's	Current Balance (Dec. 31/15) $000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
July 2013	Theatre Centre	Registered Charity	1,000	887	December 2017	Economic Development & Culture	Currently in Good Standing, but behind repayment target	Leasehold Improvements to City Building, TAC Grants
November 2011	Evergreen at the Brickworks	Registered Charity	7,500 (jointly with TRCA)	3,784	June 2023	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	19,602*	October 2042	Parks, Forestry & Recreation	Currently in Good Standing	Leasehold Interest of facility on TDSB lands
2002	Ricoh Coliseum Arena	City Agency	20,000	12,583	July 2022 (Jul 2025)	Exhibition Place	Currently in Good Standing	Leasehold Improvements to City lands
	Sub-Total @ Dec. 31/15		**64,000**	**36,856**				

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized $000's	Current Balance (Dec. 31/14) $000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
Artscape:								
May, 2014	Distillery District Studios	Not-for-Profit	250	145	October 2017 (August 2022)	Economic Development and Culture	Currently in Good Standing	Assets (chattels)
May, 2014	Wychwood Barns	Not-for-Profit	3,200	2,868	June 2017 (March 2038)	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands
January 2009	FCM – Wychwood Barns	Not-for-Profit	600	448	August 2029	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands
Sub-Total Artscape @ Dec. 31/14			**4,050**	**3,461**				
Total @ Dec. 31/15			**68,050**	**40,317**				
Total @ Dec. 31/14			**68,050**	**42,124**				
		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.

Theatre Centre ($887,000)

Theatre Centre was established in 1981 as a charitable not-for-profit organization and is serving as a research and development hub for the cultural sector by providing space, subsidy and mentorship to new generations of arts leaders.

In April, 2010, City Council authorized a Below Market Rent lease agreement with the Theatre Centre for the City owned property 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 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 of $6.225 million. The Theatre Centre secured funding for over 70% of the Project cost ($4.5 million), and together with its own fundraising, required bridge financing for the shortfall of up to $1.5 million. City Council in June 2013 approved a capital loan guarantee for Theatre Centre in the amount of $1.0 million for a four year period ending in December 31, 2017. The Theatre Centre drew an initial total amount of $750,000 on the loan in March 2014, and by calendar year end 2014 carried a balance, inclusive of capitalized and accrued interest, of $800,000 on the loan.

During 2015, Theatre Centre drew additional loan amounts up to the maximum $1 million guaranteed by the City in order to complete the project. By year end at December 31, 2015, the outstanding loan balance on the portion guaranteed by the City was $887,706 (December 31, 2014 - $800,000).

Theatre Centre is supported by the City through the Toronto Arts Council grant program, with an operating grant of $121,000 having been provided for 2014.

The Economic Development and Culture Division has assigned a monitor to provide oversight to the project. They advise that 2015 was a challenging year for the theatre as some of its fundraising pledges did not materialize. As a result, forecasted funds to be received in 2015, were not available for loan payments, and the prescribed end of year loan balance was $103,000 higher than the maximum target of $784,500 for December 31, 2015, under the loan guarantee agreement. The loan, which does not have regular amortization payments, is still in good standing as all interest payments are being made and the principal balance is being reduced. However the targets were imposed so that the loan could be retired in a timely basis on declining balances that would accrue less interest payments.

It is recommended that the General Manager of Economic Development and Culture report out in the fall of 2016 with a plan or other measures for the theatre to meet the loan balance targets set out in the original Council approval.

Evergreen Brick Works ($3,784,000)

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, and commenced site operations and programming in 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 educational experience.

The project was substantially completed at the end of December 2010 within the approved budget of $55 million. At that time, Evergreen had raised $44.2 million of the project cost, including a $10.3 million capital contribution from the Province of Ontario, a $20 million capital contribution from the Government of Canada, and almost $14 million through their private donation campaigns. The City and TRCA jointly and severally provided their guarantee of $7.5 million of the $11.5 million loan made by RBC to Evergreen for the balance of the cost of the project, which was to be retired by December 31, 2014 through their capital fundraising campaign.

In late 2011, due to shortfalls in capital fundraising, the City consented to an extension in the term to June 2016, with a covenant that the loan balance be no more than $4.8 million by December 31, 2013, and $1.0 million by December 31, 2014. The City also holds $500,000 as security for loan payments.

During 2014, Evergreen advised that it would not be able to meet covenants requiring the loan balance to be reduced to $1 million by December 31, 2014, and to be extinguish by June 30, 2016, due to slower than anticipated capital fundraising revenues for this Project. Evergreen further advised they have abandoned their capital fundraising efforts for the loan (they continue to fundraise for other priorities), and proposed paying off the balance of the loan through residual operating cash flow over an extended period of time.

In August 2014, City Council approved Evergreen's proposal to repay the loan through operating revenues rather than from fundraising, and an extension of the loan guarantee term to June 30, 2023. Council also authorized release to Evergreen of the $500,000 cash security held by the City, incrementally over a four year period, provided that annual year-end maximum loan balance targets are met. Such targets have been met and the 2014 and 2015 cash deposit increments have been returned to Evergreen.

As of December 31, 2015, the outstanding loan balance on the loan guaranteed by the City was $3,784,000 (December 31, 2014 - $4,300,000).

Lakeshore Arena Corporation ($19,602,400)

In September 2011, the City assumed control of the Lakeshore Arena (Mastercard Centre for Hockey Excellence) through a municipal services corporation – Lakeshore Arena Corporation (LAC). The facility was conceived by the Lakeshore Lions club, wherein the City provided the land (through a land exchange with the TDSB) and a capital loan guarantee to a third-party lender. The final cost of the facility was approximately $44 million, almost entirely debt financed. The City's guarantee to the third-party lender was continued on behalf of the LAC, in addition to the City directly providing the LAC with loans for capital and as a line of credit.

A summary of the total debt of the LAC is provided in the table on the following page. The total debt (to the third-party lender and to the City) as at December 31, 2015 was $40,094,869 (December 31, 2014 - $40,524,277).

		Dec. 31, 2014	Dec. 31, 2015
Third Party Loans Guaranteed by City:			
- Fixed rate term loan	-	$19,931,808	$19,602,400
Direct City Loans:			
- Interest only capital loan	-	$19,892,469	$19,892,469
- BBP Energy Loan	-	$700,000	$600,000
- Line of Credit	-	$1 million available	$1 million available
Total Debt*		$40,524,277	$40,094,869

*excluding line of credit up to $1 million

The Lakeshore Arena is a state-of-the-art facility with three NHL regulation pads and one Olympic sized pad with expandable seating for up to 4,500 people. Its tenants include the Toronto Maple Leafs, Toronto Marlies, Hockey Canada, and the NHL Players Association. It has also hosted three seasons of the Battle of the Blades Franchise.

Since assuming control, revenues from Arena operations have exceeded projections. The Arena is generating income of more than $2 million per year after expenses but before debt service and depreciation. Meeting current debt service cost, half of which is temporary financed, however, consumes most of the income from the facility.

The loan provided by the City to replace the private lender's interest only loan did not address the repayment of principal, and was intended only as a "short-term interest-only loan" until such time that the Board of the LAC develop a longer-term financing solution. The LAC would have faced significant financial pressure once permanent financing (e.g. a bond, debenture or term loan that is inclusive of principal repayment) was to be completed.

The past year's annual loan portfolio review had recommended that the Board of the LAC report back in the fall of 2015, through Executive Committee, on options and a plan to permanently finance the interest-only debt of the LAC, considering the current low-interest rate environment, and the amount of debt that may be required to be written down.

Subsequently, City Council at its meeting on November 3-5, 2015, wrote-down an $8.1 million portion of the direct City loan, and directed to LAC Board to seek third party financing for the remaining portion of approximately $12 million with a City loan guarantee. At the time of writing of this report, the LAC is setting terms for an amortizing loan with a third party lender with expected execution in the near term.

Under the terms of the Council authority, the write-down becomes effective only upon conversion of the City loan to permanent third party financing. As such, this report contains year-end balances exclusive of the loan write-down. Next year's annual report will likely contain the details of the permanent financing of the former City loan, including the reduction from the write-down.

Furthermore, next year's annual loan portfolio review will also need to address next steps for the fixed rate term loan, also guaranteed by the City, which is set to expire in October 2017.

Ricoh Coliseum Arena ($12,583,200)

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. In July 2005, BPC entered into a sub-lease agreement 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 $12,582,882 as of December 31, 2015 (December 31, 2014 - $13,514,125).

Artscape (Total of Guarantees – $3,460,789)

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.

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

To this end, Artscape has been able to leverage its assets to reduce its reliance on the City for a guarantee. The Triangle Lofts and the Artscape Young Place are examples of projects Artscape has ownership of and have been used to reduce the reliance on a city guarantee. The loan guarantees on these two projects have been extinguished ($5.8 million guarantee on Young Place, and the $1 million guarantee on Triangle Lofts), leaving these assets available for Artscape to leverage financing upon.

However, there continues to be existing projects and proposed projects that are located on properties owned by the City and where long term debt will continue to require a loan guarantee, as the City cannot pledge its assets as security to lenders.

Currently Artscape has three projects supported by capital loan guarantee from the City of Toronto, with an outstanding loan balance at December 31, 2015 of $3,460,789 (December 31, 2014 - $3,578,407).

Artscape Wychwood Barns ($2,867,755)

In August 2010, City Council authorized a capital loan guarantee in the amount of $ 3.2 million for the Artscape Wychwood Barns project for the period of January 2011 to December 2014, which was extended to June 15, 2017 in 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 to Artscape for 50 years. It provides affordable accommodation for 26 artists and their families, 17 individual artists in work studios, 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 $2,867,755 as of December 31, 2015 (December 31, 2014 - $2,939,293). The loan comes up for renewal in June 2017, and the current payment amount, will require amortization to the year 2038.

FCM Wychwood Barns ($447,894)

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 an energy efficiency project at the Artscape Wychwood Barns. The loan is to be paid by Artscape to the City over 20 years. 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 $447,894 as at December 31, 2015 (December 31, 2014 - $474,719). The loan is expected to be repaid by August 2029.

Distillery District Studios ($145,140)

In order to attract the arts community and other creative entrepreneurs, the owners of the Gooderham & Worts Distillery site provided below-market rent leases to Artscape for two buildings in the Distillery District. In 2003, Artscape renovated the Case Goods Building as well as the Cannery Building which 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 and was paid back in full, and the guarantee extinguished in April, 2012.

Another capital loan guarantee was made, most recently renewed by City Council in August 2010, in the amount of $250,000 for the period January 2011 to December 2014. In 2014 Council approved an extension of the loan guarantee to October 31, 2017. 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 $145,140 as of December 31, 2015 (December 31, 2014 - $164,395).

C. 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 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 7 direct loans under this policy with an outstanding balance of $80.3 million (2014- $89.6 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. 31/15) $000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
July 2011	Lakeshore Arena Corporation	City Services Corporation	1,000	600	none	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
July 2011	Lakeshore Arena Corporation	City Services Corporation	21,039*	19,892*	none	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
January 2012	Leaside Arena	City Agency	7,500	7,065	September 2043	Arena Board	Currently in Good Standing	City Property
2007	Conference Centre at Exhibition Place	City Agency	38,675	33,891	2032 (2035)	Exhibition Place	Currently in Good Standing but forecasted repayment pressures in near future	City Property
2014	Expansion of BMO Field at Exhibition Place	City Agency	10,000	9,671	2034	Exhibition Place	Currently in Good Standing	City Property
2008	Bloor Street Transformation Project	BIA	11,975	8,782	2027	Transportation Services	Currently in Good Standing	Priority Lien
July 2007	Just for Laughs Toronto Festival	Not-for-Profit	500	430	December 2010	Economic Development & Culture	Under Settlement Agreement	None
Total @ Dec. 31/15			**90,689**	**80,331**				
Total @ Dec. 31/14			**97,339**	**89,639**				
Aggregate Limit			**125,000**					

* Includes transfer of $19.9 from Loan Guarantee to Direct Loan, less an authorized $8.1 million write-down to be executed.

Discharged Loans since last review:

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized $000's	Current Balance (Dec. 31/14) $000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
1993	North York Performing Arts Centre	City Agency	10,000	10,023	none	Toronto Centre for the Arts	Written off	City Property
Dec. 2009	Sony Centre	City Agency	6,650	7,002	none	Sony Centre	Written off	City Property
Total				**17,025**				

****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 ($33,890,769)

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 $33,890,769 as of December 31, 2015 (December 31, 2014 - $34,879,761).

However, both the Toronto and North American economy and conventions and meetings market have declined significantly due to the recession starting in 2008, and actual revenues from the conference centre have been below expectations and at insufficient levels to retire the loan on their own. The Board of Governors of Exhibition Place has been utilizing monies from its conference centre reserve fund, in part, to maintain the annual loan repayments without any financial impact. The reserve fund which has also been drawn upon for other Exhibition Place capital state of good repair projects is not a long term sustainable debt retirement funding source.

The opening of the hotel at Exhibition Place in September 2016 will likely have a positive effect on the conference centre bookings and revenues, and the Board is preparing revised business plan projections in this regard. However, it will take some time for the impact on utilization rates to be realized.

Although the loan repayment is currently in good standing, staff recommend that the Board of Governors of Exhibition Place report through Executive Committee in the fall of 2016 on a revised business plan including addressing the loan repayment plan.

BMO Field Expansion at Exhibition Place ($9,671,092)

In April 2014, City Council authorized extending a contribution of $10.0 million to the Board of Governors of Exhibition Place for the expansion of the BMO Field soccer stadium.

The $10.0 million contribution towards the expansion was to be debt financed by the City with full recovery from guaranteed annual payments over a 20 year period provided by the stadium's tenant, Maple Leaf Sport and Entertainment Ltd (MSLEL). The expansion included expanded seating capacity, the addition of a partial roof, and other amenities. Phase 1 was completed in 2015 and remaining features are to be completed by spring 2016. MLSEL pays annual rent to the Board of Governors of Exhibition Place which covers both normal rent and the loan repayment. Exhibition Place in turn remits the loan repayment portion to the City.

The payments on the loan are up to date with an outstanding balance of $9,671,092 as of December 31, 2015 (December 31, 2014 - $10,000,000).

Lakeshore Arena Corporation ($19,892,469)

As previously noted, the Lakeshore Arena Corporation has had a number of loans and loan guarantees from the City. On September 31, 2014, the City provided LAC with a short term interest only loan of $18,692,469, to take out the private lenders floating rate facilities which matured on that date. The City also provided a $1.2 million interest only loan to the Corporation at the time of its creation necessary to settle certain debts, and these combined amounts of $19,892,469 ($18,692,469 + 1,200,000) remains outstanding. A $1 million as a line of credit was provided by the City in September 2011 as working capital for the start-up of the new corporation, the balance of which fluctuates from day to day (and is not included in the loan amount shown). The loan is in good standing as all interest payments have been made.

The 2015 Annual Report on the City's Loan and Loan Guarantee Portfolio had recommended further reporting on options for permanently financing the $19.9 million short term interest only City loans. Such options were explored and at its meeting on November 4, 2015, City Council adopted recommendations to replace a portion of the City loan made to LAC in the amount of $8.1 million, with a capital contribution in order to put the City services corporation on a long term sustainable footing and to amend the shareholder declaration to recognize the City capital contribution entitling the City to share in any future net operating income of the LAC for the purposes of funding capital repairs to the arena.

The LAC is currently seeking a loan, with City guarantee, from a third party lender for the remaining approximately $12 million balance on the City direct loan. It is expected that such a loan will be executed in the near future, and that next year's annual report will reflect the discharge of the direct City loan of $19.9 million, with a corresponding addition of a $12 million loan to LAC under the City loan guarantee portfolio.

Leaside Arena ($7,064,715)

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 was $12.5 million, funded by way of city recoverable debt of up to $7.5 million, a non-recourse loan from Infrastructure Ontario (IO) of up to $1.5 million, $1 million capital contribution from the City, and a community cash contribution of not less than $2.5 million. The City issued a revenue bond to IO for their loan.

The project opened on time and on budget on September 1, 2013. By that time, the community had raised almost $3 million in cash through fundraising, and the requirement for City's recoverable debt loan amount was reduced to $7.3 million (inclusive of capitalized interest), and the IO non-recourse loan requirement was reduced to $1.052 million. The

City's debt is amortized over 30 years (to 2043) and the IO debt is amortized over 20 years (to 2033).

In addition to the regular loan repayments, the loan agreements require the Leaside Arena Board of Management to impose a $20 per hour surcharge on all prime-time ice contracts, to be put into a loan repayment reserve, until such time that one-years debt service coverage is achieved.

The payments on the loan owed to the City are up to date with an outstanding balance of $7,064,715 as of December 31, 2015 (December 31, 2014 - $7,186,241). The payments on the IO loan, which have no recourse to the City and is not included in the City's debt amount, are also up to date, with a balance of $956,564 as of December 31, 2015 (December 31, 2014 - $1,019,000).

Notwithstanding that the loan payments are up to date, provisions in the loan agreement between the City and the Arena Board stipulated that the arena board not incur any operating deficits while maintaining the loan payments to the City and IO. This provision was included so that the recoverable debt would be funded by the arena operations exclusive of any additional City financial contributions to fund operations.

The arena board had posted an operating deficit of $83,851 in 2014 as reported in their audited financial statements received by the City in June 2015. In accordance with the loan agreement any annual operating deficit amounts shall be added to the outstanding direct City loan balance and a revised amortization schedule to retire the amended loan balance be established. In addition, another provision of the loan agreement has not yet been met. The agreement directs that there shall be timely settlements with the City of in year operating costs on a quarterly basis, and this has not occurred.

It is recommended that the City Manager and Deputy City Manager & Chief Financial Officer report out in the fall of 2016 with a revised loan amortization schedule for the arena board or other remedy measures to reconcile the 2014 year end operating deficit and any subsequent 2015 deficits.

Bloor Street Transformation Project ($8,782,343)

The Bloor Street Business Improvement Area (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 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 $8,782,343 on December 31, 2015 (December 31, 2014 - $9,307,824). The loan is expected to be fully paid off in 2027. The repayment of the loan through the BIA levies has priority lien status.

Just for Laughs Toronto Festival ($430,000)

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 31, 2010. Subsequently, the loan was considered in default position. Draft settlement terms on the defaulted loan were first considered in 2014, and the City accepted payments based on those terms in both 2014 and 2015, without prejudice to any acceptance of a final settlement offer.

The terms of the agreement generally required repayment of $250,000 in principal, plus interest annually over a five year period, together with guaranteed levels of City venue rentals and in-kind services by Just For Laughs over the same period.

As at December 31, 2015 the principal outstanding balance was $430,000 (December 31, 2014 - $470,000). Most recently, a payment of $62,500 ($50,000 towards principal and $12,500 as interest) was made on January 26, 2016, thus reducing the principal balance outstanding to $380,000. The provisions of the settlement agreement are in good standing.

Upon completion of the five year repayment term, expected in 2018, any principal loan balance remaining will need to be reconciled.

Discharged Loans since last review

As noted in the 2015 Annual Report on the City's Loan and Loan Guarantee Portfolios, the disposition of direct City loans to two civic theatres, namely the Sony Centre and the North York Performing Arts Centre (now operating as the Toronto Centre for the Arts or TCA), were to be considered under the context of findings of the Theatre Working Group (TWG) which was studying future governance options and operating models of civic theatres.

The General Manager of Economic Development and Culture, reported the finding of the TWG in summer 2015, with a key recommendation being the formation of the new Civic Theatres Toronto Board, which includes the previous independent operations of the Sony Centre, TCA and St Lawrence Centre, into a single City agency with a view to the development of an efficient and strategically sound operating model.

Further to this action, the Deputy City Manager & Chief Financial Officer reported to Council and at its meeting of November 4, 2015, the direct loans to two civic theatres, Sony at $7.002 million, and TCA at $10.023 million, were fully written off, as collections on the loans was considered unlikely and the loan loss should be recognized in accordance with generally accepted accounting principles (GAAP). The write-offs were also considered important to the sustainability of the newly restructured Civic Theatres Toronto Board.

Other Loans Issued by City, for future review

The mandate to review the current roster of City lines of credit and loan guarantees and direct loans for cultural and community organizations on an annual basis, was established under a program review conducted by the City's Internal Audit group in 2010.

The City has, from time to time, made other loans under other policy initiatives that have not been included in the annual reviews conducted by Corporate Finance. The list of such other loans, totalling approximately $110 million, is provided in Appendix A for reference.

A review of these other city loans will be undertaken, with a view to include in a future report on city loans in order to provide a more comprehensive review and monitoring of all the City's loan exposure.

Build Toronto

In 2010, Council authorized City loan guarantees of up to $160 million to Build Toronto to provide the company with financial support to facilitate its redevelopment plans. The City required a regulatory amendment by the Province before any guarantees could be issued. In February 2015, the City obtained regulatory changes under the City of Toronto Act that allow the City to issue loan guarantees to Build Toronto for up to $160 million until March 1, 2025, with no individual guarantee to last for more than five years (or beyond March 1, 2025). The regulation requires certain reporting by Build Toronto to the City, but any other conditions or restrictions are up to Council.

The financial situation at Build Toronto has changed since 2010, and is likely to change further once the City-Wide Real Estate Review is completed. The DCM & CFO expects to report on the City-Wide Real Estate Review to Executive Committee in May. Before any guarantees are provided, the authorities obtained in 2010 will be revisited to reflect the new regulations and the current financial circumstances at Build Toronto. Nevertheless, it is expected that the guarantees would continue to be beneficial to Build Toronto and to the City as shareholder, allowing Build Toronto to finance more property development at lower cost and with less financial collateral.

The City will report back to Executive Committee regarding the authority to issue loan guarantees to Build Toronto following Council consideration of the City's Real Estate Review and prior to the issuance of any loan guarantees.

Loan and Loan Guarantee Portfolio Oversight

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.

A Doubtful Loan Guarantee Reserve was created 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, to provide time for remedies to be found. The Deputy City Manager and Chief Financial Officer reviews annually the risk of loss under a loan guarantee or direct city loan. With regular monitoring, it is possible to identify financial risks earlier and to take action to avoid or mitigate potential losses.

CONTACT

Christopher Toomey, Senior Financial Analyst, Financial Policy, Corporate Finance, 416-397-4283, ctoomey@toronto.ca

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

SIGNATURE

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Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix A – Other Loans

APPENDIX A

Other Loans

	No. of Loans	Current Balance (Dec. 31/14) $000's
Reserves		
Social Housing Stabilization	10	$11,912
Strategic Infrastructure Partnership	34	$14,928
Local Improvement Charge Energy Works		$484
Better Buildings Partnerships	6	$2,008
Capital Revolving Fund Affordable Housing	24	$25,396
Home Ownership Alternative		$3,051
Social Housing Federal	9	$11,204
Total from Reserves	83+	$68,984
Others		
Other Community Housing		$37,051
Others		$3,796
Total Others		$40,847
TOTAL Dec. 2014	83+	$109,831

Source – City of Toronto 2014 Financial Report