EX20.16

STAFF REPORT
ACTION REQUIRED

Adjustments to Various Direct City Loans and Loan Guarantees

Date:	November 17, 2016
To:	Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2016\Internal Services\Cf\Ec16024Cf (AFS #23863)

SUMMARY

This report provides for a number of amendments to existing loans and loan guarantees extended by the City to third parties. The amendments include:

1. extending the repayment term of the City loan made to Exhibition Place for the development of the Conference Centre by five years;
2. making a one-time exception to enforcing an operating deficit penalty provision in the loan agreement with the Leaside Memorial Gardens Arena (LMGA);
3. extending the term of a loan guarantee to the Theatre Centre by four years;
4. increasing the amount of the line of credit guarantee to the Toronto Symphony Orchestra (TSO); and,
5. consenting to a request made by Evergreen to permit it to establish a $1.0 million operating line of credit with its bank, which would be guaranteed by a third party.

The Deputy City Manager & Chief Financial Officer has determined that these amendments will enhance the long-term viability of these entities without unduly compromising the City's financial interests.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that City Council:

Conference Centre at Exhibition Place:

1. Authorize the extension of the repayment term of the capital loan to the Exhibition Place for the conference centre, by an additional five years, with a revised amortization period ending in 2040 for the full loan balance amount;

Leaside Memorial Gardens Arena:

2. a. Authorize a one-time exception for the 2014 operating deficit incurred by the Leaside Memorial Gardens Arena (LMGA) from a clause in the Loan Agreement with LMGA (the "LMGA Loan Agreement") which requires that any annual operating deficits be added to the principal balance of the City loan to LMGA;

   b. Authorize a one-time exception for the 2015 operating surplus ("Excess Revenue") incurred by the LMGA from a clause in the LMGA Loan Agreement which requires that Excess Revenue be deposited into the LMGA Debt Service Reserve Fund;

   c. Authorize an amendment to the LMGA Loan Agreement to allow for Excess Revenue to be determined and deposited into the Debt Service Reserve Fund at year-end, rather than at the four Payment Dates currently provided for in the Agreement.

Theatre Centre:

3. a. Consent to an extension of the repayment terms of the Theatre Centre's outstanding loan with its Lender, by deleting the requirement in the Tripartite Guarantee Agreement between the City, the Theatre Centre and its lender that the maximum amount of the loan outstanding shown in Column II be achieved by the dates shown in Column I, and replacing with a requirement that the revised maximum amount of the loans outstanding shown in Column IV be achieved by the revised dates shown in Column III:

I	II	III	IV
Date	Former Maximum Amount Outstanding	Revised Date	Revised Maximum Amount Outstanding
December 31, 2014	$1,134,500	December 31, 2016	$610,000
December 31, 2015	$784,500	December 31, 2017	$475,000
December 31, 2016	$404,500	December 31, 2018	$350,000
December 31, 2017	$0	December 31, 2019	$250,000
	--	December 31, 2020	$175,000
	--	December 31, 2021	$0

and,

b. Authorize the corresponding extension to the term of the City's loan guarantee to the Theatre Centre from the period ending December 31, 2017 to December 31, 2021.

Toronto Symphony Orchestra:

4. Authorize an amendment and extension of a line of credit guarantee to the Toronto Symphony Orchestra (TSO) by an additional $2.0 million, to a total of $5.0 million (inclusive of all interest and costs payable by the TSO) on the same terms and conditions and for the same term as the City's current guarantee to the TSO, subject to the TSO reducing its accumulated deficit by $2.0 million.

Evergreen:

5. Consent to Evergreen establishing a $1.0 million operating line of credit with its lender, which line of credit is to be guaranteed by a third party, subject to the following:

    a. such line of credit and guarantee being subordinate to an existing capital loan guaranteed by the City;
    b. the Deputy City Manager & Chief Financial Officer is satisfied with the terms of the line of credit and the third party guarantee; and
    c. the TRCA consents to the line of credit.

6. Authorize the appropriate City officials to enter into any documents and agreements necessary to give effect to Recommendations 1 through 5, on such terms and conditions satisfactory to the Deputy City Manager & Chief Financial Officer and in a form acceptable to the City Solicitor.

Financial Impact

All of the direct City loans, loan guarantees and line of credit guarantees associated with this report are currently in good standing.

However, some adjustments to the terms of these loans or guarantees are required in order to ensure the continued sustainability of their repayment. The adjustments to the terms recommended in this report have been considered in the context of mitigating any potential loss to the City and are deemed to be in the interests of the City.

The following chart summarizes the loan/guarantee, recommended action proposed, desired outcome of the action and the financial impact to the City.

Table 1
Recommended Actions and Impacts for Selected
Direct City Loans and Loan/line Guarantees

Loan/Entity	Recommended Action	Result	Impact
Exhibition Place	Extend amortization and repayment term an additional 5 years.	Lowers annual (p+i) payments, frees up cash flow.	No adjustment to principal loan amount owing. Loan now to be fully repaid by 2040 vs 2035. City fully recovers the principal loan balance over a longer term.
Leaside Memorial Gardens Arena	One-time waiver of 2014 deficit being added to loan; One-time waiver of Excess Revenue being deposited to Debt Service Reserve Fund; Amend loan agreement to allow determination of Excess Revenue at year-end, rather than quarterly.	Loan balance owing unaffected; On a go forward basis, Excess Revenue payments better defined to fund Debt Service Reserve Fund and reduce loan amount owing.	City foregoes adding $83,851 deficit to the loan balance; LMGA foregoes applying $39,000 surplus to Debt Service Reserve Fund; Go forward clarifies Excess Revenue to be determined at year-end, and potentially reduce loan amount owing and speeds up repayment.
Theatre Centre	Extend repayment term and guarantee.	Allows theatre to repay loan over longer term.	No impact, provided no default, occurs. Non-amortizing loan. Loan guarantee established principal repayment milestones. Extend timing of milestones based on revised fundraising forecasts.
TSO	Increase line of credit guarantee by $2.0 million (from $3.0 million to $5.0 million).	Allows TSF to redirect more funds to reduce TSO deficit, and secure federal grants.	Increases City's financial exposure by $2.0 million, but with no immediate impact.
Evergreen	Consent to allow Evergreen to acquire a $1.0 million line of credit.	Evergreen can better manage seasonal cash flow fluctuations.	No impact. Line of credit to be guaranteed by a third party, and to be subordinate to current Evergreen capital loan guaranteed by the City.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact statement.

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 2016 Annual Report on City's Loan and Loan Guarantee Portfolios, the Deputy City Manager & Chief Financial Officer provided a status update of City loans and loan guarantees managed under this mandate.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX14.11

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

In the same report, it was also recommended that the General Manager of Economic Development and Culture, in consultation with the Deputy City Manager & Chief Financial Officer, 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.

Further within the same report, it was recommended that the City Manager, in consultation with the Deputy City Manager & Chief Financial Officer, report to Executive Committee in the fall of 2016 with a revised loan amortization schedule for Leaside Memorial Gardens Arena Board, or other remedy measures, to reconcile any remaining previous year-end operating deficits in accordance with the loan agreement.

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. 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.

Approvals of loans and loan guarantees are based upon due diligence analyses for compliance with City policies and business case analysis to support to repayment of the loans. In certain cases, however, changing economic circumstances that affect the revenue generation performance of the agencies and City corporations requires adjustments to the repayment of the loans.

In such circumstances, City staff attempt to resolve issues with alternative repayments plans or other solutions that mitigate risk of direct City funding as would occur under a potential loan default event.

COMMENTS:

In general terms, all of the loans or loan guarantees identified in this report are in good standing but require some adjustments to their key terms in order to maintain this status into the future and to put them on a more sustainable operational footing.

The adjustments to the loan/guarantee terms and conditions will align with revised business plans of the individual organizations while mitigating the risk to the City of direct financial impact.

A description of each entity and the recommended adjustments to the structure of the individual loan or guarantee are contained below.

Conference Centre at Exhibition Place

The direct City loan for the Conference Centre at Exhibition Place is in good standing and following its required repayment schedule. The balance outstanding on the loan is $32.8 million. However, Exhibition Place in some years has been utilizing its conference centre reserve fund to help cover the debt payments, as operating revenues from the conference centre alone were not sufficient to fully fund the debt payments.

Exhibition Place has recently completed an updated study for the conference centre entitled "Market Analysis and Revenue Projections" by Horwath HTL and submitted a revised business plan with future year operating forecasts, as requested by City Council, addressing the loan repayment plan.

The objective of Exhibition Place is to grow revenues but also lessen the financial impact of the annual $2.672 million in debt payments. In this regard, Exhibition Place is requesting that the City consider refinancing the loan for an extended amortization term.

The direct City loan to Exhibition Place was executed in 2010 with a loan repayment term of 25 years to be fully repaid with interest by 2035. The City acquired the funds for the loan from a debenture (capital debt) issuance in 2010 that carried a 30 year repayment term to be fully repaid in 2040.

It would be possible for the City to extend the Exhibition Place repayment by an additional five years into the future, thereby aligning with the City's repayment of debentures, without any negative financial impact on the City.

There are 19 years remaining on the initial 25 year loan term. Resetting the amortization period by an additional 5 years (to 24 years remaining) would have the effect of reducing the principal and interest loan payment by Exhibition Place by approximately $340,000 annually.

Extending the amortization period on the loan for an additional five year period, with all other loan terms unchanged, would reduce the annual payments for Exhibition Place to a sustainable level within its operating debt service capacity. The City would still recover the full principal loan amount with interest, but over a longer timeframe than originally anticipated.

Leaside Memorial Gardens Arena

The direct City loan to the Leaside Memorial Gardens Arena is in good standing and following the required repayment schedule. The balance outstanding on the loan is $7.85 million. However, a covenant in the loan agreement requires that any year-end operating deficit be added to the principal amount outstanding on the loan balance for re-amortization and recovery. LMGA did incur an operating deficit of $83,851 in 2014.

Subsequently, LMGA closed the 2015 operating year with a surplus of $39,000. The normal course of action for reconciling year-end operating surpluses or deficits for all City Arena Boards of Management (ABM) was followed in the 2015 Settlement report which was approved by Council on November 8, 2016 (EX 18.17) whereby the sum of all deficits and surpluses resulted in a net ABM surplus that funded a contribution to the Arena Board Fleet Reserve.

However, a provision in the Leaside loan agreement requires that year-end operating surpluses ("Excess Revenue") be deposited into a LMGA Debt Service Reserve Fund. Leaside's surplus from 2015 was allocated to the Arena Board settlement instead of being allocated to LMGA Debt Service Reserve Fund.

Given that operations at the expanded Leaside arena now have a track record of a few years of results, and that the 2014 deficit was followed by a 2015 surplus, an exception to the loan agreement is recommended so that the 2014 deficit shall not be added to the loan balance, and similarly that the 2015 surplus shall not be added to the LMGA Debt Service Reserve Fund.

In future years, the disposition of excess revenues after all expenses and regular debt servicing costs will be transferred to the LMGA Debt Service Reserve Fund held by the City up to the specified level, and thereafter to be applied to reduce the loan amount outstanding, meeting the covenant in the loan agreement. This contribution will be made prior to the closure of the books for the year, with the resulting audited statement demonstrating compliance with the loan agreement provisions. This process will ensure that the loan agreement provision on the treatment of excess revenue supersedes and precedes the normal ABM settlement process.

To this end, it is further recommended that the process for determining Excess Revenue be made on a year-end basis, before closing of the books for the year, rather than the current provision requiring such determination be made on each of four annual loan payment dates. This action will result in a better understanding of exact amounts of excess revenues at year end for deposit to the LMGA Debt Service Reserve Fund and ultimately toward additional loan payments that would benefit the City and LMGA in retiring the debt earlier than expected.

Theatre Centre

A loan, guaranteed by the City on behalf of the Theatre Centre, was behind repayment targets by 2015 year-end, although all interest payments on the loan were and 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.

The loan provided by the Community Forward Foundation, and guaranteed by the City, does not have regular amortization payments, as it tailored loan repayments based upon the Theatre Centre's forecasted donor pledges remittances. Council's adopted loan guarantee established that the outstanding amount of the loans by the following dates be no greater than the following maximum outstanding amounts:

Theatre Centre's 2013 Council Approved Loan Guarantee Repayment Schedule with Actual Year end Balances

Date	Maximum Amount Outstanding	Actual
December 31, 2014	$1,134,500	$800,000
December 31, 2015	$784,500	$887,706
December 31, 2016	$404,500	**$647,706*
December 31, 2017	$0	--

* Current as at October 31, 2016

The Theatre Centre has reported that annual donor pledges have not materialized as expected, due in part to a significant donor being unable to meet their commitment. The theatre continues to fundraise and requires a modified loan repayment target plan. These new targets will require the extension of the repayment over an additional four-year period. This report recommends extending the loan guarantee to match the revised repayment plan to a term ending on December 31, 2021. Since this is a loan guarantee and not a direct loan, there is no financial impact to the City unless a default occurs. The Theatre Centre is a recipient of annual operating funding from the Toronto Arts Council.

The revised repayment schedule being proposed extends the loan repayment for an additional four years to reflect more modest fundraising pledges and will allow the organization to concentrate resources more effectively on operations and programming.

Theatre Centre Proposed Loan Guarantee
Repayment Schedule with Maximum Year end Balances

Date	Maximum Amount Outstanding
December 31, 2016	$610,000
December 31, 2017	$475,000
December 31, 2018	$350,000
December 31, 2019	$250,000
December 31, 2020	$175,000
December 31, 2021	$0

Toronto Symphony Orchestra (TSO)

The TSO currently has a line of credit with its lender for $9.2 million, which is secured by a guarantee from the City in the amount of $3.0 million and a guarantee from the Toronto Symphony Foundation (TSF) in the amount of $6.2 million.

The line of credit is in good standing. However, the TSO has requested that the City increase its guarantee by $2.0 million, and the TSF reduce its guarantee by the same amount. The following chart illustrates the proposed changes.

TSO Line of Credit Guarantee – TSO Proposed Changes
($ millions)

Guarantor and (rank)	Current Guarantee	Proposed Guarantee	Net change
TSF guarantee (1st)	$6.2	$4.2	($2.0)
City guarantee (2nd)	$3.0	$5.0	$2.0
Total line guarantee	$9.2	$9.2	$0

The TSO has advised that the changes in the amounts guaranteed by the City and the TSF will afford the TSF the capacity to make additional monetary contributions to the TSO to further reduce the TSO's accumulated deficit. This outcome is desired by the TSO to allow it to access Federal matching funds (CCIF) support on top of the support raised by TSO supporters.

In the past, the City has increased its level of guarantee to the TSO, although many of the recent past increases have been guaranteed by the TSF alone. These increases have helped normalize the cash flow needs of the TSO throughout their seasonal business cycles.

The TSO and the TSF are now looking at different ways to extinguish the accumulated deficit, already reduced from $12 million, down to $8 million in 2016, and there is merit in doing so in order to access additional federal funding sources. The request to increase the City's share of the guarantee is being considered in order to effect further TSF allocations to reduce the deficit, and in the context of leveraging other sources of funding.

As such it is recommended that the $2.0 million line of credit guarantee increase be conditional upon the TSF providing funds so that the TSO may reduce the accumulated deficit by a commensurate amount. The City increasing its share from $3.0 million to $5.0 million, while with no direct cost, would increase potential exposure to risk, albeit with mitigating measures in that the City's guarantee would only be called upon after the TSF's guarantee is fully drawn. The amount of the increased guarantee being requested falls within Council's financial limit of $10 million for total aggregate line of credit guarantees outstanding.

Evergreen

A loan jointly guaranteed by the City and the Toronto Region Conservation Authority (TRCA) on behalf of Evergreen for its capital project at the Don Valley Brickworks has been and remains in good standing. The maximum permitted loan balance outstanding by 2016 year end is $3.3 million.

Evergreen has recently notified the City and TRCA that it has an urgent need to establish a $1.0 million operating line of credit with its lender to manage seasonal fluctuations in cash flow and operating payments. Further, Evergreen will secure a third party guarantor for this proposed line of credit, and the new facility will rank subordinate to the existing capital loan guaranteed by the City and TRCA.

However, such action requires the consent of the City and TRCA as co-guarantors of an existing loan to permit Evergreen to incur any further indebtedness while the current capital loan is in place.

Given that the proposed line of credit is intended to help with normal business operations at Evergreen, that it will rank below a City/TRCA guaranteed loan in repayment priority, and that it will be guaranteed by a third party entity, this report recommends that consent be given to Evergreen's request subject to the review of adequate supporting documentation to the satisfaction of the Deputy City Manager & Chief Financial Officer, and to the TRCA also providing its consent.

Evergreen has further advised staff of a future capital project proposed for 2017 on its Don Valley Brickworks site that will be funded in part from other government grants and additional financing. As this new project would require further Evergreen indebtedness, a future report identifying the impacts and further City and TRCA consent will be required once the details are known.

CONTACT:

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

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

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Roberto Rossini
Deputy City Manager & Chief Financial Officer