



REPORT FOR ACTION

Annual Report on City's Loan and Loan Guarantee Portfolios

Date: April 3, 2017

To: Executive Committee

From: Deputy City Manager & Chief Financial Officer

Wards: All

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 eight 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 under a repayment settlement plan. This noted loan is being monitored and will be the subject of a future report once the settlement term concludes.

This report recommends line of credit and loan guarantee renewals to four not-for profit entities set to expire in 2017 in addition to a transfer of a loan guarantee for a City services corporation to a new third party lender.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council approve the renewal of the following lines of credit and capital loan guarantees:
 - a. the line of credit guarantee issued by the City on behalf of the Canadian Stage Company to its lender be increased from \$730,000 to \$820,000 (inclusive of all interest payable by Canadian Stage)

for a three year renewal period commencing on November 1, 2017 and ending October 31, 2020.

- b. the line of credit guarantee by the City issued on behalf of the Young Peoples Theatre to its lender in the amount of \$175,000 (inclusive of all interest payable by YPT), be renewed for a three year period commencing on January 1, 2018 and ending December 31, 2020.
 - c. the capital loan guarantee issued by the City on behalf of Toronto Artscape Inc (Artscape) to its lender in respect of the Distillery District Studio Project in an amount not to exceed \$107,700 (inclusive of all interest payable by Artscape), be renewed for a five year period commencing on November 1, 2017 and ending October 31, 2022.
 - d. the capital loan guarantee issued by the City on behalf of Toronto Artscape Inc (Artscape) to its lender in respect of the Wychwood Barns Project in an amount not to exceed \$2,750,000 (inclusive of all interest payable by Artscape), be renewed for a five year period commencing on June 16, 2017 and ending June 15, 2022.
2. City Council consent to the transfer of an existing capital loan guarantee issued by the City on behalf of the Lakeshore Arena Corporation (LAC) to its lender in an amount not to exceed \$ 19,067,966 (inclusive of all interest payable by LAC), from Versa Bank (formerly PW Bank) to Infrastructure Ontario commencing on November 1, 2017 and ending October 31, 2042.

FINANCIAL IMPACT

As at December 31, 2016, there were:

- 3 outstanding operating line of credit guarantees with a maximum exposure of \$5.9 million,
- 7 outstanding capital loan guarantees in the amount of \$38.1 million, plus one construction loan guarantee approved to a maximum of \$30 million, and
- 7 direct city loans with an outstanding balance of \$70.1 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, 2016, one direct City loan to Just for Laughs in the original amount of \$500,000 was in default, and is now subject to revised payment terms under a settlement agreement described later in this report, with a 2016 year-end balance of \$380,000.

The total value of direct City loans or loans that are guaranteed by the City for which loan payments are in default, but under a settlement repayment plan, is approximately 0.3% 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	\$5,905	0	\$0	0%
Capital Loan Guarantees	8	\$38,066	0	\$0	0%
Direct City Loans	7	\$70,100	1	\$380	0.5%
Total @ Dec. 2016	18	\$112,071	1	\$380	0.3%
Total @ Dec. 2015	17	\$124,553	2	\$533	0.4%

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>

The 2016 Annual Report on the City's loan and loan guarantee portfolio provided direction for staff to consider extending the repayment term on a loan guarantee to the Theatre Centre and extending repayment terms on a direct loan to the Board of Governors of Exhibition Place for the Conference Centre. That report can be viewed at:

<http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-91844.pdf>

In December 2016, Council adopted recommendations from the Deputy City Manager & Chief Financial Officer to amend terms of a loan with Leaside Memorial Gardens Arena Board to better facilitate early repayment terms, to consider an increase to the City guarantee of a line of credit on behalf of the Toronto Symphony Orchestra, and to provide consent to Evergreen to obtain a third party guaranteed operating line of credit. That report can be viewed at:

<http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-98519.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.

For example, 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. In the same year, the City also 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, with a continuation of the 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.

During the 2015 Annual Report, staff had identified various other loans that the City had provided for other City initiatives over time, which had not previously been part of this annual review of cultural and community facilities loans. An initial review of these loans found that they are primarily sourced from dedicated reserve funds and not structured as recoverable debt as are loans included in this portfolio. Furthermore these other loans are being managed and repayment plans are being tracked by the applicable program area. Consequently, staff are currently reviewing whether further oversight and annual reporting should be required and through what appropriate mechanism. Staff will report back on this matter.

COMMENTS

As part of this annual review on the status of loan guarantees and loans provided by the City to cultural and community organizations, 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 \$5.9 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	Relationship 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	\$5,000	October 2018	Economic Development & Culture	Currently in Good Standing	City Grants (Major Cultural Grants)
	Total		\$5,905				
	Aggregate Limit		\$10,000				

Young People's Theatre (\$175,000 recommended)

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 2016 period, however forecasts the continued need for the current guaranteed amount of \$175,000 for the next three years ending December 31, 2020. Accordingly, it is recommended that the line of credit guarantee be extended for an addition three year term in the current amount of \$175,000.

Canadian Stage Company (\$820,000 recommended)

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 had experienced operating deficits in 2011 and prior years, but has since taken measures to control expenditures and has posted small surpluses over the past five 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 2016 audited financial statement, the endowment stood at \$1.731 million.

As noted, Canadian Stage followed through on the deficit reduction plan presented to City staff and their lenders and at the time of the last line of credit renewal in 2014 was able to reduce the level of its line of credit and guarantee from \$800,000 down to \$730,000.

However, despite posting modest surpluses over the past five years, and reducing its accumulated deficit, Canadian Stage forecasts some challenges over the next two years with reducing unprofitable productions and focussing more on profitable shows. Such business decisions carry a related need for greater cash flow flexibility over that period. Accordingly, Canadian Stage has requested that its line of credit guarantee be increased by \$90,000 from \$730,000 to \$820,000.

Canadian Stage receives annual Toronto Arts Council funding in the amount of \$820,000, and as such, the requested level of the line of credit and guarantee is consistent with that level.

Staff from ECD have reviewed this request and found the request and supporting information adequate to avoid future cash flow shortages and possible credit default conditions. The line of credit has been maintained in good standing for over fifteen years, and Canadian Stage remains a good tenant at City facility and continued production renter at one of Civic Theatres Toronto venues.

It is recommended that the line of credit guarantee be increased from \$730,000 up to \$820,000 for an addition three year renewal term ending on October 31, 2020, whereby the guaranteed amount may be reviewed once again at that time.

Toronto Symphony Orchestra (\$5,000,000)

Founded in 1922, the Toronto Symphony Orchestra (TSO) is one of Canada's leading cultural institutions. Today, more than 268,000 patrons and over roughly 33,000 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. In May 2017, the TSO is embarking on a cultural mission to Israel and Europe that will strengthen Canada's reputation for artistic excellence and highlight the TSO as a world class orchestra. 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. So far, 12 new musical compositions written for the Canada 150 have made their world premiere at the TSO and 9 of 23 special concerts have been performed.

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 taken actions to grow revenues, and has posted small surpluses in both 2014 and 2015. A larger surplus was achieved in 2016, however the TSO is forecasting break even status in 2017 on an operating budget of \$27.4 million.

The TSO still carries an accumulated deficit from those prior years, which is being gradually reduced by these surpluses. During 2016, proceeds from the monetization of a musical instrument plus a larger surplus from 2016 operations, helped the TSO substantially reduce its accumulated deficit from \$11.9 million to \$6.9 million.

In 2016, the TSO requested the City to increase its share of its line of credit guarantee. The intent of such action would assist the TSO in further reducing its accumulated deficit, and by doing so, qualify the orchestra to acquire federal arts grants. City Council considered this and in December 2016 recommended an increase in the City guarantee share from \$3 million to \$5 million, subject to submittal of a deficit reduction business plan from the City to the satisfaction of the Deputy City Manager & Chief Financial Officer.

The City has received TSO deficit reduction plan, and is currently reviewing same. Pending that review, the line of credit guarantee agreement can be amended and executed according to Council authority to effect the increase.

The 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 2016 financial statements indicate financial assets in excess of \$32 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 2016.

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 8 capital loan guarantees with an outstanding balance of \$38.1 million, as shown in Table 2 below. For comparison, at this time last year, there were 7 capital loan guarantees with outstanding balance of \$40.3 million. However, this balance will increase next year as a new construction loan guarantee to the YMCA and a direct City loan to the Lakeshore Arena Corporation (LAC) will be converted to a loan guarantee, both being previously authorized by City Council but nearing execution sometime in 2017. A corresponding reduction in the balance of direct City loan to LAC will also occur as a result in 2017.

Table 2 - Summary of Capital Loan Guarantees

Most Recent Date Approved	Name of Organization	Relationship to City	Amount Authorized \$000's	Current Balance (Dec. 31/16) \$000's	Expiry Date (Effective Expiry Date**)	Responsible Program Area	Loan Status	Security
July 2016	YMCA 505 Richmond	Registered Charity	30,000 converting to 9,500	0	2019 2049	Parks Forestry & Recreation	Pending	Second Charge and assignment rights
July 2013	Theatre Centre	Registered Charity	1,000	610	December 2021	Economic Development & Culture	Currently in Good Standing	Leasehold Improvements to City Building, TAC Grants
November 2011	Evergreen at the Brickworks	Registered Charity	7,500 (jointly with TRCA)	3,268	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	19,259	October 2042	Parks, Forestry & Recreation	Currently in Good Standing	Leasehold Interest of facility on TDSB lands
2002	Ricoh Coliseum Arena	City Agency	20,000	11,592	July 2022 (Jul 2025)	Exhibition Place	Currently in Good Standing	Leasehold Improvements to City lands
Sub-Total @ Dec. 31/16			94,000	34,729				

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	125	October 2017 (August 2022)	Economic Development and Culture	Currently in Good Standing	Assets (chattels)
May, 2014	Wychwood Barns	Not-for-Profit	3,200	2,791	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	421	August 2029	Economic Development and Culture	Currently in Good Standing	Leasehold Improvements to City lands
Sub-Total Artscape @ Dec. 31/16			4,050	3,337				
Total @ Dec. 31/16			98,050	38,066				
Total @ Dec. 31/15			68,050	40,317				
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.

YMCA (\$30,000,000 during construction; \$9,500,000 thereafter)

In July 2016, City Council approved the provision of a construction loan guarantee on behalf of the YMCA to fund the construction of a 55,000 sq. ft. YMCA community centre as part of the redevelopment of a former City owned property at 505 Richmond Street West, in an amount not to exceed \$30.0 million (inclusive of all interest costs payable) during the construction period.

City Council also authorized the payment of \$19.0 million as the City's share of the project upon substantial construction completion to partially pay down the construction loan leaving a remainder balance for YMCA's proposed construction take-out mortgage. This contribution is contingent upon existing and future Section 37 funding within the King Spadina Secondary Plan Area.

Finally, City Council further approved the provision of a capital loan guarantee for said mortgage on behalf of the YMCA to its Lender, in an amount not to exceed \$9.5 million, inclusive of all interest costs payable by the YMCA, for a period commencing upon substantial completion of the Project for a term not to exceed 30 years, for the purposes of allowing the YMCA to secure a fixed-term amortizing mortgage to be provided by the Lender for any remaining portion of the construction loan following completion of Project construction.

Currently the City and the YMCA are finalizing the terms of the construction loan and loan guarantee with the lender, Infrastructure Ontario.

It is expected that the necessary agreements will be in place in the near term and the YMCA will begin draws on the construction loan within 2017.

The Parks Forestry & Recreation Division has assigned a monitor to provide oversight of the City's interests in the project.

Theatre Centre (\$609,705)

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 bridge financing for a four year period ending in 2017.

The Theatre Centre opened in March 2014 but by the end of 2015 was behind on its repayment targets prescribed in the loan guarantee agreement. The loan, which does not have regular amortization payments, remained in good standing as all interest payments were being made and the principal balance was still 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.

The Economic Development and Culture Division had assigned a monitor to provide oversight to the project and is working with the theatre on developing a revised fundraising and debt repayment plan. In December 2016 City Council authorized an extension of the loan guarantee to 2021 based upon the revised repayment schedule developed by the Theatre Centre as follows.

Date	Maximum Amount Owing
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

The loan is in good standing in accordance with the revised repayment schedule, and as at December 31, 2016, the outstanding loan balance on the loan guaranteed by the City was \$609,705 (December 31, 2015 - \$887,000).

Theatre Centre is supported by the City through the Toronto Arts Council grant program, with an operating grant of \$134,000 having been provided for 2016.

Evergreen Brick Works (\$3,268,000)

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 held \$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, 2015 and 2016 cash deposit increments have been returned to Evergreen.

In 2016, Evergreen notified the City and TRCA of its need to establish an operating line of credit and guarantee from a third party as part of its ongoing business operations. This action required the consent of the City and TRCA as co-guarantors of the existing capital loan to permit Evergreen from incurring any further indebtedness while the capital loan is in place.

This consent was granted by City Council in December 2016 subject to the new line of credit being ranked subordinate to the existing capital loan guaranteed by the City and the TRCA.

As of December 31, 2016, the outstanding loan balance on the loan guaranteed by the City was \$3,268,000 (December 31, 2015 - \$3,784,000).

Lakeshore Arena Corporation (\$19,258,565)

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 (originally 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 following table. The total debt (to the third-party lender and to the City) as at December 31, 2016 was \$31,826,034 (December 31, 2015 - \$40,094,869).

	<u>Dec. 31, 2015</u>	<u>Dec. 31, 2016</u>
Third Party Loans Guaranteed by City:		
- Fixed rate term loan	\$19,602,400	\$19,258,565
Direct City Loans:		
- Interest only capital loan	\$19,892,469	\$11,792,469
- BBP Energy Loan	\$600,000	\$500,000
Line of Credit	<u>\$1 million available</u>	<u>\$275,000</u>
Total Debt*	\$40,094,869	\$31,826,034

*including line of credit up to \$1 million (\$275,000 drawn in 2016)

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 Board of the LAC reported 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.

In considering these options, 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 \$11.8 million with a City loan guarantee. At the time of writing of this report, the LAC is finalizing terms for an amortizing loan with Infrastructure Ontario with expected execution in the near term to replace the City loan. It is also planned that Infrastructure Ontario will provide a replacement loan for the existing fixed rate loan with Versa Bank (formerly PW Bank) as well, which comes up for renewal on October 31, 2017.

In this regard all existing and remaining capital debt will be consolidated under one lender and on favourable terms to the LAC. As such, this report recommends that City Council consent to the existing loan guarantee being transferred to Infrastructure Ontario, for the balance remaining on the fixed rate loan on October 31, 2017, estimated at \$19,067,966 over a remaining amortization period of twenty-five years.

Ricoh Coliseum Arena (\$11,591,910)

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 \$11,591,910 as of December 31, 2016 (December 31, 2015 - \$12,582,882).

Artscape (Total of Guarantees – \$3,336,114)

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, 2016 of \$3,336,114 (December 31, 2015 - \$3,460,789).

Artscape Wychwood Barns (\$2,790,658)

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 \$2,790,658 as of December 31, 2016 (December 31,

2015 - \$2,867,755). The loan comes up for renewal in June 2017, and the current payment amount will require amortization to the year 2038. It is recommended that the line of credit guarantee be extended for an additional five year term ending in June 2022, as the loan payments have been in good standing over an extended period of time.

FCM Wychwood Barns (\$420,456)

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 \$420,456 as at December 31, 2016 (December 31, 2015 - \$447,894). The loan is expected to be repaid by August 2029.

Distillery District Studios (\$125,000)

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 \$125,000 as of December 31, 2016 (December 31, 2015 - \$145,140). It is recommended that the line of credit guarantee be extended for an additional five year term ending in October 2022 upon the expiry of the loan, as all loan payments have been in good standing over an extended period of time.

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 December 31, 2016, there were 7 direct loans under this policy with an outstanding balance of \$70.1 million (2015- \$80.3 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	500	None	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
July 2011	Lakeshore Arena Corporation	City Services Corporation	21,039*	11,792*	None	Parks, Forestry and Recreation	Currently in Good Standing	Leasehold Interest
January 2012	Leaside Arena	City Agency	7,500	7,017	September 2043	Arena Board	Currently in Good Standing	City Property
2007	Conference Centre at Exhibition Place	City Agency	38,675	32,852	2040	Exhibition Place	Currently in Good Standing	City Property
2014	Expansion of BMO Field at Exhibition Place	City Agency	10,000	9,328	2034	Exhibition Place	Currently in Good Standing	City Property
2008	Bloor Street Transformation Project	BIA	11,975	8,231	2027	Transportation Services	Currently in Good Standing	Priority Lien
July 2007	Just for Laughs Toronto Festival	Not-for-Profit	500	380	December 2010	Economic Development & Culture	Under Settlement Agreement	None
Total @ Dec. 31/16			90,689	70,100				
Total @ Dec. 31/15			90,689	80,331				
Aggregate Limit			125,000					

* Includes transfer of \$19.9 from Loan Guarantee to Direct Loan, less an authorized \$8.1 million written-down in 2016.

Conference Centre at Exhibition Place (\$32,852,327)

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.

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 in some years has been utilizing its conference centre reserve fund to help cover the debt payments without any financial impact to the City.

In this regard, during the 2015 annual review of loans and loan guarantees, City Council adopted a recommendation 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.

Exhibition Place commissioned a revised business plan for the conference centre with future year operating forecasts, and staff considered extending the loan repayment plan by an additional five year period in order to reduce the amount of annual payments, without any negative financial impact on the City.

City Council adopted the extended repayment term at its meeting in December 2016. The payments on the loan are up to date with an outstanding balance of \$32,852,327 as of December 31, 2016 (December 31, 2015 - \$33,890,769).

BMO Field Expansion at Exhibition Place (\$9,328,320)

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 (MSLE). 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 \$9,328,320 as of December 31, 2016 (December 31, 2015 - \$9,671,092).

Lakeshore Arena Corporation (\$11,792,469)

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 loans are 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 finalizing a loan, with City guarantee, from Infrastructure Ontario for the remaining approximately \$11.8 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 to LAC, with a corresponding addition to the City's loan guarantee category in favour of LAC.

Leaside Arena (\$7,017,282)

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-year's debt service coverage is achieved.

In December 2016, City Council reconciled both an operating deficit and surplus that occurred over the past two years at the arena, and further authorized an amendment to the loan guarantee agreement to better facilitate applying any future year operating surpluses toward early debt retirement.

All loan payments are up to date with an outstanding loan balance of \$7,017,282 as of December 31, 2016. (December 31, 2015 - \$7,064,715). 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 \$925,514 as of December 31, 2016. (December 31, 2015 - \$956,564).

Bloor Street Transformation Project (\$8,230,589)

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 Bloor Street BIA special levy are up to date with an outstanding balance of \$8,230,589 on December 31, 2016 (December 31, 2015 - \$8,782,343). 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 (\$380,000)

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.

Settlement terms were finalized later in 2015 which 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, 2016 the principal outstanding balance was \$380,000 (December 31, 2015 - \$430,000). Most recently, a payment of \$67,500 (\$60,000 towards principal and \$7,500 as interest) was made on February 3, 2017, thus reducing the principal balance outstanding to \$320,000. 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 in accordance with the settlement agreement.

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.

As part of the 2015 annual report on loans and loan guarantees, staff noted that various other loans from City reserve funds have been made over the years with a view to include in a future report on City loans to provide a more comprehensive review and monitoring of all the City's loan exposure.

A review of these other loans found that they are being tracked and monitored by the applicable program area with whom a funding relationship was established with the borrower. Furthermore, the loan balances within the reserve funds are reported on a regular basis within quarterly reserve and reserve fund variance reports to Budget Committee.

Staff will continue to work with City programs and review whether any further level of reporting on these loans would be more appropriately sourced to the applicable administering program area or whether a more centralized reporting mechanism is needed.

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 & 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.

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