

Request for a Line of Credit Guarantee for Toronto Artscape Inc.

Date: July 10, 2023

To: Executive Committee

From: Controller, and General Manager, Economic Development and Culture

Wards: All

SUMMARY

This report recommends that City Council approve a request for a Line of Credit Guarantee to be provided in support of Toronto Artscape Inc. ("Artscape"), in order to support a temporary line of credit extension of up to \$1.5 million from its lender, Toronto Dominion Bank (TD).

Founded in 1986, Artscape is a not-for-profit organization that develops and manages unique creative spaces across Toronto, including affordable housing units and community cultural hubs. It provides live and work spaces for 390 tenants across its portfolio of 14 properties. However, expansion between 2017-2019, combined with the effects of business disruption during COVID-19 shutdowns, have resulted in Artscape facing cash flow and debt repayment challenges.

In response to these challenges, Artscape's Board of Directors has adopted a restructuring plan to reduce debt through asset sales, and refocus the organization on its core mandate of providing affordable live, work and presentation space for artists. Artscape intends on undertaking a sale of its property - Artscape Daniels Launchpad ("Launchpad"), a 30,000 square foot co-working and event space which opened in 2019 at 130 Queens Quay East. Upon completion of the sale, the line of credit extension will be repaid, and the City's Line of Credit Guarantee would no longer be required. The expected date of completion of the sale is October 31, 2023.

Under the City's Line of Credit Guarantee Policy, such guarantees are available to not-for-profit cultural and community organizations which have existing financial relationships with the City. Artscape is considered an eligible entity as it is a recipient of annual operating grants, and has benefitted from City Capital Loan Guarantees.

RECOMMENDATIONS

The Controller and the General Manager, Economic Development and Culture, recommend that:

1. City Council approve a request for a Line of Credit Guarantee to be provided in support of Toronto Artscape Inc. to its lender, in order to support a line of credit extension of up to \$1.5 million, inclusive of any accrued interest, on the basis that:
 - a. The City's Line of Credit Extension Guarantee shall expire on the earlier of the completion of Toronto Artscape Inc.'s sale of Launchpad or other property, or October 31, 2023, and
 - b. Should the lender require payment of the City's \$1.5 million guarantee, the Chief Financial Officer and Treasurer will take action to remit payment within 15 days of written notification by the lender;
2. City Council direct the Chief Financial Officer and Treasurer, in consultation with the Deputy City Manager, Community and Social Services, and the City Solicitor, to negotiate and enter into any necessary agreements to provide the Line of Credit Guarantee to Toronto Artscape Inc., and to take any security deemed necessary by and to the satisfaction of the Chief Financial Officer and Treasurer, in a form satisfactory to the City Solicitor.
3. City Council direct that, should the Line of Credit Guarantee become payable by the City, the payment would be accommodated through a reallocation of funds within the Economic Development and Culture Division's 2023 Approved Operating Budget.
4. City Council authorize and direct appropriate City Officials to take such action as may be necessary to implement City Council's decision.

FINANCIAL IMPACT

This report seeks approval to provide a \$1.5 million Line of Credit Guarantee in support of Artscape, for the purpose of supporting a temporary line of credit extension to be made by TD, taking Artscape's current \$5 million line of credit, to \$6.5 million.

Artscape is planning on undertaking a sale of Launchpad, its 30,000 square foot co-working and event space, and intends on using the proceeds of this sale to repay the line of credit extension of \$1.5 million, along with other existing debt. At that time, the City Guarantee will no longer be required, and will be released. It is currently envisioned that the Launchpad sale will be completed by October 31, 2023.

A line of credit guarantee is considered as a financial commitment of the City and could have potential impacts on the City's borrowing capacity and credit rating. While the recommendation in this report will have no immediate financial impact on the City's budget as there are no direct costs to the City for providing a line of credit guarantee,

should a supported borrowing entity default on its obligations, the City would be required to pay out all or a portion of the guarantee, which supports the outstanding principal and interest, to the lender.

The responsibility for monitoring the operating and financial status of Artscape resides with the responsible program area (Economic Development and Culture), in order to provide an early warning of any potential default, with the program area undertaking any necessary reporting to Executive Committee.

Should circumstances result in TD calling on the City to pay the \$1.5 million Line of Credit Guarantee, the funds would be made available from the Economic Development and Culture's 2023 Approved Operating Budget. The \$1.5 million payment would then convert to a fully recoverable loan from the City to Artscape, so that the City would be made whole.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

In April 2013, City Council adopted a revised framework for loan and line of credit guarantees made by the City. This policy allows for the City to provide line of credit guarantees to eligible non-profit cultural and community organizations that have existing financial relationships with the City.

<https://secure.toronto.ca/council/agenda-item.do?item=2013.EX31.14>

The City has previously provided Artscape with capital loan guarantees to assist in raising the necessary financing for its developments. These guarantees have been maintained in good standing throughout their term. Two of the three recent project financings that were supported by City guarantees no longer required City support as of 2022. The status of Artscape's loan guarantees is reported annually to City Council, with the most recent report available at the link below.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX4.5>

COMMENTS

Line of Credit Guarantee Policy

Under the City's current policy, line of credit guarantees are made available to cultural and community organizations which have existing financial relationships with the City. The intended purpose of such guarantees is to enable eligible organizations to obtain a line of credit for working capital purposes. In order to apply for this support, eligible entities must submit audited financial statements, as well as a business plan demonstrating the entity's financial viability/capacity to repay the funds, to the satisfaction of the Chief Financial Officer and Treasurer.

Artscape is an eligible entity under this policy. Artscape and the City have an existing financial relationship, as Artscape receives \$415,000 in annual operating funding from the City through the Cultural Organizations Operating Partnership program.

Furthermore, the City has, over the years, provided supportive Capital Loan Guarantees to Artscape, which have assisted Artscape in raising the necessary financing for major development projects. The most recent projects have included Artscape Distillery Studios (renovation of two historic buildings in the Distillery District), and Artscape Wychwood Barns (transformation of a former streetcar facility into an affordable live-work spaces for artists and their families; programming, event and office space; and a sustainable food education centre). Both of these projects were completed successfully, and in both cases, the City's guarantee was released when no longer required.

Request for Line of Credit Guarantee from Artscape

Established in 1986, Artscape is a not-for-profit developer and manager of creative space in Toronto. Artscape currently operates 14 unique creative spaces across Toronto, including affordable housing units and community cultural and creative entrepreneurship hubs. Some of its major properties include Wychwood Barns, Daniels Spectrum, Youngplace, Gibraltar Point, and Weston Common. Artscape properties provide live and work spaces for 390 tenants (including 265 residential and 125 commercial tenancies). The organization also delivers a broad range of accessible community programs. In 2022, Artscape showcased the work of 400+ artists at over 30 exhibitions; held more than 20 events featuring 50+ artists, mentors, and leaders in creative technology; and provided professional development programming for over 400 artists and creative workers.

Over the years, Artscape has funded its expansion through project development fees, asset sales, and debt. However, expansion between 2017- 2019, notably the addition of the Launchpad facility on the central waterfront, combined with the effects of business disruption during 2020 – 2021 COVID shutdowns, have resulted in Artscape facing cash flow and debt repayment challenges.

COVID-19 related shutdowns most deeply impacted Launchpad, a 30,000 square foot co-working and event space which opened in 2019 at 130 Queens Quay East. Launchpad differs from Artscape's previous developments by serving as a hub for creative entrepreneurship and offering programs to promote economic enablement for artists and creative workers. However, given Launchpad's reliance on event revenues and in-person training fees, the COVID shutdowns severely reduced revenues that the site was able to generate.

In order to remedy its cash flow challenges, Artscape has already implemented a number of operational reforms, including pay cuts for executive staff, and layoffs. In May 2023, Artscape's Board of Directors adopted a financial and strategic restructuring plan addressing a corporate restructuring which would both allow it to reduce its debt to manageable levels, and refocus the organization on its core mandate of providing affordable live, work and presentation space for artists. Artscape's strategy includes

undertaking a sale of assets such as Launchpad, using the resultant cash proceeds to pay down Artscape's debt to manageable levels.

It is currently envisioned that a sale of Launchpad will be undertaken and completed by October 31, 2023. However, Artscape has indicated that it will be depleted of the necessary available (operational) cash by mid-August, so that there is a timing aspect of the remedy. As a result, Artscape has been in communication with the TD in order to request a temporary \$1.5 million increase to its existing line of credit, from \$5 million to \$6.5 million, to address this temporary cash flow challenge, which would then be repaid with the proceeds of the planned property sale.

TD has investigated Artscape's request for a \$1.5 million credit line extension, and is requesting a supportive City Line of Credit Guarantee of \$1.5 million. A City Line of Credit Guarantee will enable Artscape to cover operating expenses and avoid additional layoffs to gain the time necessary to market and sell Launchpad.

This report recommends that City Council approve the request for a \$1.5 million Line of Credit Guarantee in support of Artscape to its lender, on the basis that

- The Guarantee shall expire on the earlier of the completion of Toronto Artscape Inc.'s sale of Launchpad or other property, or October 31, 2023, and
- Should the lender require payment of the City's \$1.5 million guarantee, the Chief Financial Officer and Treasurer will take action to remit payment within 15 days of written notification by the lender.

Should circumstances result in TD calling on the City to remit payment of \$1.5 million Line of Credit Guarantee,

- the funds would be made available from the Economic Development and Culture's 2023 Approved Operating Budget, and
- the \$1.5 million payment would then convert to a fully recoverable loan from the City to Artscape, so that the City would be made whole.

CONTACT

Joe Sellors, A/Director, Arts and Culture Services, Economic Development and Culture
Email: Joe.Sellors@toronto.ca; Tel: 416-395-7419

Karyn Spiegelman, Senior Financial Analyst, Strategic Corporate Analysis and Review, Financial Planning
Email: Karyn.Spiegelman@toronto.ca; Tel: 416-392-8894

Ilya Ganin, Manager, Strategic Corporate Analysis and Review, Financial Planning
Email: Ilya.Ganin@toronto.ca; Tel: 416-392-5380

SIGNATURE

Andrew Flynn
Controller

Patrick Tobin
General Manager, Economic Development and Culture