

Annual Report on City Loans and Loan Guarantees

Appendix 1 Amended Direct Capital Loan Policy

Purpose:

The purpose of this policy is to provide a framework for the City of Toronto ("City") to consider requests from City agencies and corporations for direct capital loans to contribute to the funding of a capital project to create or enhance a municipal capital facility. The provision of a direct capital loan should be considered in conjunction with all other funding options for the capital project.

The total amount of all outstanding loans provided by the City of Toronto under this policy at any time is limited to \$125 million in aggregate.

Authorities:

The *City of Toronto Act, 2006*, section 83(2)(a) provides the City with the power to make a grant by way of an interest-bearing loan.

Eligibility:

Requests for direct capital loans may be considered from City Agencies and City Corporations. Direct City capital loans may be used for the financing of an underlying capital project and may not be used to fund operations nor to support operating deficits.

Consideration may be given to a capital facility which may be constructed on City-owned property, as this may allow the City to require ownership of the facility to revert back in event of a loan default, or as part of an agreement.

Other Council-approved City loan programs may include other eligibility criteria for their specific purposes.

Required Information/Documentation to be Provided:

Information to be provided by the eligible entity to the City in support of a loan or loan extension request shall include the following.

- Proof that the entity meets the eligibility criteria.
- Proof that the underlying capital project/asset meets the requirements included in this policy.
- Documentation/materials demonstrating that all other potential sources of funding have been exhausted.

Annual Report on City Loans and Loan Guarantees

Appendix 1 Amended Direct Capital Loan Policy

- Where financing is sought in support of a capital project, explanation as to
 - why the project is necessary, and
 - why providing a loan would be in the best interest of the City.
- Copy of audited financial statements for the preceding three (3) fiscal years, as well as the most recent interim (may be unaudited) financial statements if nine (9) months or more have passed since the last fiscal year end.
- Current debt schedule disclosing the details of all outstanding loans and leases, where applicable.
- Listing of entity's secured creditors and collateral that has been pledged to those creditors.
- Comprehensive business plans, proforma budgets and cash flows, and detailed sources of funding and financing for the underlying capital project. The entity must ensure that it demonstrates its ability to meet loan repayments throughout the potential loan term.
- Copies of any engineering or other third-party reports prepared in support of the underlying capital project, where applicable.
- Details of project/asset costing, and related materials. Where not already available, the City may require verification of costing, or other project aspects, by a qualified third-party.
- The eligible entity requesting a direct loan would be responsible for any required third-party legal, appraisal, and/or other consulting costs.

Financial Due Diligence:

Financial due diligence will be performed by the City's Chief Financial Officer and Treasurer (CFO) or their designate(s), including a review of an entity's historical and proforma earnings, cash flows, capital expenditures, existing debt and collateral taken, and its ability to repay the proposed loan. Other capital project-related due diligence may be undertaken by the appropriate Deputy City Manager (DCM).

Annual Report on City Loans and Loan Guarantees

Appendix 1 Amended Direct Capital Loan Policy

When reviewing requests for direct capital loans, careful attention must be given to minimizing and managing related City financial risks, by undertaking the appropriate financial due diligence on a requesting eligible entity and on the specific request being made. The analysis should result in an understanding of the creditworthiness of the requestor, its capacity to repay the loan under consideration, and under what terms and conditions the City might consider advancing a direct capital loan. A direct capital loan should not be advanced where the financial due diligence concludes that the entity would be unable to repay.

Loan Criteria:

Consideration of the loan criteria and terms and conditions of the loan agreement must protect the City in the event of a default on the loan by the entity.

All information provided by the eligible entity and all loan criteria must be to the satisfaction of the CFO for financial matters, and the appropriate DCM for capital project related matters. Loan agreements shall be in a form satisfactory to the City Solicitor.

Loan criteria for consideration should include the following:

Loan Term

Loan term must be no longer in duration than the shortest period of the following:

- the useful life of the capital asset to be financed;
- the useful life of the capital project to be supported by financing; or
- the remaining term of any leases or other agreements, which may be related to the capital project/asset.

Equity Contribution

In considering the provision of a direct capital loan to an eligible entity, the level of firm financial commitment from that entity to the capital project must be at least fifteen percent (15%) of the overall project capital cost, with the amount required based on assessed risk. The information presented to the City in support of this requirement must be to the satisfaction of the CFO. The equity contribution may be generated through means including grants, sponsorships, or other fundraising efforts.

Annual Report on City Loans and Loan Guarantees

Appendix 1 Amended Direct Capital Loan Policy

Interest Rate and Other Potential Fees

The interest rate, and/or other potential fees (e.g. administrative, professional) to be charged, shall consider the following.

- Where the funds for the financing are raised by the City through its own financing, the interest rate and other potential fees to be charged must, at minimum, cover City's overall cost of financing.
- Where the funds for the financing are sourced from City reserves or reserve funds, the City would no longer be able to earn investment returns on those funds. Therefore, there would be an "opportunity cost" to deploying the funds in support of a loan, rather than investing. The interest rate and other potential fees to be charged must at minimum allow the City to match its opportunity cost.

Reporting Requirements

Minimum ongoing reporting requirements to provide to the CFO and the appropriate DCM, will include:

- annual audited financial statements, to be provided no later than four (4) months after each fiscal year end;
- periodic cash flow reporting (e.g. bi-annual), with the required timelines to be determined by the CFO on a case-by-case basis. Such reporting shall be provided within sixty (60) days of each period end, unless otherwise determined by the CFO;
- regular status reporting (e.g. bi-annual) in relation to a project's capital construction, with the required timelines to be determined by the DCM of the relevant program area. Reporting shall also be required from the entity to the DCM and the CFO in the event of any material changes to anticipated substantial completion or to project costs; and
- final project reporting.

Reporting may also be required from a qualified third-party, at project intervals, and/or at substantial completion. The borrower will be responsible for third-party costs.

Annual Report on City Loans and Loan Guarantees

Appendix 1 Amended Direct Capital Loan Policy

Security/Collateral:

The CFO will determine and recommend, where appropriate, what security/collateral should be taken in support of each potential loan. Consideration should be given to the nature of the entity and the availability of real property or other assets.

Where the City seeks to take security from an entity, a proper legal asset/property search should be conducted (e.g. Personal Property Security Act, Property Search, etc.), to determine whether other creditors have already registered a security interest against those assets/property, and if so, whether there is sufficient equity remaining to securitize a City loan.

The entity may be required to provide an appraisal of the security to be pledged in support of the capital loan. Where a qualified third-party is required to perform the appraisal, the eligible entity would be responsible for any related costs for obtaining said appraisal.

Where there is available security which can be taken from an entity, it must be subject to registration as to title to provide the City with the appropriate protection.

Reporting:

New Direct Capital Loans; or Direct Capital Loan Extensions

Reporting to Council on a requested direct capital loan or loan extension shall include:

- eligibility of the entity requesting the loan;
- where applicable, program area support for the request;
- result of financial due diligence undertaken on the entity and requested loan;
- where granting a loan is recommended, outlining key recommended terms and conditions; and
- discussion of City risk, and risk mitigation measures, which may involve the setting of various agreement terms and conditions, and/or determining what related financial provisions should be set aside to address potential loan losses.

Annual Report on City Loans and Loan Guarantees

Appendix 1 Amended Direct Capital Loan Policy

Loan Defaults

Reporting to Council/Committee where a supported eligible entity defaults on its loan repayment obligations shall include:

- potential financial impact to the City, noting that the funding source (i.e. City debt, or reserves or reserve funds) would not be reimbursed due to lack of repayment; and
- identify a potential funding source within the responsible program area's budget for the current/applicable fiscal year.

Monitoring of Performance:

Ongoing monitoring should be performed on entities that receive direct City loans to enable the City to identify potential signs of financial distress or default risk, allowing the City to take proactive measures to mitigate the City's credit risks.

The CFO is responsible for monitoring the entity's financial viability, and its adherence to the financial loan terms, including repayments.

Program areas which have direct oversight of eligible entities is responsible for monitoring the performance of the underlying capital projects, which may include periodic site visits. The DCM may assign a project manager or a qualified third-party for these purposes with the entity retaining responsibility for any related costs.

The entity will be required to provide periodic reporting, verified by a qualified third-party as may be appropriate, and will also be required to conclude with a final report on the completion of construction, providing a copy to the appropriate DCM, and to the CFO.

Review of Policy:

This policy should be reviewed at a minimum every three (3) year after adoption by Council or sooner as may be deemed appropriate by the CFO.