REPORT OF THE

STANDING COMMITTEE ON FISCAL ISSUES

DATED JULY 6, 1999

On motion of Councillor Clement, the Report of the Standing Committee on Fiscal Issues, dated July 6, 1999, was considered.

Moved by Councillor Clement,
That the Consent Agenda, Clause 1, be adopted.

Carried.

Development of a Policy with respect to the Profits from the Sale of City-owned Properties (Proposed Operating Principles - Land Operating Reserve
File FI-2.4 (Vol. 7)

772 - 1. Council, at its adjourned meeting held on April 30, 1998, ruled automatic referral of the following motion to the Standing Committee on Fiscal Issues, under Rule 16.1 of the Procedure By-law No. 5400/90:

Moved by Councillor Angus,
Seconded by Councillor O'Shaughnessy,

WHEREAS the Property and Development Services Department is marketing certain City owned properties in the City of Winnipeg;

AND WHEREAS the properties being sold were properties no longer required for streets and transportation, parks and other purposes;

AND WHEREAS this found money is reputed to be earmarked to be returned to the Department for purposes of meeting expenses;

AND WHEREAS the profit from these sales belong to general revenue and should be considered in relation to the City's total budgetary requirements;

THEREFORE BE IT RESOLVED that the Standing Committee on Fiscal Issues review this practice and develop a policy for consideration of Council;

AND BE IT FURTHER RESOLVED that any land sales that are concluded and the related monies generated by these sales be held in Property and Development Services until the policy is developed and approved.

On May 19, 1998, Committee referred this matter to the Chief Financial Officer for report back and on June 24, 1998, Council granted Committee a 60-day extension of time in which to respond.

On September 9, 1998, Council granted Committee an additional 90-day extension of time and again on December 16, 1998, a further 120-day extension of time, inasmuch as the report from the Chief Financial Officer had not yet been received. On April 28, 1999, Committee again requested and was granted an extension of time of 60 days in order that two related reports dealing with the Land Operating Reserve and the Civic Accommodations Utility may be considered by Committee.

On July 6, 1999, the Standing Committee on Fiscal Issues considered a report whereby the Administration advised that there have been complicating circumstances surrounding this issue including the submission to the City of a Strategic Facilities Master Plan on July 21, 1998. This report made specific recommendations with respect to the future use of the Land Operating Reserve. Subsequently, an administrative group consisting of representatives from the Property and Development Services and Corporate Finance Departments met on several occasions to consider the merits of the Strategic Facilities Master Plan recommendations, together with alternative approaches. The work of this administrative group was interrupted by the resignation of the Director of Property and Development Services. In the meantime, the newly appointed Director submitted a status report on the Land Operating Reserve to the Chief Administrative Officer

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and the Chief Financial Officer in mid-March. An update of that report dated June 1999, is outlined in Appendix "A" to this document.

As is stated in the June 1999 status report, the Land Operating Reserve has proven to be a useful mechanism for facilitating the operation of the City's land marketing activities, particularly since the inception of the Enhanced Land Marketing Program. The primary issue has been that there have been no guidelines with respect to accumulation of funds within the Reserve or as to the ultimate use of funds for purposes other than those for which the Reserve was initially created. The principle underlying the proposed recommendations is that the City's land marketing operation needs to have the appropriate support mechanisms and adequate reliable financing, but not be involved in the ultimate uses to which the surplus funds are dedicated. The use of such funds must be a decision of City Council and the Corporate Finance Department is the appropriate administrative area in which the surplus funds should be managed.

Financial Stability of the Reserve

Prior to 1993, the City's land marketing efforts had resulted in the accumulation of surpluses that were clearly beyond the needs of a marketing operation. Thus, on two occasions since 1993, substantial funds were transferred to the General Revenue Fund to deal with accrued liabilities created by assessment appeals. In addition, since 1993, the annual net revenues from land sales have been transferred to general revenue at year-end. The result has been that an inter-fund debt to the General Revenue Fund has accumulated to a level of $4.2 million and the fund equity has eroded considerably. The fact that the Corporation is debt financing the Reserve means that the primary purpose for creation of the Reserve has been negated. In addition, this debt position means that, even though funds have been systematically withdrawn from the Reserve to meet other Corporate needs, the Reserve must absorb an annual interest cost, which in 1998 amounted to $91,000.00. The accumulated equity amount necessary to eliminate the Reserve's inter-fund debt, based on projected 1999 cash flows would be approximately $8.6 million. This would necessitate retaining $5.1 million net revenues from 1999 operations over and above the amount of $4 million budgeted to be returned to General Revenue. While projections of 1999 land sales operations indicate that this amount would be achieved this year, it is possible that there will be other corporate non-current uses for some of these funds. Accordingly, it is being recommended that, if the zero debt target is not met this year, that a plan be established such that it can be reached by the year 2000, or as soon as possible thereafter.

On the assumption that there were no other uses for Land Operating Reserve surplus funds beyond the budget in 1999, the implementation of the proposed recommendations would produce the following benefits:

1. The elimination of the Corporate inter-fund "line of credit" required in recent years and the placement of the Reserve on a self-financing basis.

2. The elimination for the need of the General Revenue Fund to reimburse the Reserve for funds transferred in past years to meet assessment appeal obligations. These transfers were scheduled to occur at the rate of $2 million per year.

3. The ability to transfer to a special purpose corporate fund in 1999, an amount of approximately $1.6 million (in addition to the $4 million budgeted to be transferred to General Revenue). This, again, is based on an assumption that no other uses of the funds will be designated by the Corporation.

Ultimate Uses of Surplus Funds

It is being strongly recommended by both the Corporate Finance and Property and Development Services Departments, that the City reduce its reliance on sales of surplus properties to subsidize its current mill-rate supported operations. Corporate and departmental business plans will reflect these goals. Selling fixed assets to finance current operations is not considered fiscally prudent, especially if carried out on a long-term basis. This is particularly relevant when it is recognized that marketable land inventories might be diminishing. Thus, it is recommended that, increasingly, any surplus funds from land sales be used for non-current purposes and primarily to re-invest in the City's asset base, which over time would have the effect of reducing borrowing requirements and annual debt servicing costs.

Potential Property Assets Reserve

One alternative under active consideration by the Administration since July of 1998 was the potential addition to the Land Operating Reserve of a component that would deal with the disposal of surplus civic accommodation assets and to combine this into a "Property Assets Reserve". After some consideration, it was decided that it would be best to separate the accommodations business, which functions as a utility, from the real estate acquisition/management/sales business, and to encourage each to be self-financing. Another difficulty with the Property Assets Reserve concept was that, by its nature, it predetermined that the use of surplus funds generated from property sales would be exclusively

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used for investment in accommodation assets. A report will be forwarded under separate cover that deals with a proposed self-financing vehicle to deal with managing the City's investment in building accommodations.

The Standing Committee on Fiscal Issues recommends:

I. That the original purpose of the Land Operating Reserve Fund be reconfirmed, namely, to reduce the need for the issuance and sale of debentures associated with the acquisition and selling costs of properties acquired for resale (eg. properties declared surplus by City Departments or tax sale properties).

II. That, in order to sustain the business operations supported by the Reserve, equity be allowed to accumulate within the Reserve sufficient to eliminate the inter-fund debt owing to the General Revenue Fund created in past years as a result of the need to meet assessment appeals shortfalls. This would require retaining $5.1 million from 1999 net land sales revenues to build an equity of approximately $9 million. Any surplus funds beyond this zero debt level would be dealt with in accordance with Recommendation III. below.

III. That at year-end, on an annual basis, any surplus funds greater than the amount required for the purposes of the Land Operating Reserve be transferred to the Commitment Reserve Fund, which amount can only be spent on one-time or capital costs in the following year. As with other contributions to this Reserve, they must be spent in the year following transfer, otherwise the unspent amount must be transferred to the Mill Rate Stabilization Reserve Fund.

IV. That the Land Operating Reserve Fund Manager (Director of Property and Development Services) be directed to bring forward for approval revised and updated operating parameters for the Reserve in keeping with current circumstances and with the objective of providing the framework for a sound business operation involving the management and marketing of surplus City-owned properties. Included among the parameters would be that no expenditures be authorized from the Reserve that are not consistent with its purpose.

V. That the City Corporation's reliance on sales of surplus properties as a source of subsidy to mill rate-supported current operations be diminished on a planned basis. This is consistent with Corporate policy as stated in the 1999 Current Estimates, adopted by Council on March 15, 1999.

VI. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing, including the execution of any documents related thereto.

A copy of the documents referred to in the above clause are on file in the office of the City Clerk.

The Executive Policy Committee recommends as follows:

i) That a new Recommendation VI. be worded to read as follows:

VI. That all revenues be net of land dedication reductions.

ii) That former Recommendation VI. be renumbered as VII.

Adopted by consent.

Request for Loan Guarantee - Manitoba Opera Association File FC-2.2 (Vol. 2)

773 - 2. On June 23, 1999, an application for a loan guarantee was received from the Manitoba Opera Association and forwarded to the Corporate Finance Department for analysis.

Section 313 of The City of Winnipeg Act states the following:

> *"Subject to the approval of the Minister of Finance, the City, may on such terms and conditions as the Minister of Finance may approve, make loans and grants for, and guarantee indebtedness incurred for, any community undertaking not otherwise authorized under this Act, and the Minister of Finance may*

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refer any application for approval under this section to The Municipal Board for its advice and recommendation."

The City has been concerned that there has been an increasing number of requests for loan guarantees over the past few years, as loan guarantees do, in fact, constitute meaningful commitments by the City. These commitments have to be recorded in the notes to the City's financial statements, are factors in determining the City's potential liabilities, and are a factor in determining the City's credit rating. As a result of its ongoing concern, the City adopted a Policy and Criteria to be used as a Guideline in the Consideration of Requests for Loan Guarantees. As at December 31, 1998, the City of Winnipeg was the guarantor of thirteen different loans in the total amount of $8.3 million, as listed in Appendix "A" to this document.

In the past, the City has only guaranteed loans for those organizations that had some type of direct connection to the City's operations, such as Community Centres, Winnipeg Enterprises and the Friends of Elmwood Cemetery. The concern with guaranteeing a loan for an organization such as the Manitoba Opera Association is that the City would be setting a precedent allowing virtually any organization to come forward requesting the same consideration and thereby dramatically increasing the number of outstanding loan guarantees.

The following evaluates the business plan provided by the Manitoba Opera Association based on the City Policy and Criteria for Consideration of Requests for Loan Guarantees, adopted by Council on June 17, 1992.

A. *Requests for loan guarantees shall be submitted to the City Treasurer for review to determine if the request meets the requirements of the policy.*

The Corporate Finance Department was asked to analyze the business plan provided by the Manitoba Opera Association to determine the reasonableness of the plan. Subsequent to analyzing the data contained in the plan, staff from the Corporate Finance Department met with Mr. Bob Sochasky, Director of Finance and Administration for the Royal Winnipeg Ballet, to clarify any concerns arising from the analysis.

B. *The organization requesting the loan guarantee must provide a service which, in whole or in part, falls within the mandate of the City of Winnipeg.*

The Manitoba Opera Association does not provide a service which falls within the mandate of the City of Winnipeg. Past loan guarantees were provided where it was apparent that if the organization was no longer viable, the responsibility to provide the service would ultimately rest with the City.

C. *The project for which the loan guarantee is being requested must not be in conflict with City policy. For example, if City policy stated that we already had more than enough hockey arenas for our population, the City would not guarantee a loan for the purpose of constructing a hockey arena.*

The project is not in conflict with City policy.

D. *The organization's services must be available to the community at large without restrictions based upon ethnicity, religion or race and without unreasonably restrictive membership or user fees.*

There are no unreasonable restrictions on membership or user fees.

E. *The organization must be non-profit (as defined within the City of Winnipeg's Fees and Charges Policy).*

The Manitoba Opera Association is an organization with non-profit status.

F. *The organization must produce financial records and a business plan that demonstrates the organization's long-term viability and capacity to meet the obligations of the loan that they are asking the City to guarantee.*

The Manitoba Opera Association (MOA) is undertaking to establish a mentoring partnership with the Royal Winnipeg Ballet (RWB) in order to regain its financial viability. The idea is for the staff of the MOA to relocate to the offices of the RWB in order for them to work closely with RWB staff and gain experience in developing marketing and development plans. The MOA staff will then execute the plans with the assistance of the RWB staff. The general supervision of all MOA staff will fall under the Executive Director and Director of Finance and Administration for the RWB. In addition, the MOA will be hiring a full-time development (fund raising) person which they believe is essential to the success of the plan.

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The accumulated debt of the MOA as of June 30, 1998 was $216,977.00 net of Province of Manitoba deficit reduction assistance. It is projected the deficit will increase a further $335,510.00 by June 30, 1999, and peak on June 30, 2000 at $658,549.00. After this point in time, it is expected the benefits of the mentoring partnership will begin to be realized so that the deficit will drop to $396,459.00 by June 30, 2003.

After reviewing the financial information provided, staff of the Corporate Finance Department met with Mr. Bob Sochasky, Director of Finance and Administration for the Royal Winnipeg Ballet, to discuss details of the information. For the most part, staff were satisfied with the responses obtained to their questions. The biggest risk remaining relates to the ambitious fund raising activity that will be undertaken by the MOA over the next few years. For the period ending June 30, 1999, the MOA raised a total of $73,727.00 from donations. They are projecting this number to increase to $195,000.00 for the year ending June 30, 2000. In addition, they obtained a total of $31,834.00 in sponsorship money in 1999 and are projecting this to increase to $70,000.00 in 2000. Staff were assured by Mr. Sochasky that they took a conservative approach to producing the business plan numbers and that they were based on the RWB's experience in fund raising. Assumptions surrounding extra productions and box office receipts are deemed to be quite reasonable.

G. *The organization structure and the principles of the organization must be judged by the City of Winnipeg as competent to independently implement the business plan of the organization.*

The Manitoba Opera Association has formed a mentoring relationship with the Royal Winnipeg Ballet in an effort to restore it to a self-sustaining entity. The Royal Winnipeg Ballet has demonstrated the ability to implement such a business plan.

H. *Unless there are very special circumstances, the maximum amount of outstanding loan guarantees for any one organization will be $1,000,000.00*

The loan guarantee being requested is for a line of credit for a maximum of $500,000.00.

I. *The loan that the City is being asked to guarantee should not represent more than 50% of the total funding of the project. The organization requesting the loan guarantee must have raised at least 20% of the total project costs from non-City of Winnipeg sources as a down-payment, i.e. if the organization is receiving a City grant for their project, the grant cannot be counted as part of the 20% down-payment*.

Essentially, the loan request is to help the Manitoba Opera Association get through a difficult financial period after which it is expected to become financially self-sustaining. The request represents less than half of the organization's annual revenue. The City currently contributes $57,200.00 to the Manitoba Opera Association which represents approximately 8% of annual revenues for the organization.

J. *The loan that the City is guaranteeing must be related to a capital asset.*

The loan is an operating line of credit that is not related to a capital asset and as such there would be no security/collateral available should the organization not be able to fulfil its financial commitments.

K. *The capital asset must be insured to the satisfaction of the City Treasurer both during and after construction.*

This particular criteria is not relevant in this case.

The Manitoba Opera Association has joined with the Royal Winnipeg Ballet through a mentoring relationship in order to turn around their financial situation. They have developed a financial plan that appears to be reasonable but still entails some risks when considering the Manitoba Opera Association's historical fundraising activities. Assuming they are able to implement their plan, they stand to be in a much better financial situation four years hence after going through another year or so of financial difficulties. The purpose of their loan guarantee request is to see them through these difficult times.

As stated, the Corporate Finance Department has serious reservations about allowing an organization which is not part of the City's mandate and has no capital assets as collateral to obtain a loan guarantee from the City. The concern stems from the fact that this would open the door for virtually any organization to ask the City for the same consideration. The impact of this would further add to the City's potential liabilities and will be a factor in determining the City's credit rating.

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The Administration therefore recommends that City Council deny the request for a loan guarantee in the form of a line of credit for a maximum amount of $500,000.00 to the Manitoba Opera Association, due to non-compliance with a number of key criteria in the guidelines for considering requests for loan guarantees (i.e. mandate of the City, related to a capital asset).

Due to a tie vote, the Standing Committee on Fiscal Issues submits this matter to Council without recommendation.

The Executive Policy Committee recommends that Council approve a loan guarantee to The Manitoba Opera Association in the form of a line of credit for a maximum amount of $250,000.00, subject to the following:

A) Should Council approve the loan guarantee, and should the attempts for restructuring fail and the loan guarantee is called, the City will recover its costs as a first charge against the Amusement Tax Revenue for the following fiscal year, which would mean that the arts and culture grants for that fiscal year would be reduced accordingly; and further that the City's policy for Cultural Grants (C 302) regarding its guaranteed level of funding be amended accordingly.

Moved by Councillor Clement,
Adoption of the clause.

In amendment,

Moved by Councillor Gerbasi,
Seconded by Councillor Smith,

WHEREAS the Manitoba Opera Association has submitted an application for a loan guarantee in the form of a line of credit for a maximum amount of $250,000.00, and has developed a financial plan that is sensible and solid which will allow them to be in a much better financial situtation;

AND WHEREAS this is a unique circumstance not likely to occur again and involves a mentoring partnership with the very stable administrative support of the Royal Winnipeg Ballet;

AND WHEREAS it is unfair to potentially penalize other city art groups for another Art's organization financial circumstances;

THEREFORE BE IT RESOLVED THAT the recommendation of the Executive Policy Committee be amended by deleting the condition outlined therein;

AND FURTHER THAT the Proper Officers of the City be instructed to do all things necessary to implement same, including obtaining approval from the Minister of Finance in accordance with Section 313 of The City of Winnipeg Act.

In amendment,

Moved by Councillor Timm-Rudolph,
Seconded by His Worship Mayor Murray,

THAT the Executive Policy Committee Recommendation be amended by deleting condition A) and substituting the following:

"A) Should Council approve the loan guarantee, and should attempts for restructuring fail and the loan guarantee is called, the City will recover its costs over a period of five years, at a sum not to exceed $50,000.00 per year, which is approximately equivalent to the current operating grant being provided to the Manitoba Opera Association; said recovery being charged against the Amusement Tax Revenue for the following fiscal years; and further that the City's policy for Cultural Grants (C302) regarding its guaranteed level of funding be amended accordingly."

With the concurrence of the seconder, Councillor Smith, and with the permission of Council, Councillor Gerbasi withdrew her motion.

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The amendment proposed by Councillor Timm-Rudolph and His Worship Mayor Murray was put and declared carried.

The motion for the adoption of the clause, as amended, was put and declared carried.

Councillor Golden asked to be recorded as having voted against the clause, in accordance with Rule 50.7 of the Procedure By-law.