Agenda – Executive Policy Committee – December 16, 2009

REPORTS

Item No. 1 Loan Guarantee – Southdale Recreation Association Inc. Facility Expansion (St. Boniface Ward) eFile FC-2.2

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Council approve a loan guarantee for the Southdale Recreation Association Inc. for the expansion of the recreation centre in the amount of up to $3,200,000.

2. That the Chief Administrative Officer be delegated the authority to finalize the terms and conditions of the loan guarantee.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

ISSUE: Request for Loan Guarantee - Southdale Recreation Association Inc. facility expansion

Critical Path: Executive Policy Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
B. Adams, Superintendent of Treasury R. Provencher, Manager of Financial Services	J. Ferrier, City Treasurer	M. Ruta	G. Laubenstein

RECOMMENDATIONS

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2. That the Chief Administrative Officer be delegated the authority to finalize the terms and conditions of the loan guarantee.

3. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

IMPLICATIONS OF THE RECOMMENDATIONS

When the City guarantees a loan, it must disclose this potential liability in the Financial Statements. If the organization is in default of the loan agreement, the City would be obligated to make payments on the loan.

Due to growing population in South Winnipeg, including the new developments of Sage Creek and Royalwood, and growing demand on their facilities, the Southdale Recreation Association (SRA) has proposed construction of a new arena, a new pleasure skating rink, and change rooms to complement their existing facility. This is phase 1 of a proposed 3-phase project. Future phases include the construction of a gymnasium, a day care facility, and a field house/multi purpose fitness facility. Phase 1 of the project is estimated to cost $8,351,192 inclusive of taxes, broken down as follows:

Architectural/Engineering Fees	$ 594,300
Construction costs	7,756,892
Total	$8,351,192

A breakdown of the sources of funding follows:

Federal Government	$2,000,000
Provincial Government	2,000,000
Southdale Recreation Association	4,051,192
City of Winnipeg	300,000
Total	$8,351,192

The Federal and Provincial Governments have approved funding of up to $2,000,000 each under the Canada-Manitoba Infrastructure Stimulus Fund Agreement.

The Southdale Recreation Association is contributing $225,000 in cash held for this purpose, $196,667 from the anticipated GST rebate on the project, and the remainder will be sourced through a loan and fundraising. A $3,200,000 revolving line of credit will be required to finance the project and this portion is the subject of the loan guarantee request to the City of Winnipeg.

The Public Service understands that the Area Councillor will be contributing $300,000 subject to approval, over a two year period, as follows: $200,000 from the Community Incentive Grant Program and/or the Land Dedication Reserve, as well as $100,000 from the Community Park Amenities Capital Program.

The Federal and Provincial funds are provided via progress payments during the construction phase. Each claim period covers one quarter of a fiscal year and SRA must submit their claim within two weeks of the quarter end. SRA requires a loan guarantee to facilitate construction and completion of the project.

Currently the project has not been tendered and the business plan contains Class D estimates of construction costs from one contractor. Technical drawings will be required to obtain firmer construction cost estimates. SRA would like to receive a loan guarantee commitment from the City prior to expending funds on the project for technical drawings.

The contribution agreement between the Province and SRA has several conditions that must be met to qualify for funding, otherwise the funds might have to be returned to the Province. The most significant factor is the project must be started by March 31, 2010 and substantially completed by March 31, 2011.

Letters from numerous sports groups, a local high school, as well as individuals have been received by the City to demonstrate support for the arena project.

The following is the policy and criteria related to requests for loan guarantees as adopted by Council on June 17th, 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 City has received a business plan, financial and other information from the SRA to construct a new arena, pleasure skating rink and change rooms to complement their existing facility.

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.*

SRA is a multi purpose recreation centre which operates an indoor arena, banquet hall, multi-purpose room and full service canteen.

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 request for this loan guarantee is not in conflict with the City of Winnipeg's Recreation, Leisure and Libraries Facilities Policy (RLLFP). The indoor arena ratio in the policy is 1 sheet of ice for every 15,000 to 20,000 population base. Currently, there is approximately 1 sheet of ice for every 17,000 people. With the addition of a second arena at SRA, this ratio would be 1 sheet of ice for every 16,575, which is within policy guidelines.

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.*

The services are available to the community at large, without restrictive membership policies or user fees.

E. *The organization must be non-profit.*

SRA is a non-profit organization.

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.*

Financial information from SRA shows losses in 2009 of $21,942 and 2008 of $1,844. In discussions with SRA the 2009 loss was due to significant repairs to the arena ice plant. In 2007 and 2006 SRA shows a profit of $26,003 and $23,617 respectively. For 2006 to 2009, SRA shows a profit if the non-cash item of amortization is removed from the income statement. The revenue projections provided by SRA demonstrate their ability to service the loan. SRA has committed that corporate sponsorship revenue related to the project will be applied to the outstanding loan balance. Any additional fundraising will enhance their ability to service the loan.

SRA has set aside $225,000 to contribute to this project.

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

SRA has been in existence for over 35 years. Over the years, each new Executive with the assistance of the community has worked very hard to ensure the long term viability of the recreation centre.

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 is for an amount of up to $3,200,000. As the SRA has secured a commitment from the Federal and Provincial governments for funding totaling $4,000,000 towards expansion of this city-owned facility, this loan guarantee request is being brought forward for consideration by Council.

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.*

The loan guarantee amount is $3,200,000 and represents 38.3% of the estimated project cost. The business plan indicates that the SRA will receive funding from the Federal and Provincial governments under the Infrastructure Stimulus Fund of $4,000,000 on a combined basis, representing 47.9% of the estimated project cost and verified by supporting documentation. SRA is contributing $225,000 towards the project as an initial cash contribution and $196,667 from the GST rebate, and will pay for the balance through a loan financed from operations and fund raising activities, representing 48.5% of the project.

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

The project is related to a city owned capital asset. When the project is complete, the City will have an additional indoor ice hockey arena, pleasure skating rink and updated change rooms to complement their existing facility.

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

The facilities operated by SRA are owned by the City and are currently insured by the City.

HISTORY

Section 218(1) of The City of Winnipeg Charter allows Council to provide financial assistance "(b) to aid sports and recreation". Section 218(2) outlines the form of financial assistance Council may provide, one form being a loan guarantee.

The City adopted a Policy and Criteria to be used as a Guideline in the Consideration of Request for Loan Guarantees on June 17th, 1992. Loan guarantees constitute meaningful commitments by the City and 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 at December 31st, 2008, the City of Winnipeg was the guarantor of 14 different loans totaling just over $7.3 million.

FINANCIAL IMPACT

Financial Impact Statement

Date: December 10, 2009

Project Name: Loan Guarantee Request from Southdale Recreation Association Inc.

	2009	2010	2011	2012	2013
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: There is no financial impact to the City in the granting of a loan guarantee unless there is a default in the payment of the loan.

original signed by R. Abeysekera

R. Abeysekera, Manager of Finance and Administration

CONSULTATION

In preparing this Report there was consultation with:

Legal Services
Community Services
Planning, Property and Development

SUBMITTED BY

Department: Corporate Finance
Division: City Treasurer's Division
Prepared by: Bob Adams, Superintendent of Treasury
Date: December 11, 2009
File No.