Agenda - Executive Policy Committee - June 23, 2010

REPORTS

Item No. 2 CentreVenture Development Corporation - Additional Loan Guarantee
eFile FC-2.2

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That an additional loan guarantee of $8.5 million to CentreVenture Development Corporation be approved to increase the Corporation's line of credit from $4.5 million to $13 million.

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, including the completion of any and all ancillary agreements as deemed necessary.

ADMINISTRATIVE REPORT

Issue: **Request for Loan Guarantee – CentreVenture Development Corporation**

Critical Path: **Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
R. Provencher Manager of Financial Services	J. Ferrier City Treasurer	M. Ruta Chief Financial Officer	Phil Sheegl, Deputy CAO

RECOMMENDATIONS

1. That an additional loan guarantee of $8.5 million to CentreVenture Development Corporation be approved to increase the Corporation's line of credit from $4.5 million to $13 million.

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, including the completion of any and all ancillary agreements as deemed necessary.

REASON FOR THE REPORT

CentreVenture requires an increased line of credit to enable financing of new development initiatives in the downtown. Only Council can approve requests for loan guarantees.

IMPLICATIONS OF THE RECOMMENDATIONS

The City has provided cash grants and property at nominal cost to CentreVenture for the purpose of supporting development in the Downtown.

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.

In this specific situation, CentreVenture represents a consolidated entity in the City's financial statements so any outstanding debt reflects on consolidation in the City's financial statements.

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 received a request from CentreVenture Development Corporation in 2008 for a loan guarantee of $10 million for a line of credit, supported by a business plan, financial and other information. On April 23, 2008, Council approved a loan guarantee for a line of credit in an amount of $4.5 million and directed the Winnipeg Public Service to review the business plan at the end of 2008 and consider further increases to the amount of the loan guarantee. According to CentreVenture's financial statements as at December 31, 2009, the line of credit had a balance owing of $214,432. Due to increased activity since that time, CentreVenture advises that the current balance owing is $1.7 million. CentreVenture has recently requested an increase in their loan guarantee, which is currently $4.5 million to continue with their plan for the downtown. This is in addition to the $20 million loan guarantee approved by Council on April 28th, 2010 with respect to the Downtown Residential Development Grant Program, in which CentreVenture will be the borrowing agent for the City to finance the payments under this new program. CentreVenture has provided further financial information to support this request. CentreVenture has advised that additional financing will be required in the next two years as follows: $4.9 million in 2010 and a further $6.7 million in 2011. These amounts include bridge financing for the Downtown Residential Development Grant Program estimated at $2.7 million in 2010 and $4.7 million in 2011. The projected balance owing on the line of credit at the end of 2011 has been estimated by CentreVenture to be approximately $13 million, if projected projects come to fruition.

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.*

CentreVenture's goal is to promote and foster economic, residential and cultural growth and development in the downtown district of the City of Winnipeg.

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 projects for which the loan guarantee is required do not 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.*

The services CentreVenture supplies are available to the community at large.

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

CentreVenture is a non-profit organization incorporated without share capital under the laws of Manitoba on July 9, 1999.

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.*

CentreVenture's financial statements have been included with the City's Detailed Financial Statements since 2003 and, therefore, are readily available for review. CentreVenture provided the City with a business plan for the years 2008 through to 2010, with updated information, including projections to 2012. The Public Service met with CentreVenture senior staff to clarify any questions or concerns identified through the review of the documentation.

For the year ended 2009, CentreVenture's financial statements indicate a deficiency of revenue over expenditures of $32,250 in the General Fund and $960,866 in the Urban Development Bank for a total deficiency of $993,116. For the year ended 2008, the financial statements show an excess of revenue over expenditures of $94,737 in the General Fund and $312,841 in the Urban Development Bank for a total excess of $407,578. CentreVenture has provided projections for the General Fund for 2010 to 2012 which indicate deficiencies as follows: 2010 - $60,000; 2011 - $341,000; and 2012 - $171,000. CentreVenture advises that forecasts for the Urban Development Bank will vary depending upon the opportunities that present themselves in the future. The projected annual deficiency including both the General Fund and the Urban Development Bank follows: 2010 - $1.5 million, 2011 - $1 million, and 2012 - $0.3 million. CentreVenture will address long term sustainability in their next business plan, which is anticipated to be available in the Fall of 2010.

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.*

CentreVenture has demonstrated the ability to implement its business plan as endorsed by Council.

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 request is for an additional $8.5 million to increase the line of credit from $4.5 million to $13 million.

Council has granted loan guarantees in excess of this maximum amount in the past. This loan guarantee request is in addition to the $20 million loan guarantee approved by Council on April 28, 2010 related to the Downtown Residential Development Grant Program in which CentreVenture will be the borrowing agent for the City to finance the payments under this new program.

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 amount of the loan guarantee being requested for the line of credit is an additional $8.5 million, from $4.5 million to $13 million. As noted above, this loan guarantee request is in addition to the $20 million loan guarantee approved by Council on April 28, 2010 related to the Downtown Residential Development Grant, in which CentreVenture will be the borrowing agent for the City to finance the payments under this new program. CentreVenture's 2009 financial statements indicate total assets of $12.7 million, however, CentreVenture's projections indicate assets will increase over the next two years.

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

The line of credit the City is guaranteeing is for the economic development of downtown properties.

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

CentreVenture is responsible for ensuring adequate insurance is in place for their portfolio of properties.

HISTORY

CentreVenture Development Corporation was created in May, 1999 by Council to promote and foster economic, residential and cultural growth and development in the downtown district of the City of Winnipeg. CentreVenture's success over the years has been achieved through the ability to seize and act on opportunities as they arise.

Section 218(1) of The City of Winnipeg Charter allows Council to provide financial assistance "(c) to support economic and cultural development;" 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, 2009, the City of Winnipeg was the guarantor of 15 different loans totaling just over $6.3 million, inclusive of Winnipeg Enterprises Corporation and Winnipeg Housing Rehabilitation Corporation, and CentreVenture Development Corporation.

FINANCIAL IMPACT

Financial Impact Statement

Date: June 21, 2010

Project Name: Request for Loan Guarantee - CentreVenture Development Corporation

	2010	2011	2012	2013	2014
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. CentreVenture's debt forms part of the City's consolidated debt in the financial statements.

original signed by R. Abeysekera

R. Abeysekera, Campus Controller

CONSULTATION

In preparing this Report there was consultation with:

Legal Services Department

SUBMITTED BY

Department: Corporate Finance
Division: City Treasurer's Division
Prepared by: Rob Provencher, Manager of Financial Services
Date: June 21, 2010