Agenda - Council – July 20, 2011

Report - Executive Policy Committee – July 13, 2011

Item No. 6 Southdale Recreation Centre Expansion Project – Loan Guarantee

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 13, 2011, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submits the following to Council:

1. That an additional loan guarantee be approved for the Southdale Recreation Association Inc. for the completion of the recreation centre expansion in the amount of up to $540,000, subject to:

    A. A commitment for additional funding of $600,000 from the Province of Manitoba for this project; and

    B. An undertaking of the Board of the Southdale Recreation Association Inc. to do all things necessary to raise sufficient funds to make the principal and interest payments on all loans guaranteed by the City, and to ensure that all fund-raising proceeds and anticipated GST rebate(s) be applied to the outstanding balance of the loan(s) guaranteed by the City.

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.

Report - Executive Policy Committee – July 13, 2011

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 13, 2011, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

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
J. Ferrier, City Treasurer	J. Ferrier, City Treasurer	M. Ruta Deputy CAO/CFO	Phil Sheegl CAO

RECOMMENDATIONS

1. That Council approve an additional loan guarantee for the Southdale Recreation Association Inc. for the completion of the recreation centre expansion in the amount of up to $540,000, subject to:

   a) A commitment for additional funding of $600,000 from the Province of Manitoba for this project; and

   b) An undertaking of the Board of the Southdale Recreation Association Inc. to do all things necessary to raise sufficient funds to make the principal and interest payments on all loans guaranteed by the City, and to ensure that all fund-raising proceeds and anticipated GST rebate(s) be applied to the outstanding balance of the loan(s) guaranteed by the City.

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.

Southdale Recreation Association (SRA) has undertaken an expansion to the recreation centre, which included the construction of a new arena, a new pleasure skating rink, and change rooms to complement their existing facility.

Phase 1 of the project was 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

Funding for this project was planned as follows:

Canada-Manitoba Infrastructure Stimulus Fund Agreement:	
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

SRA was to contribute $225,000 in cash, $196,667 from the anticipated GST rebate and the remainder was to be sourced through a loan and fundraising. The City of Winnipeg approved a loan guarantee for up to $3,200,000 in December 2009 for this expansion. At that time, the SRA business plan included Class D construction cost estimates. SRA had requested a loan guarantee commitment from the City prior to expending funds for technical drawings.

As the project is nearing completion, the actual project costs are now estimated to be $9,400,289, broken down as follows:

Architectural/Engineering Fees	$ 604,430
Construction costs	8,795,859
Total	$9,400,289

The increase in construction costs has produced a project shortfall. SRA is requesting an additional loan guarantee in an amount of up to $540,000.

A revised funding plan for this project has been proposed as follows:

Canada-Manitoba Infrastructure Stimulus Fund Agreement:	
Federal Government	$2,000,000
Provincial Government	2,000,000
Southdale Recreation Association	4,000,289
Building Communities	100,000
Province of Manitoba	600,000
City of Winnipeg	700,000
Total	$9,400,289

SRA is to contribute $225,000 in cash, $221,268 from the anticipated GST rebate and the remainder of their contribution is to be sourced through loans as well as fundraising.

Since the first loan guarantee was approved, an additional contribution from the City of Winnipeg of $400,000 was provided by the Mayor's Office, and additional funds were provided from the Building Communities Initiative in an amount of $100,000. It is also anticipated that the Province of Manitoba will be providing a further grant of $600,000. These amounts are included in the revised funding plan above.

The City of Winnipeg has been requested to approve an additional loan guarantee of up to $540,000 to complete the expansion. The additional loan guarantee is required due to increased construction costs as well as cash flow shortages due to timing, primarily due to the GST rebate approximating $221,268, which has not yet been received and $330,000 in committed donations over a multi-year period. The SRA Board will be requested to provide assurance that these funds (GST rebate and $330,000 in fundraising commitments) will be used to first repay all City loan guarantees.

A request has been made to the Canada-Manitoba Infrastructure Stimulus Fund to release a $400,000 holdback to SRA by July 13th, 2011. July 13th, 2011 is an upcoming payment due date that SRA has to meet to pay for construction costs.

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 updated project costs and pro forma financial statements from SRA outlining their current condition and future state.

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.*

Revised financial information from SRA shows that their ability to service the debt associated with this capital expansion is dependent upon receiving additional funding from the Province of Manitoba in the amount of $600,000, a successful capital fundraising campaign, the release of the holdback by July 13th, 2011, and the additional loan guarantee by the City of Winnipeg. Their ability to service their debt is also dependent upon successful operations, particularly related to ice rentals and managing expenditures as outlined in their pro forma income statements. SRA may also be required to impose capital charges on users.

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 additional loan guarantee is for an amount of up to $540,000. The total loan guarantee for this project would now be up to $3,740,000.

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 total loan guarantee amount would now be up to $3,740,000 or 40% of the $9.4 million construction project. SRA will receive funding from the Federal and Provincial governments under the Infrastructure Stimulus Fund of $4 million on a combined basis, representing 43% of the estimated project cost. A request for additional funding from the Province of Manitoba has also been made in an amount of $600,000. SRA is contributing $225,000 towards the project as an initial cash contribution and $221,268 from the GST rebate and will pay for the balance through a loan financed from operations and fund raising activities, representing a total of $4,000,289 or 43% 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, 2010, the City of Winnipeg was the guarantor of several loans totaling $5.4 million.

FINANCIAL IMPACT

Financial Impact Statement

Date: June 30, 2011

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

	2011	2012	2013	2014	2015
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:

Community Services
Legal Services

SUBMITTED BY

Department: Corporate Finance
Division: City Treasurer's Division
Prepared by: Jo-Anne Ferrier, City Treasurer
Date: June 30, 2011
File No.