Agenda – Council – October 19, 2011

Report – Executive Policy Committee – October 12, 2011

Item No. 4 Fort Rouge Yards Brownfield Development Project – Loan Guarantee (Fort Rouge-East Fort Garry Ward)

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On October 12, 2011, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submits the following to Council:

1. That a loan guarantee for Gem Equities Inc. for the development of the Fort Rouge Yards be approved in the amount of up to $10,000,000 subject to:

    A. Completion of due diligence of the project proposal to the satisfaction of the Chief Financial Officer;
    B. The developer providing evidence of adequate insurance for the redevelopment project;
    C. A signed letter of commitment between the Federation of Canadian Municipalities and Gem Equities Inc. acceptable to the City; and
    D. Completion of a development agreement and a strategic economic agreement satisfactory to the City.

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

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 – October 12, 2011

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On October 12, 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 – Fort Rouge Yards - Gem Equities Inc.

Critical Path: Executive Policy Committee - Council

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Ferrier R. Provencher	M. Ruta	M. Ruta	D. Joshi, COO

RECOMMENDATIONS

1. That Council approve a loan guarantee for Gem Equities Inc. (Gem) for the development of the Fort Rouge Yards in the amount of up to $10,000,000 subject to:
    a. Completion of due diligence of the project proposal to the satisfaction of the Chief Financial Officer;
    b. The developer providing evidence of adequate insurance for the redevelopment project;
    c. A signed letter of commitment between the Federation of Canadian Municipalities (FCM) and Gem acceptable to the City; and
    d. Completion of a development agreement and a strategic economic agreement satisfactory to the City.

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

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

REASON FOR THE REPORT

Council approval is required for loan guarantees.

IMPLICATIONS OF THE RECOMMENDATIONS

- A discussion paper prepared by FCM proposing mortgage financing through their Green Municipal Fund to Gem for the development of the Fort Rouge Yards indicates that a loan guarantee from the City is required. The loan guarantee is for $10 million of the total $14,747,688 mortgage financing offered by FCM to Gem.

- Along with FCM grants to Gem of up to $1 million, the FCM mortgage financing will provide for completion of infrastructure development, including a rapid transit station (Jubilee Station) at the Fort Rouge Yards as part of a multi-family housing development initiative. Once fully developed, the Fort Rouge Yards will offer 452 energy efficient townhomes and 448 mid-rise condominium units. The development will involve brownfield remediation, geothermal energy operating systems, a pedestrian link to the City's new rapid transit corridor and a source of new revenue to the City. Based on a high-level estimate, when all development is complete on lots 1 to 6 annual incremental municipal taxes will be approximately $767,000 using an April 1, 2008 tax reference date.

- Loan guarantee criteria adopted by Council requires the guaranteed party to be not for profit. Variation from adopted policy requires Council approval. There are risks associated with loan guarantees set out in more detail below.

DISCUSSION

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 (Appendix A). This policy was written on the basis of non-profit community based activities. As a result the guarantee contemplated in the recommendation above does not comply with the loan guarantee policy. However, Section 218(1) of The City of Winnipeg Charter allows Council to provide financial assistance "(d) to improve, preserve, repair, maintain, convert or develop any property in the city". Section 218(2) outlines the form of financial assistance Council may provide, including a loan guarantee. The Public Service has undertaken to review the loan guarantee policy and bring forward amendments for consideration at some future time.

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 considerations in determining the City's potential liabilities, and are a factor in determining the City's credit rating. If an organization is in default of a loan agreement the City would be obligated to make payments on the loan and record it as a liability. At December 31st, 2010, the City of Winnipeg included in the notes to its consolidated financial statements loan guarantees totaling $5.4 million.

Project Proposal:
Gem Equities Inc. has proposed a 15.9 acre brownfield redevelopment of the Fort Rouge Yards to provide "green" multiple family dwellings using geothermal power and linking to the rapid transit corridor. The site has been successfully rezoned to allow for the development of 900 residential units. The developer will be subdividing the site into six lots that will provide for approximately 452 unit townhomes (condominium home ownership and rental) and two mid-rise towers offering 448 residences. Residential development will occur first on lots 3 to 6 while lots 1 and 2 of approximately 500 residences will be reserved for future development.

Location:
The subject property is well located in the south quadrant of the City of Winnipeg in the residential area of Fort Rouge. Located in close proximity to downtown, the property is bounded on the east and south by the Lord Roberts residential neighbourhood, to the north by the City of Winnipeg rapid transit corridor and to the west by a soccer pitch and park area. The development will take place along the transit corridor.

Partnership with the Federation of Canadian Municipalities (FCM):

Through 2 grants totaling $1,000,000 and 3 loans totaling $14,747,688, FCM's discussion paper provides financing to Gem Equities Inc. to help offset developer costs associated with brownfield redevelopment, energy efficiency through geothermal power and linkage to urban rapid transit as well as public roads, street lights, sidewalks, bike paths and sewer and water infrastructure as follows:

FCM Grants to Gem Equities Inc.

Purpose	Amount
1. Transportation Grant	$500,000
2. Energy Grant	500,000
TOTAL	$1,000,000

FCM Loans to Gem Equities Inc.

Purpose	Amount
1. Brownfield redevelopment of the site for residential development	$4,747,688
2. Energy efficiency through geothermal power, which is a cost effective, reliable, sustainable, and environmentally friendly energy source	5,000,000
3. Linkage of the site to Winnipeg's rapid transit corridor, where the developer has committed to build the City of Winnipeg's transit station. This station will be heated and cooled through the central geothermal energy system, which will also service the residential units.	5,000,000
TOTAL	$14,747,688

Development of Condominium and Rental Buildings:

The brownfield redevelopment and transportation and energy construction are in support of the multi-family buildings to be constructed on the six lots. The units to be constructed under this plan are on lots three to six (towers and townhomes on lots one and two will be the subject of a subsequent phase).

The estimated cost of the structures on lots three to six is $79,474,296, broken down as follows:

Lot 3 Condominium Building - $ 9,025,720
Lot 4 Rental Building - $23,423,144
Lot 5 Rental Building - $31,678,808
Lot 6 Condominium Building - $15,346,624

Funding for this project is planned as follows:

Construction Loan - $59,605,722
Equity - $19,868,574
Total $79,474,296

FCM loans

Generally the terms of the FCM loans will be as follows:

- It is expected that the loans will be repaid within 10 years of their initial advance and therefore the loan guarantee will be outstanding over this period of time.
- The loans will be advanced on the basis of 80% of eligible costs being incurred and paid. The loans relate to site servicing to ready the property for construction including infrastructure and a transit station in support of the City's rapid transit corridor. It is understood that Gem would obtain interim financing to complete the infrastructure before FCM advances on its loans.
- The loans will be secured by a second mortgage on the property and a personal guarantee of the developer.
- It is our understanding that interest rates on the loans are favourable and below rates that Gem would otherwise be able to secure in the private marketplace.
- A debt service reserve account will be created with funding by Gem of at least six months of interest expenses which will reduce to a three month level after amortization of loans commence on completion of development on lots 4 and 5.

Request for Loan Guarantee from the City of Winnipeg:

FCM requires that the loans relating to Energy ($5,000,000) and Transportation ($5,000,000), totaling $10,000,000 be guaranteed by the City of Winnipeg. In the event of default, FCM would call on repayment of their loan up to $10 million of the City guarantee first before exercising any other security options. If this occurred, the City would subrogate and assume the FCM security position. Some risks associated with this transaction include:

- Default after completion of infrastructure construction on site resulting in no further development. In this case, the Planning, Property and Development Department believe that the serviced site will be much more valuable after such development and therefore saleable to other developers.
- Default after first mortgage lender advance during construction of condo and rental units. In this circumstance the City would have the option of paying out the first mortgage position or wait for repayment of its guarantee from proceeds of disposal if they exceed the first mortgage positions.

The City does not have internal resources to administer complex commercial credits of this nature. As a result the City engaged a financial institution to assist in evaluating the proposal with respect to the credit decision. The risks related to this decision are set out above. In addition, the City consulted with Edmonton and Calgary and found that neither jurisdiction permits loan guarantees to private enterprises at this time. The Planning Property and Development Department has reviewed the business plan prepared by Gem and believes that it is achievable based on current conditions. Further, FCM is conducting a due diligence review in support of its loan to Gem.

When complete the development will provide a positive economic impact. On the basis of a high-level approximation, municipal taxes are estimated to be $767,000 using an April 1, 2008 tax reference date. The transit station with an approximate construction value of $3 million will be provided to the City at no cost together with improvements to infrastructure including active transportation paths. It is our understanding that this is one of the first loan agreements with a private developer considered by FCM.

Gem has obtained conditional loan proposals (term sheets) from a potential first mortgage lender for lots 3 to 6. These loan proposals are non-binding but indicate intent of the lenders to proceed to completion of committed financing conditional on pre-sales of condominium units, appraisals,

environmental assessments, etc. As part of the due diligence process recommended in recommendation 1, the CFO will examine future commitment letters for compliance.

FINANCIAL IMPACT

Financial Impact Statement — Date: September 30, 2011

Project Name: Loan Guarantee Request - Gem Equities 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 F. Dela Cruz for R. Abeysekera)

Radhika Abeysekera
Manager of Finance - Campus Departments
Corporate Finance Department

CONSULTATION

In preparing this Report there was consultation with:

Federation of Canadian Municipalities (FCM)
Planning, Property and Development
Assessment and Taxation
Legal Services

SUBMITTED BY

Department: Corporate Finance
Division:
Prepared by: J. Ferrier/R. Provencher/P. Olafson
Date: October 7, 2011
File No.

Appendix A – Standard City of Winnipeg
Loan Guarantee Policy and Criteria

The City of Winnipeg has issued loan guarantees to support capital improvements being made by third party organizations to City assets. Community centres are a typical example. 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 considerations in determining the City's potential liabilities, and are a factor in determining the City's credit rating. If an organization is in default of a loan agreement the City would be obligated to make payments on the loan. As at December 31st, 2010, the City of Winnipeg was the guarantor of several loans totaling $5.4 million.

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.

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.

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.

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.

E. The organization must be non-profit.

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.

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.

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

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.

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

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