Agenda – Executive Policy Committee – November 30, 2011

REPORTS

Item No. 2 Request for Loan Guarantee - Assiniboine Park Conservancy Inc. – Journey to Churchill project

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Council approve a loan guarantee for the Assiniboine Park Conservancy Inc. (APC) for the Journey to Churchill project in the amount of up to $17 million, with repayment of the loan to occur by December 31, 2016;

2. That in the event of a default on the loan guaranteed by the City, any payments required by the City to remedy the default be deducted from the City's capital commitment to APC's capital development plan;

3. That APC's capital budget request be referred to the 2012 capital budget process;

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

5. 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 - Assiniboine Park Conservancy Inc. - Journey to Churchill project**

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

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Ferrier, City Treasurer	J. Ferrier, City Treasurer	M. Ruta CFO	Deepak Joshi COO

RECOMMENDATIONS

1. That Council approve a loan guarantee for the Assiniboine Park Conservancy Inc. (APC) for the Journey to Churchill project in the amount of up to $17 million, with repayment of the loan to occur by December 31, 2016;

2. That in the event of a default on the loan guaranteed by the City, any payments required by the City to remedy the default be deducted from the City's capital commitment to APC's capital development plan;

3. That APC's capital budget request be referred to the 2012 capital budget process;

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

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

REASON FOR REPORT

The Province of Manitoba has advised APC that it is not able to provide advance funding to complete the Journey to Churchill project beyond its original commitment. To ensure completion of the project, Council approval of a loan guarantee is required.

IMPLICATIONS OF THE RECOMMENDATIONS

If the loan guarantee is not approved, completion of the Journey to Churchill project would be in jeopardy. The City would be obligated to make payments on the loan in the event of default. As APC's financial statements will likely be consolidated into the City's financial statements, any debt of this

organization will be consolidated into the City's debt position. The impact of this debt falls within the debt limits approved by Council.

APC is undertaking The Journey to Churchill project made up of several components:

1. The Gateway to the Arctic Building, the Polar Bear Animal Holding and Filtration System Building, together with the pools connecting the two buildings;
2. The Wapusk Lowlands, Sea Ice Passage and the Churchill Shore;
3. Major exterior exhibits for seals, muskox, caribou, Arctic fox, tundra swans and snowy owls;
4. Northern Exhibits Interpretation;
5. Tundra Grill and Play Area;
6. Prairie and Boreal Forest exhibits;
7. Various washroom facilities, pathways, lighting; and
8. A new Main Entry on the South Gate and surface parking lots.

With the exception of the Gateway to the Arctic Building and the Polar Bear Animal Holding and Filtration System Building, all other components of the project, including the pools connecting these two will be City-owned assets. The Gateway to the Arctic Building and the Polar Bear Animal Holding and Filtration System Building will be provincially owned and funded buildings.

The Journey to Churchill project budget, based on Class C estimates and excluding the International Polar Bear Conservation Centre ("IPBCC") project costs are estimated to be $73.6 million, comprised of the following (in millions of dollars):

Project Cost Estimates

Provincially Owned Buildings:	
Gateway to the Arctic Building, the Polar Bear Animal Holding and Filtration System Building	$26.5
City Owned Exhibitry, Interpretation and Infrastructure:	
Wapusk Lowlands, Sea Ice Passage and the Churchill Shore	12.1
Interpretative	7.4
Zoo Site Work and Utility Upgrades	6.0
KDC Barn and Animal Relocations, Demolition, Pathways, Lighting, Washrooms, etc.	1.8
Tundra Grill and Play Area	6.3
Prairie and Boreal Forest exhibits	7.5
New Main Entry (South Gate)	6.0
Total	$73.6

Project costs are based on Class C and D estimates, dependent on the component of the project. Class C estimates generally have an accuracy range of -15% to +25%. Class D estimates generally have an accuracy range of -25% to +75%. APC advises that cost estimates are conservative, that is, that they feel costs should not exceed the above noted estimates. Cost estimates also include a 10% contingency provision.

Financing of the project is planned as follows (in millions of dollars):

Funded By

Province of Manitoba	$26.5
City of Winnipeg Major Capital Grants (2012 to 2014)	16.7
Private gifts/fundraising	30.4
Total	$73.6

APC has requested capital funding of $34.7 million for their capital development plan for the period 2012 to 2017, of which $16.7 million is for the Journey to Churchill Project. The amount of $34.7 million excludes capital funding of $5.123 million each year for upgrades of existing buildings and other park infrastructure. This request exceeds the amount of funding included in the City's capital forecast for APC's capital development plan as follows:

Assiniboine Park Conservancy - Capital Development Plan							
in millions of dollars	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
APC Request:							
Journey to Churchill project	8.767	6.874	1.059				16.700
Other		0.462	1.575	3.740	6.929	5.268	17.974
Total APC Request	8.767	7.336	2.634	3.740	6.929	5.268	34.674
City of Winnipeg capital forecast	4.500	4.500	4.500	4.500	4.500	4.500	27.000
Shortfall/(Surplus)	4.267	2.836	(1.866)	(0.760)	2.429	0.768	7.674

This capital budget request should be referred to the City's 2012 capital budget process. APC advises that this funding request represents the City's 25% contribution commitment to the capital development plan. The provisions in the agreement (sub-section 3.01(b)) with APC with respect to the City's contribution to their capital development plan follows:

> "*APC acknowledges that the City's commitment to Development Plan improvements is subject to a maximum contribution by the City of 25% of the capital costs outlined in the Development Plan for Assiniboine Park. APC is required to obtain matching funds from private sector donations and senior government contributions. In that regard, APC shall annually track cumulative contributions towards capital costs, from all sources, beginning in 2010. In the event that such calculation shows that the City's contribution exceeds 25% of the total capital contributions to the date of such calculation from all sources, APC is, within the following three years, required to obtain sufficient contributions from sources other than the City such that the City's proportionate share of the resulting aggregate funding contributions for capital costs does not exceed 25%.*"

This section of the agreement will be considered during the 2012 capital budget process.

The $30.4 million in fundraising noted above is at various stages as follows (in millions of dollars):

Private gifts received in 2011 and not applied to other projects	$ 2.6
Private gifts pledged and to be received from 2012 to 2019 (pledged or verbally committed)	11.1
Anticipated based on donor discussions	6.5
Fundraising targets - donors to be identified	10.2
Total	$30.4

If gifts were less than estimated, APC advises that they would put the Prairie and Boreal Forest exhibits on hold.

If costs were to exceed plan as previously discussed due to the Class C and D estimate status, it is assumed that fundraising targets would have to be increased by this amount, in the absence of other funding. Fundraising requirements at these levels would place more risk into the financing plan of the project. Alternatively components of the project could be put on hold as noted above.

To complete the Journey to Churchill project and open it to the public no later than the spring of 2014 requires that APC tender and award construction contracts of approximately $10 million for the demolition and relocation of existing facilities for site preparation and the Tundra Grill. These contract awards must be made now in order to complete these components of the project in 2012.

The City of Winnipeg has been requested to approve a loan guarantee of up to $17 million for APC for this project as bridge financing with funds to be advanced by APC's financial institution commencing in 2011. The credit facility would revolve during construction with interest only due and payable monthly. Post construction the credit facility would become non-revolving and principal payments would commence. APC has advised that the loan guarantee will not be used to prefund any Provincial commitments to the Journey to Churchill project. Based on anticipated fund raising efforts, the business plan indicates that repayment of the loan should occur by 2016.

APC has also included in their proposal a request with respect to The Asian Complex, which is the second major Phase of the Zoo Redevelopment. This project is at the conceptual drawing stage, with project costs initially estimated at $11.8 million. Consideration of this request is not included in this report and has been deferred to a later date.

Debt Strategy Impact

On June 22, 2011, Council adopted a debt strategy for tax supported, utilities and total City debt. As APC's financial statements will likely be consolidated into the City's financial statements, any debt of this organization will be consolidated into the City's debt position. The impact of this debt falls within the debt limits established in the Council report as outlined in the table below:

Debt Ratio Limit: Total City net debt as a percentage of revenue	85%
Forecasted peak rate including proposed debt from this report	81.2%
Debt Servicing Ratio Limit: Total City debt servicing as a percent of revenue	11%
Forecasted peak rate including proposed debt from this report	9.0%

Loan Guarantee Policy - Criteria

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 project cost estimates, funding plans, cash flow estimates, interim financial statements, and fundraising information from APC to support their request for a loan guarantee.

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 services provided by APC related to the management of Assiniboine Park were previously provided by the City of Winnipeg, therefore, the service 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.*

The project for which the loan guarantee is being requested is not in conflict with the services the City of Winnipeg provides.

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.*

APC is a not-for-profit organization, which operates under a Management Agreement with the City of Winnipeg with a mandate to lead, manage, fund-raise, restore and develop the overall Park and its amenities.

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.*

APC has provided a business plan and financial records to support the request for a loan guarantee. As APC commenced operations fairly recently, operating financial records are limited. Loan repayment is to occur from capital contributions from private gifts.

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.*

On January 23, 2008, Council named 16 individuals to the initial Board of Directors for the proposed Assiniboine Park Corporation for such terms as determined at the time of incorporation. The Management Agreement between the City of Winnipeg and APC indicates that APC will annually table its slate of Directors for Council ratification. Two City Councillors have been appointed to the Board of Directors.

Since the new governance structure has been approved, APC has successfully managed Assiniboine Park, completed construction of a new nature playground and a new duck pond.

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 amount of up to $17 million. Council would have to waive its policy to allow a loan guarantee in excess of $1 million. Council has waived its policy in the past and approved loan guarantees exceeding $1 million, where circumstances warrant.

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 represents 23% of the total funding of the project. The business plan indicates that APC will raise 77% of the project costs from sources other than the City (the Province 36% and fundraising 41%).

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

The loan that the City has been asked to guarantee is related to capital assets. The Management Agreement between the City of Winnipeg and APC states that: "All Assiniboine Park lands, buildings, roads, pathways, trees, plants, fixtures, zoo animals, operating equipment, underground, built and green infrastructure are public assets which are owned by the City of Winnipeg and which will continue to be owned by the City of Winnipeg." An exception has been approved with respect to buildings to be owned by the Province of Manitoba.

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

The Management Agreement between the City of Winnipeg and APC indicates that APC will work together with the City of Winnipeg to determine required levels of insurance coverage for all assets and liabilities associated with Assiniboine Park and its operations.

HISTORY

APC commenced operations in 2009 with a view to making much needed improvements to Assiniboine Park. Significant progress has been made in terms of capital improvements and maintenance in the park since that time. In 2011, the City made a substantial financial commitment towards these improvements including over $10 million of annual operating grants and over $9 million of capital grants for upgrades ($5.1 million) and capital development ($4.5 million). Funding at these levels is forecasted in the City's budget projections for future years.

To complete the Journey to Churchill project and open it to the public no later than the spring of 2014, APC has indicated that it will need to award construction contracts in the Fall of 2011. Without the loan guarantee there is inadequate cash flow to support completion of construction. Given that no other financial support is available, a loan guarantee from the City will provide sufficient access to funding to complete the project.

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 as APC's financial statements will likely be consolidated into the City's financial statements, any debt of this organization will be consolidated into the City's debt position 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: November 3, 2011

Project Name: Request for Loan Guarantee - Assiniboine Park Conservancy Inc. - Journey to Churchill project

	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. As APC's financial statements will likely be consolidated into the City's financial statements, any debt of this organization will be consolidated into the City's debt position. The impact of this debt falls within the debt limits established by Council.

original signed by R Abeysekera

R Abeysekera, Manager of Finance and Administration

CONSULTATION

In preparing this Report there was consultation with:

Assiniboine Park Conservancy Inc.
Community Services
Legal Services

SUBMITTED BY

Department: Corporate Finance
Division: City Treasurer's Division
Prepared by: Jo-Anne Ferrier, City Treasurer
Date: November 3, 2011
File No.