Agenda – Executive Policy Committee – September 16, 2015

REPORTS

Item No. 3 Winnipeg Convention Centre Corporation – Loan Guarantee Update

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

Further to the Public Service review of the City's $33 million loan guarantee, that Council approve the following:

1. In the event that the Winnipeg Convention Centre Corporation (WCCC) is unable to service debt payments on $33 million of the total loan guarantee as demonstrated to the satisfaction of the Chief Financial Officer, that the Destination Marketing Reserve (Reserve) be approved as a funding source for any shortfalls as determined annually by the Chief Financial Officer.

2. That once surpluses from WCCC operations are identified, the WCCC reimburse the City for the full amount of any funds advanced by the Reserve and applied to the $17 million portion of the debt.

3. That the approvals provided in recommendation 1 above with respect to the $17 million portion of the debt expire once a hotel development in an area to be jointly determined by the WCCC and the Chief Financial Officer is complete as evidenced by an occupancy permit for such hotel development.

4. That the City enter into a funding agreement with the WCCC that outlines the terms and conditions of any City contribution as set forth herein, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such agreement in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

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

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On June 10, 2015, the Executive Policy Committee laid over the matter to its meeting on September 9, 2015.

On March 18, 2015, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service that the Chief Administrative Officer (CAO) or designate meet with senior officials of the Winnipeg Convention Centre Corporation (WCCC) to determine options with respect to anticipated payments on $33 million of debt guaranteed by the City of Winnipeg and report back to Executive Policy Committee within 90 days concerning a plan to address these payments.

ADMINISTRATIVE REPORT

Title: **Winnipeg Convention Centre Corporation – Loan Guarantee update**

Critical Path: **Executive Policy Committee (EPC), Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
Mike Ruta	Mike Ruta	Mike Ruta	D. McNeil

RECOMMENDATIONS

Further to the Public Service review of the City's $33 million loan guarantee, that Council approve the following:

1. In the event that the Winnipeg Convention Centre Corporation (WCCC) is unable to service debt payments on $33 million of the total loan guarantee as demonstrated to the satisfaction of the Chief Financial Officer, that the Destination Marketing Reserve (Reserve) be approved as a funding source for any shortfalls as determined annually by the Chief Financial Officer.
2. That once surpluses from WCCC operations are identified, the WCCC reimburse the City for the full amount of any funds advanced by the Reserve and applied to the $17 million portion of the debt.
3. That the approvals provided in recommendation 1 above with respect to the $17 million portion of the debt expire once a hotel development in an area to be jointly determined by the WCCC and the Chief Financial Officer is complete as evidenced by an occupancy permit for such hotel development.
4. That the City enter into a funding agreement with the WCCC that outlines the terms and conditions of any City contribution as set forth herein, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such agreement in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.
5. 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

At its meeting on March 18, 2015, EPC requested that the Public Service meet with senior officials of WCCC to determine options with respect to anticipated payments on $33 million of debt guaranteed by the City of Winnipeg and report back to EPC within 90 days concerning a plan to address these payments.

EXECUTIVE SUMMARY

The report addresses EPC's request to consider financial options regarding repayment of the $33 million loan guaranteed by the City. Deferral of payment relating to Provincial lands transferred to WCCC together with use of the Stuart Olson settlement of $3.75 million would reduce the $16 million portion of the loan associated with the Carlton site. The City has confirmed that the balance of this loan can remain on an interest only basis until construction is complete. WCCC would be responsible for payments on all loans unless cash flow shortfalls were identified based on an annual review between the City and WCCC. It is recommended that these shortfalls be financed by the Reserve with repayment back to the Reserve in respect of the $17 million portion when WCCC experiences cash flow surpluses. Funding from the Reserve relating to the $17 million portion of the loan would cease once a hotel is constructed in the area.

IMPLICATIONS OF THE RECOMMENDATIONS

The Public Service has completed its review and has provided recommendations for Council approval regarding management of payments on the loans supported by the City's loan guarantee.

HISTORY/DISCUSSION

Attached to this report is the report approved by EPC at its meeting on March 18, 2015 providing supportive history and discussion. On July 11, 2012, Council approved the City's funding participation in the WCCC Expansion project by way of a $51 million grant to WCCC and a $33 million loan guarantee in favour of the WCCC. The $33 million loan was to be repaid by:

- The WCCC servicing $17 million of the loan from the annual income of the expanded facility, and;
- The City providing an annual grant to the WCCC of incremental municipal property and business taxes and the Province providing an annual grant to the WCCC of incremental provincial education taxes and levies generated by an adjacent property development, to service the net present value of the remaining $16 million of the loan.

In April, 2015, the Public Service met with senior representatives of the WCCC on two separate occasions and obtained the following information. Reference to the Reserve in this report relates to the 40% annual allocation of Accommodation tax revenue which has been set aside in the Reserve for capital expansion at the WCCC.

- The 2014 year-end audited financial statements for WCCC were reviewed. Excess of revenues over expenses totaled $530,597 with $530,600 remaining in the operating fund at year-end. The restricted fund balance totaled $3,172,538 at year-end. The restricted fund represents funds that are internally restricted by board resolution for future expenditures or major repairs and replacements on capital assets.
- The City reviewed the updated financial projections provided by WCCC that estimate a net loss before debt service charges of $1.2 million in 2016 declining to $363,000 in 2017 with profitability achieved by 2019 in the estimated amount of $1.3 million assuming a completed hotel development on 220 Carlton by January 1, 2019. However debt payments on $33 million would total $2.2 million annually thereby creating a cash flow deficiency over the next four years or longer depending on the actual hotel construction completion date.

- Discussions also took place in respect of construction deadlines and costs.
- There are opportunities to approach the WCCC banking institution to discuss extended repayment amortization on the $17 million loan and interest only payments on the balance due in respect of the $16 million loan until incremental taxes are generated with respect to adjacent development.
- The City reviewed the forecasted owner controlled expenses relating to the expansion. At the end of 2014, $5.7m has been spent against the $33 million loan amount. The City asked whether there was an opportunity to defer certain expenditures.

From these discussions the Public Service determined the following:

- The financial projections are dependent on access to nearby hotel space. A new hotel located near the WCCC would assist in attracting more conferences. Nevertheless the WCCC is prepared to consider options to increase conferences by using existing hotel space throughout the City in the interim to promote the new facility.
- The construction schedule and budgeted costs are within expected ranges. The Public Service is further investigating the Life-Safety Code Compliance requirements associated with occupancy based on information being provided by the professionals of record for the project.
- The restricted fund balance has been drawn down to $1.8 million and the Public Service has asked that it remain at its current balance to address potential capital requirements both in the old and new sections of the building and any emergency replacements.
- The $16 million loan balance expected by the end of construction could be reduced by deferring the land purchase repayment required by agreement with the Provincial government. Based on a purchase and sale agreement dated August 29, 2012 between the Province, the City and WCCC, the purchase price of land from the Province was agreed to be $7 million with the balance due on closing of $7,013,567.19. The purchase price must be paid at the earliest of the following dates:
    - Five business days after the date on which Manitoba has reimbursed WCCC for not less than the difference between $51 million and the balance to close above.
    - Five days after the date on which substantial performance of the project has been certified by the Project's payment certifier; or
    - December 31, 2015.
- WCCC has requested that the Provincial government extend the repayment period to the date when construction on 220 Carlton is complete on an interest free basis. The Province has advised that they are prepared to consider a proposal to receive the land payment from WCCC over a multi-year period commencing in 2015 to help alleviate any financial hardship associated with a delay in redevelopment.
- The amount to be advanced by Stuart Olson and currently controlled by the City totaling $3.75 million could be used to further reduce the balance due in respect of the $16 million loan.
- If the deferrals noted above are approved, the total balance due under the $16 million facility could be reduced until construction is complete. Thereafter the remainder of the land purchase amount could be repaid to the Province and the Stuart Olson advance could be returned to the City.
- The balance in the Reserve at December 31, 2014 relating to the WCCC is approximately $5.6 million. Depending on the date of completion of construction of a project required to generate incremental taxes on a location to be determined by Council, the ability of WCCC to repay the loans, and the amount of Tax Increment Financing (TIF) generated from the new development, there appears to be sufficient capacity in the Reserve with reference to the amounts set aside for the Convention Centre expansion to address funding shortfalls.

- It was originally intended that debt servicing on the $17 million loan was to be paid by the WCCC. It is recommended that this responsibility remain with WCCC but by Council agreement in the recommendations above approval would be provided to access the Reserve in the event of a cash shortfall. Thereafter repayment would be required to the Reserve from future operating surpluses earned by the WCCC. Once a hotel is constructed in the immediate area, access to the Reserve with respect to payments on the $17 million loan would cease. The Bank has agreed to extend the amortization period on this loan to 30 years and fix the rate for this period when construction is complete. It was decided to term out this loan rather than allow it to float. In this manner, the WCCC would be able to take advantage of low prevailing interest rates.
- Similarly, previous reports to Council required the WCCC to address shortfalls in debt servicing payments compared to the TIF received from incremental taxes assessed on a new development on a location to be confirmed by Council. In the event that WCCC is unable to meet repayment requirements from its existing cash flows, the recommendations above would provide Council approval to access the Reserve for those shortfalls as determined by annual review by the Chief Financial Officer. The TIF would commence once the adjacent development is completed so any shortfalls relating to the $16 million portion of the loan would be reimbursed either by surpluses from WCCC operations or TIF payments thereafter.
- Other deferral opportunities were reviewed but they were not of sufficient magnitude to significantly impact the direction of the recommendations made above.

Other Information

- At the June 10, 2015 meeting of EPC, CentreVenture presented a Plan for redevelopment prepared by True North in respect of 220 and 225 Carlton. The Plan would include office, retail, residential condominium and parking construction on 220 Carlton. 225 Carlton would be redeveloped to include a 275 room hotel, office, retail residential condominium and parking space. The Plan is subject to various conditions requiring further negotiation which have not yet been finalized. However, the planned location of the Hotel would no longer be 220 Carlton but instead 225 Carlton. As mentioned above, the City originally contemplated the TIF to be assessed on a hotel development located at 220 Carlton. Based on current estimates the new development would generate sufficient tax to cover payments on the $16 million loan assigned to this site. However the WCCC business plan is contingent on a hotel development. Further discussions will be necessary to determine which property will be included as part of the TIF development, and Council approval will be required for the TIF site.
- As mentioned above, 40% of annual Accommodation Tax revenue has been dedicated within the Reserve for capital works at WCCC. The allocation has been set aside to a maximum amount to equal estimated annual payments required to service the amount of debt relating to the City's portion of construction costs. Recommendation 1 (VI) In the original July 11, 2012 report to Council further amended this allocation by stating that any shortfall between the TIF and the amount of the debt payments would be paid to the WCCC as an annual grant. This report provides a further allocation of funding from the Reserve to address temporary shortfalls in funding resulting from the delay with respect to construction of the new hotel. It is contemplated that temporary shortfalls resulting from the $17 million loan advance would be repaid by WCCC from future surpluses.

FINANCIAL IMPACT

Financial Impact Statement

Date: August 19, 2015

Project Name: Winnipeg Convention Centre Corporation - Loan Guarantee Update

COMMENTS:

1. There is no financial impact related to the recommendation of this report, unless the Winnipeg Convention Centre Corporation (WCCC) is unable to service debt payments on $33 million of the total loan guarantee, in which case, the Destination Marketing Reserve (Reserve) will finance any shortfalls with repayment back to the Reserve in respect of the $17 million portion when WCCC experiences cash flow surpluses.

2. The balance in the Reserve at December 31, 2014 relating to the WCCC is approximately $5.6 million. Depending on the date of completion of construction at 220 Carleton Avenue, the ability of WCCC to repay the loans, and the amount of Tax Increment Financing (TIF) generated from the new development, there appears to be sufficient capacity in the Reserve with reference to the amounts set aside for the Convention Centre expansion to address funding shortfalls.

(Original signed by F. Dela Cruz for R. Hodges)
Ramona Hodges
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

In preparing this report there was consultation with:

Legal Services
Property Planning and Development

SUBMITTED BY

Department: Corporate Finance
Division: CFO Office
Prepared by: Mike Ruta
Date: August 28, 2015
File No.



Convention Centre
Update March 18, 20