Agenda – Council – January 27, 2016

Report – Executive Policy Committee – January 13, 2016

Item No. 3 Gateway Recreation Centre Inc. - Loan Guarantee Request (North Kildonan Ward)

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On January 13, 2016, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That a loan guarantee be approved for Gateway Recreation Centre Inc. ("Gateway") for the construction of a mechanical shop as follows:
   A. a construction loan guarantee in the amount of up to $991,000;
   B. upon construction completion, such construction loan be converted to a fixed rate term loan not to exceed $370,000 with the City's loan guarantee to be reduced to an equivalent amount.

2. That Gateway Recreation Centre Inc. provide the bid document to the City for review by Materials Management prior to issuance and that said document be posted to the Winnipeg Construction website.

3. That the Gateway Recreation Centre Inc. be directed to forward all bids received on this project to the City and that the recommended bid be subject to the final approval of the Director of Planning, Property and Development.

4. That if the awarded bid exceeds the above loan guarantee levels, Gateway Recreation Centre Inc. will be responsible to finance the variance without requesting a further increase to the original Council approved loan guarantee.

5. That Gateway Recreation Centre Inc. not begin construction until the City approved bid is awarded and the guarantee documents have been executed.

6. That the City enter into, execute and deliver all financing documents including, without limitation, the guarantee document, required by Gateway's financial institution and deemed necessary by the Director of Legal Services and City Solicitor to implement the intent of the foregoing.

Report – Executive Policy Committee – January 13, 2016

7. That the Chief Financial Officer be delegated the authority to negotiate and approve the terms and conditions of such financing documents and guarantee in accordance with this report and such other terms and conditions deemed necessary by the Director of Legal Services and City Solicitor to protect the interests of the City.

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

Report – Executive Policy Committee – January 13, 2016

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On January 13, 2016, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Gateway Recreation Centre Inc. - Loan Guarantee Request**

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

AUTHORIZATION

Author	Department Head	CFO	CAO/COO
Cindy Fernandes	Clive Wightman	M. Ruta	D. McNeil

RECOMMENDATIONS

1. That Council approve a loan guarantee for Gateway Recreation Centre Inc. ("Gateway") for the construction of a mechanical shop as follows:
    a. a construction loan guarantee in the amount of up to $991,000;
    b. upon construction completion, such construction loan be converted to a fixed rate term loan not to exceed $370,000 with the City's loan guarantee to be reduced to an equivalent amount.

2. That Gateway Recreation Centre Inc. provide the bid document to the City for review by Materials Management prior to issuance and that said document be posted to the Winnipeg Construction website.

3. That the Gateway Recreation Centre Inc. be directed to forward all bids received on this project to the City and that the recommended bid be subject to the final approval of the Director of Planning, Property and Development.

4. That if the awarded bid exceeds the above loan guarantee levels, Gateway Recreation Centre Inc. will be responsible to finance the variance without requesting a further increase to the original Council approved loan guarantee.

5. That Gateway Recreation Centre Inc. not begin construction until the City approved bid is awarded and the guarantee documents have been executed.

6. That the City enter into, execute and deliver all financing documents including, without limitation, the guarantee document, required by Gateway's financial institution and deemed necessary by the City Solicitor / Director of Legal Services to implement the intent of the foregoing.

7. That the Chief Financial Officer be delegated the authority to negotiate and approve the terms and conditions of such financing documents and guarantee 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.

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

REASON FOR THE REPORT

Council approval is required to provide loan guarantees and to enter into, execute and deliver financing documents in support of such loan guarantees.

EXECUTIVE SUMMARY

In the Fall of 2015, Gateway Recreation Centre Inc. submitted a request to the Public Service to enter into a formal agreement for the purposes of securing a loan guarantee. The loan guarantee is required by the Centre to support financing of the construction of a mechanical shop on the grounds of the Centre, located at 1717 Gateway Road. The mechanical shop will provide storage and a servicing area for the Centre's Zamboni, riding lawn mowers, snow blowing equipment, etc. The shop is intended to replace the existing 45 year-old storage shed, which has been deemed by the Centre's Board of Directors (the Board) to be unfit to support the Centre's current operation. Total proposed building addition is approximately 2,700 ft^2. Construction is anticipated to start April 1, 2016 and be completed by August 31, 2016. (Appendix 1)

Total estimated cost for this project has been provided through a Class A estimate submitted to Gateway Recreation Centre Inc. by a local quantity surveying firm in May 2015 (Appendix 1a). Gateway Recreation Centre's projected cost has been calculated at $830,415.60 GST included. A review of the estimate conducted by Planning, Property, and Development, Municipal Accommodations has equated the Recreation Centre's "Class A" estimate grade to be more in line with a "Level 3" estimate per the City's adopted cost estimate classification system, and has indicated there exists potential for several additional project-related costs that have subsequently been added to the total estimated project cost. The revised projected cost has been calculated at **$990,415.60** GST included.

Project Funding Sources

Federal Community Infrastructure Program Grant	$355,616.00
Gateway Recreation Centre Restricted Cash	$125,000.00
Community Incentive Grant (City of Winnipeg)	$140,000.00
Total Funding Support	$620,616.00
Gateway Recreation Centre Long-Term Loan	$369,799.60
Total Project Cost	$990,415.60

Federal Community Infrastructure Program Grant ($355,616)

Federal funding in the form of a Community Infrastructure Program grant was approved by Western Economic Diversification Canada on July 23rd, 2015, to be provided no later than three months following completion of the project's construction and subject to the submission of reports and documentation to the satisfaction of the Minister of Western Economic Diversification Canada. Total federal grant funding approved for this project is $355,616. Funding is conditional on a project start date of April 1st, 2016, a project completion date of December 31st, 2016 and a Final Client Reporting Date of March 31st, 2017.

Gateway Recreation Centre Restricted Cash ($125,000)

On September 17th, 2015 the Board of the Gateway Recreation Centre Inc. approved funding of $125,000 from the Centre's Restricted Cash to support project construction. The Restricted Cash account is a separate account for internally restricted funds to be used at the discretion of the Board for specific purposes such as asset replacement. Presently, the Centre's arenas generate over $1,000,000 in operations and program revenue each year. As per Gateway Recreation Centre's August 31st, 2015 month-end financial statements (unaudited), the organization has sufficient Restricted Cash funds to support this level of funding.

Community Incentive Grant ($140,000)

A Community Incentive Grant in the amount of $140,000 was applied for by the Centre in November 2015 and was approved by the East Kildonan-Transcona Community Committee on November 17th, 2015. The grant was requested specifically for construction of the mechanical shop, and all proceeds are to be directed towards that project (Appendix 2).

Long-Term Loan ($369,799.60)

Gateway Recreation Centre Inc. is requesting the City of Winnipeg to secure a long-term loan to finance the outstanding project construction balance of approximately $369,799.60. Based on analysis of prior year financials and projected cash flows, the Public Service concludes that Gateway Recreation Centre has the financial ability to sustain the new loan payments; annual payments of $27,225 are projected based on a $370,000 principal, 4% interest rate and a 20 year amortization. A projected statement of cash flow, prepared by the Public Service and signed-off by the Gateway Board, is included in Appendix 3.

Project and Construction Management

A local construction firm, acting as an agent of Gateway Recreation Centre Inc., will be Project Manager, but Planning, Property and Development, Municipal Accommodations will assign a Project Officer to the construction project to keep the public service informed of project costs, spending, and contract changes.

IMPLICATIONS OF THE RECOMMENDATIONS

Gateway Recreation Centre Inc. is currently in possession of an outstanding loan that is supported by a guarantee with the City of Winnipeg. The principal of this loan was $230,929 as at December 31st, 2014 with principal payments of $138,461 and $92,468 due in 2015 and 2016 respectively. This loan will be fully retired by the end of 2016. Gateway Recreation Centre has never defaulted on a loan payment that is supported by a guarantee with the City of Winnipeg.

The first loan payment for the mechanical shop project is expected in the fourth quarter of 2016. As per the conditions attached to a City of Winnipeg approval of a loan guarantee, in the unlikely event of default, the City of Winnipeg would be responsible for making required debt payments or paying off the loan balance.

Loan Guarantee

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. *This report has been submitted to and reviewed by the City Treasurer.*

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. *This recreation facility falls within the mandate of the City of Winnipeg and is consistent with the Recreation, Leisure & Library Facilities (RLLF) Policy adopted by Council in May of 2005.*

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 arenas for our population, the City would not guarantee a loan for the purpose of constructing an arena. *This project has been reviewed by Community Services and is not in 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. *Gateway Recreation Centre Inc. services are available to the community-at-large, without restrictive membership policies or user fees.*

E. The organization must be non-profit. *Gateway Recreation Centre Inc. 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. *Gateway Recreation Centre Inc. has provided financial records to support the request for a loan guarantee. As at December 31st, 2014,*

the organization's year-end, the financial statements (unaudited) reflected a current ratio of 2.89, over $2.0 million in net assets and an average annual surplus of $182,000 (2013/2014). Five-year cash flow projections support the organization's ability to meet future loan obligations.

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. *Gateway Recreation Centre Inc. has a demonstrated and proven history in facility operation and management.*

H. Unless there are very special circumstances, the maximum amount of outstanding loan guarantees for any one organization will be $1,000,000.00. *Gateway Recreation Centre Inc. is currently in possession of an outstanding loan that is supported by a guarantee with the City of Winnipeg. The principal of this is $230,929 as at December 31st, 2014.*

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 30% 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 30% down payment. *The construction facility loan guarantee for the Gateway Recreation Centre Inc. project is over and above the parameters as set out in this clause of the policy. Upon construction completion, the loan guarantee amount of $370,000 will represent 37% of the total cost and will be compliant. The financial plan indicates Gateway Recreation Centre and other non-City of Winnipeg sources will contribute $850,415 or 86% of the project.*

J. The loan that the City is guaranteeing must be related to a capital asset. *The Gateway Recreation Centre Inc. project is related to a city-owned capital asset.*

K. The capital asset must be insured to the satisfaction of the City Treasurer both during and after construction. *The facilities operated by Gateway Recreation Centre Inc. are owned by the City and are currently insured by the City.*

<u>Universal Funding Formula</u>

Of the approximately 2,700 ft^2 of heated space that will be added to the Gateway Recreation Centre as a result of this project's completion, the following spaces, as identified on the site plan submitted by the Centre, will be eligible for additional funding under the parameters of the Universal Funding Formula (UFF):

- Recreation Storage: approximately 350 ft^2
- General Storage: approximately 250 ft^2 (two separate rooms, combined)
- Washroom: approximately 90 ft^2

The combined eligible square footage equals approximately 690 ft^2, and would be eligible for annual incremental funding, effective 2017, of approximately $2,300 under the UFF provided to Community Centres, adjusted for inflation per the approved UFF. The 2016 UFF formula is calculated at $3.35 per heated square foot.

HISTORY / DISCUSSION

The Gateway Recreation Centre is a multi-purpose facility that houses two indoor arenas, an indoor soccer complex, banquet hall, playground, outdoor soccer pitches, an outdoor hockey rink, and ball diamonds. The Centre serves approximately 17,000 constituents and operates as a non-profit organization year-round through support of over 45,000 volunteer hours, 10 full-time staff and 12 part-time staff.

The existing facility is currently served by an undersized, 45 year-old onsite storage shed that requires that equipment and machinery be moved in and out of the structure on a regular basis to allow access to all shed-stored facility equipment. To address the facility's storage issues and to provide an indoor solution for equipment mechanical maintenance, the Board developed a plan to replace the storage shed with a mechanical shop to meet existing and future needs of the facility. The proposed mechanical shop is to be attached at the south end of the facility, and includes a four-bay shop floor, three storage rooms, an electrical room, and a washroom. Total proposed building addition to be approximately 2,700 ft^2.

Gateway Recreation Centre has employed the services of a local firm to design the plans for the mechanical shop, and will be utilizing this firm to project manage the construction. This firm was previously employed to develop plans for and manage construction of the indoor soccer complex at this location in addition to several other smaller projects over previous years.

In order to secure funding under the grant application provided to the Centre by Western Economic Diversification Canada, construction of the proposed building addition must commence by April 1, 2016 and be completed within the calendar year.

Gateway Recreation Centre is currently in possession of an outstanding loan that is supported by a guarantee with the City of Winnipeg. The principal of this loan is $230,929 as at December 31st, 2014 and will retire by year-end 2016.

A review of Gateway's Class A construction estimate, conducted by Planning, Property, and Development, Municipal Accommodations has indicated the following additional project-related costs that in total could range between $20,000 - $160,000:

- Cash Allowances (furniture, fixtures, specialty equipment, signage, testing)
- Civil (site works: landscape restoration, drainage improvements if needed)
- Design Fees / Consulting (construction management, contract administration)
- Geotechnical and Survey work (required to complete design and as part of permit review process)

These additional costs could increase the total project cost estimate to approximately $990,415.60.

FINANCIAL IMPACT

Financial Impact Statement

Date: December 31, 2015

Project Name:

Gateway Recreation Centre Inc. - Loan Guarantee Request

First Year of Program **2015**

	2015	2016	2017	2018	2019
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	$ -	$ -	$ 2,300	$ 2,346	$ 2,393
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ 2,300	$ 2,346	$ 2,393
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ 2,300	$ 2,346	$ 2,393

Additional Comments: There is no financial impact to the City in granting the loan guarantee unless there is a default in the payment of the loan. On completion of the project, additional heated square footage will be added to the Gateway Recreation Centre and will be eligible for funding under the parameters of the Universal funding Formula (UFF). Incremental mill rate support will be required beginning in 2017, increasing annually by inflation estimated at 2.0%.

"original signed by"

Kelly Lemoine, CPA, CA
Manager of Finance
Finance & Administrative Services
Community Services Department

CONSULTATION

In preparing this Report there was concurrence with:

- Planning, Property, and Development, Municipal Accommodations
- Legal Services Department (as to legal form)
- Corporate Finance Department, Corporate Treasury
- Materials Management

OURWINNIPEG POLICY ALIGNMENT

01-5 Recreation

Direction 2: Work with community partners to provide services that are responsive to the community's recreation and leisure needs.

Direction 6: Plan for sustainable and connected recreation and leisure infrastructure.

SUBMITTED BY

Department: **Community Services Department**
Division: **Strategic Management and Business Support Solutions**
Prepared by: **Jeff Honey**
Date: **December 31st, 2015**

ATTACHMENTS:



Project Description - Gateway CC.pdf



Class A Estimate.pdf


Gateway CIGP Approval Doc..doc


Gateway Projected Revenues - 2015-201