Agenda – Executive Policy Committee – February 3, 2016

REPORTS

Item No. 2 Waiving of Corporate Interest Overhead Charges Applicable to the $51 million Grant - Winnipeg Convention Centre Corporation ("RBC Convention Centre Winnipeg") Expansion Project

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Council waives overhead interest charges being applied to the $51 million Grant to the Winnipeg Convention Centre Corporation ("RBC Convention Centre Winnipeg") Expansion Project.

ADMINISTRATIVE REPORT

Issue: **Waiving of Corporate Interest Overhead Charges Applicable to the $51 million Grant to the Winnipeg Convention Centre Corporation ("RBC Convention Centre Winnipeg") Expansion Project**

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

AUTHORIZATION

Author	Department Head	CFO	CAO
G. Holmes	J. Kiernan	M. Ruta	D. McNeil

RECOMMENDATION:

1. That Council waives overhead interest charges being applied to the $51 million Grant to the Winnipeg Convention Centre Corporation ("RBC Convention Centre Winnipeg") Expansion Project.

REASON FOR THE REPORT

- It is Council policy that overhead interest charges be included as a cost of the capital project. Any variation thereto requires the approval of Council.

IMPLICATIONS OF THE RECOMMENDATIONS

- The full $51 million in grant funding toward the cost of the expansion project will be paid to the RBC Convention Centre Winnipeg.
- Overhead interest revenues of the Corporate Finance Department in 2015 will be $349,788 less than budget if interest overhead charges are waived in this instance.
- Overhead interest revenues to December 31, 2015 included in the Corporate Finance Department's operating budget would decrease from $2,450,212 to $1,450,212 (note: overall, the projected operating surplus included in the November Forecast is $11.0 million, inclusive of the $1 million decrease in overhead interest revenue).

HISTORY

On October 3, 1979, Council approved *"that overhead be included in capital costs as part of City policy."* The City's practice with respect to interest overhead charges assessed against capital expenditures made during the year is described in Appendix C of Administrative Standard FM-004. Briefly, the practice is as follows:

- Interest is charged as a means of reimbursing the operating budget for the cost of funding advanced in the year of expenditure. The City charges 2% only on the City's share of funding, including debt, and not on external funding such as grants.

On July 18, 2012, Council approved a grant to the Winnipeg Convention Centre Corporation for $51 million as a contribution toward the $147 million expansion component of the $181.5 million expansion and renovation project. To date, the City has paid $50 million of the $51 million grant based upon claims submitted by the RBC Convention Centre Winnipeg and interest overhead charges of $1 million have been applied to the capital budget. As at the date of this report, the expansion component of the project is largely complete and the final claim in the amount of $1,817,531 has been submitted to the City. With the application of interest overhead charges, the available budget was only $817,531, which was the amount of the most recent payment to RBC Convention Centre Winnipeg.

In order to address the issue of overhead interest charges, the July 2012 report to Council should have included a recommendation to waive the application of these charges. Council has in the past approved requests to waive the application of overhead interest charges to capital budgets. Recent examples include the Jonathan Toews Community Centre Fieldhouse project (Recommendation # 6, Council Minute No. 436, June 17, 2015), Building Communities Initiative II - Phases One, Two, & Three (Recommendation # 1, Council Minute No. 454, April 30, 2014) and the Redevelopment of the Winnipeg Police Service Headquarters Building (Recommendation # 2A, Council Minute No. 131, December 11, 2013). Alternatively, the report could have included a recommendation for a capital budget of $52,020,000 comprised of a $51 million grant to the Winnipeg Convention Centre Corporation plus $1,020,000 in overhead interest charges. In either case, there would be no bottom line impact on the Financial Status Report and Forecast to November 30, 2015 (see Appendix 1).

In order to process the final payment, it is recommended that overhead interest charges be waived as the Financial Status Report and Forecast to November 30, 2015 presented at the January 15, 2016 meeting of the Standing Policy Committee on Finance included a projected surplus of $11.0 million inclusive of the impact of waiving this $1 million of overhead interest revenue.

FINANCIAL IMPACT

Financial Impact Statement

Date: January 15, 2016

Project Name:

Waiving of Corporate Interest Overhead Charges Applicable to the $51 million Grant to the Winnipeg Convention Centre Corporation ("RBC Convention Centre Winnipeg") Expansion Project

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	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	1,450,212	-	-	-	-
Net Cost/(Benefit)	$ (1,450,212)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	(1,800,000)	-	-	-	-
Net Budget Adjustment Required	$ 349,788	$ -	$ -	$ -	$ -

Additional Comments: The Corporate Finance Department's December year-to-date overhead interest revenue is $2,450,212. If interest overhead charges are waived, revenues will decrease to $1,450,212 or $349,788 below budget (see Appendix 2). There will be no impact on the capital budget as funds that would otherwise be used to pay overheads will instead be used to fund the final grant payment to the Winnipeg Convention Centre Corporation to bring the total City contribution to $51 million toward the $147 million expansion component of the $181.5 million expansion and renovation project.

"Original signed by"
Mike McGinn, CPA, CA
Manager of Finance

CONSULTATION

In preparing this report there was consultation with:

Corporate Finance Department

SUBMITTED BY

Department	Planning, Property and Development
Division	Office of the Director
Prepared by:	Mike McGinn (Finance)
Date:	January 18, 2016
File No.	o:\reports directive\office of the director\downtown manager\winnipeg convention centre expansion - waiving of ohint_jan 15.doc

APPENDIX 1

Impact on Capital Budget and Operating Budget Forecast Surplus

	Recommended	Alternative
Adopted Capital Budget	$ 51,000,000	$ 51,000,000
Grant Paid to Date to RBC Winnipeg Convention Centre	50,000,000	50,000,000
Variance	$ 1,000,000	$ 1,000,000
Waiving of Overhead Interest	-	n/a
Application of Overhead Interest ($50,000,000 x 2%)	n/a	1,000,000
Remaining Capital Budget	$ 1,000,000	$ -
Remaining Grant to be paid to RBC Winnipeg Convention Centre	1,000,000	1,000,000
Application of Overhead Interest ($1,000,000 x 2%)	n/a	20,000
Additional Capital Budget Required	$ -	$ 1,020,000
Impact on Operating Budget Forecast Surplus of $11.0 Million:		
Increase / (Decrease) in Overhead Interest Revenue	$ -	$ 1,020,000
(Increase) / Decrease in Transfer to General Capital Fund Expense	-	(1,020,000)
Net Impact on Operating Budget Forecast Surplus	$ -	$ -

APPENDIX 2

Overhead Interest

Adopted Budget		$ 1,800,000
Actuals	2,450,212	
Less: Recommended Waiver	(1,000,000)	1,450,212
Adopted Budget vs. Revised Actuals Variance		$ (349,788)