Agenda – Council – September 28, 2016

Report – Executive Policy Committee – September 14, 2016

Item No. 4 Loan Guarantee Policy

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 14, 2016, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That the attached Loan Guarantee Policy be adopted, and the Loan Guarantee Policy approved by Council on June 17, 1992 be rescinded.

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

Agenda – Council – September 28, 2016

Report – Executive Policy Committee – September 14, 2016

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 14, 2016, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: ***Loan Guarantee Policy***

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

AUTHORIZATION

Author	Department Head	CFO	CAO
Rob Provencher, Manager of Financial Services	Mike Ruta	Mike Ruta	D. McNeil

EXECUTIVE SUMMARY

Loan guarantees represent meaningful financial commitments and risk to the City should the applicant default on the terms of their Loan Agreement. The Loan Guarantee Policy should be reviewed periodically and be in place to prudently manage the loan guarantee process at the City of Winnipeg. The current policy was approved in 1992 and this report recommends a new policy.

RECOMMENDATIONS

1. That Council approve and adopt the attached Loan Guarantee Policy and rescind the Loan Guarantee Policy approved by Council on June 17, 1992.

2. That the proper officers of the City be authorized to do all things necessary to implement the foregoing.

REASON FOR THE REPORT

Council approval is required to approve and rescind Council Policies.

IMPLICATIONS OF THE RECOMMENDATIONS

The City currently has loan guarantees outstanding for consolidated and non-consolidated entities at December 31, 2015 as follows:

Consolidated entities	$ 38.3 million
Non-consolidated entities	$ 27.1 million
Total	$ 65.4 million

Examples of consolidated entities include: Assiniboine Park Conservancy Inc., CentreVenture Development Corporation, and The Convention Centre Corporation, whose assets and liabilities are recorded in the Consolidated Financial Statements. The debt of these consolidated entities is included within and subject to the limits as defined in the City's Debt Strategy.

Community Centres form the largest group of non-consolidated entities with approved loan guarantees. Non-consolidated entities are not recorded in the Debt Strategy and are reflected as contingent liabilities in the notes to the Consolidated Financial Statements.

Although the amount of non-consolidated entities at risk (committed) to December 31, 2015 is 54.0 million, the actual amount advanced is 27.1 million. The balance of the Financial Stabilization Reserve was approximately $75.7 million at December 31, 2015. Loan guarantee limits for non-consolidated entities are set at the targeted minimum balance in the Financial Stabilization Reserve (59.6 million in 2015) or the actual balance whichever is less.

HISTORY/DISCUSSION

1. The current policy was approved by Council in 1992. This policy requires replacement to reflect current conditions.

2. One way the City can try to promote desired program objectives and activities in areas such as recreation, economic development, etc. is to increase the financing available to fund those activities. The City is authorized, pursuant to Section 218 (1) of the Charter, to provide financial assistance by way of grants, tax credits, loans and loan guarantees. A loan guarantee is a promise that the City will repay a lender (e.g., a bank or other financial institution providing credit or funding to another party) the amount guaranteed, subject to the terms and conditions of an agreement, if the borrower defaults. The guarantee will reduce the lender's risk and should enable the borrower to obtain a loan at a lower interest rate or obtain a loan that might not otherwise have been obtainable. Loan guarantees do not involve cash spending by the City (unless there is a default). For this reason, they can be a more attractive tool than direct loans or grants, particularly in periods of fiscal restraint. However, they can generate sizable financial obligations and significantly affect the City's fiscal framework.

3. Loan guarantees constitute meaningful commitments by the City of Winnipeg. When the City guarantees a non-consolidated loan it must disclose this contingent liability in its financial statements. In the case of a consolidated entity, the outstanding loan balance is recorded as a liability in the financial statements and forms a part of the consolidated debt of

the City of Winnipeg. If the organization defaults on the loan, the City would be obligated to make payments on the loan or pay out the remaining balance.

4. The major differences between the new policy and the former policy are as follows:

   a. The 2016 Adopted Operating Budget approved Application and Standby Fees:

i.	Loan guarantee applications under $500,000	$ 500.00
ii.	Loan guarantee applications $500,000 and over	$1,500.00
iii.	Loan guarantee standby fee to Community Centres	0.25% on year end outstanding balance
iv.	Loan guarantee standby fee to organizations affiliated with the City and external parties	0.50% on year end outstanding balance

   b. Cap on amount of loan guarantees to non-consolidated entities

      City Council has approved a Debt Strategy to ensure a prudent level of debt to finance its capital program. Similarly, a maximum threshold for the total amount of loan guarantee commitments made by the City to non-consolidated entities should be approved by Council to ensure a prudent level of loan guarantee exposure.

      Outstanding debt on loan guarantees to non-consolidated organizations is not included in debt on the City's financial statements, nor are these considered in the Debt Strategy thresholds. These commitments are reflected as contingent liabilities in the notes to the financial statements.

      The maximum threshold or cap on the total amount of loan guarantee commitments made by the City of Winnipeg to non-consolidated entities should be set at the targeted minimum balance in the Financial Stabilization Reserve or the actual balance whichever is less as this is the reserve that provides some protection in the event of default. These loan guarantee commitments will be measured on the outstanding risk associated with the loan guarantee; that is, on the outstanding balance of non-revolving credit facilities or the total amount authorized of revolving credit facilities.

      The purpose of the Financial Stabilization Reserve is to counteract the budgetary effect of fluctuations from year to year in property and business taxes and/or to fund deficits in the General Revenue Fund, which assist in the stabilization of the City's mill rate and/or property tax requirements. In the 2015 operating budget Council adjusted the targeted level of The Financial Stabilization Reserve to 6% of tax supported expenditures. In 2016, the targeted minimum level is approximately $63.3 million. As noted above the balance in the Reserve at December 31, 2015 was $75.7 million but the amount at risk is less than the threshold level at $54.0 million.

c. Minimum threshold for loan guarantee applications

Loan guarantees will not be considered for amounts under $1,000,000, as it is expected that the organization in question will raise sufficient capital to cover expenditures in amounts up to $1,000,000.

d. Business Plan Requirements

The applicant organization will be required to submit a Business Plan demonstrating the feasibility of the plan and the ability to repay the loan. Business Plan requirements will be documented on the City's Website. Historically, information would be sent in various forms and considerable follow-up would be required to obtain missing or incomplete information.

e. Requirements subsequent to approval of a Loan Guarantee

The City will require the organization to submit financial and project reporting during the construction phase and annual financial statements thereafter until the guaranteed loan has been repaid in full. The City will assist qualified applicants to obtain financing and reserves the right to require applicants to implement recommended financing structures.

5) The amount outstanding for consolidated entities was $38.3 million and this exposure is recorded in the City's Debt Strategy.

FINANCIAL IMPACT

Financial Impact Statement **Date:** August 31, 2016

Project Name: Loan Guarantee Policy

COMMENTS:

There are no financial implications to the recommendations of this report.

(Original signed by R. Hodges)
Ramona Hodges
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

In preparing this report there was consultation with:

Community Services
Legal Services
Planning, Property and Development
Corporate Finance

OURWINNIPEG POLICY ALIGNMENT

Section 02 of OurWinnipeg (A Sustainable City) provides policy guidance and states social, environmental and economic sustainability are essential to Winnipeg's long-term well-being. The Loan Guarantee Policy aligns with economic sustainability goals to ensure the long-term economic well-being of the City.

SUBMITTED BY

Department:	Corporate Finance Department
Division:	Financial Services
Prepared by:	R. Provencher, Manager of Financial Services
Date:	August 30, 2016
File No.	n/a



Loan Guarantee Policy