Agenda - Executive Policy Committee - February 18, 2004

REPORTS

Item No. 5 Refinancing Loan Guarantee - Maples Recreation Association Inc. File FC-2.2

STANDING COMMITTEE RECOMMENDATION:

On February 10, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and recommends to the Executive Policy Committee:

1. That the City's loan guarantee for the Maples Recreation Association Inc., be extended in order to allow the Association to refinance its loan (increasing the amount of its current indebtedness from $216,000.00 to $366,000.00) in order to operate on a more financially stable basis.

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

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On February 10, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation, and submitted its recommendation to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

RE: REQUEST FOR REFINANCING LOAN GUARANTEE-MAPLES RECREATION ASSOCIATION INC.

FOR SUBMISSION TO: STANDING COMMITTEE ON FISCAL ISSUES

ORIGINAL REPORT SIGNED BY: CHIEF FINANCIAL OFFICER

REPORT DATE: February 3, 2004

RECOMMENDATION(S):

(1) That City Council give consideration to extending the City's loan guarantee for the Maples Recreation Association Inc., in order to allow the Association to refinance its loan (increasing the amount of its current indebtedness from $216,000 to $366,000) in order to operate on a more financially stable basis.

(2) That, if City Council approves the extension of the loan guarantee, the proper officers of the City be instructed to do all things necessary to implement the foregoing.

REPORT SUMMARY:

Key Issue(s):

Involves increasing the amount of the existing loan guarantee for the Maples Recreation Association Inc.

Implications of the Recommendation(s):

General Implications

	None
	For the organization overall and/or for other departments
X	**For the community and/or organizations external to the City**
	Involves a multi-year contract

Comment(s):

The Maples Recreation Association Inc. requires an addition to their existing loan guarantee in order for them to operate on a more financially stable basis.

Policy Implications

X	**No**
	Yes

Comment(s):

Environmental Implications:

X	**No**
	Yes

Comment(s):

Human Resources Implications:

X	**No**
	Yes

Comment(s):

Financial implications

X	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s):

The granting of a loan guarantee does not affect the City's operating or capital budget unless there is a default in the payments on the loan.

REASON FOR THE REPORT:

On November 13, 2003, the Lord Selkirk - West Kildonan Community Committee recommended "That the Proper Officers of the City undertake an analysis of the loan guarantee request in accordance with the Council-adopted policy for loan guarantees,…" in relation to a request from Maples Recreation Association Inc. for an increase in their existing loan guarantee.

HISTORY:

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 continues to be concerned about the number of requests for loan guarantees, as loan guarantees do, in fact, constitute meaningful commitments by the City. These commitments have to be recorded in the notes to the City's financial statements, are factors in determining the City's potential liabilities, and are a factor in determining the City's credit rating. As a result of its ongoing concern, 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. As at December 31st, 2002 the City of Winnipeg was the guarantor of 18 different loans totalling just over $14.2 million.

DISCUSSION:

The following is an evaluation of the business plan as provided by the Maples Recreation Association Inc. based on 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.*

As a result of the November 13, 2003 meeting of the Lord Selkirk – West Kildonan Community Committee, representatives of the Maples Recreation Association Inc. met with staff from the Corporate Finance and Community Services Departments to discuss what information would be required in order to complete an evaluation of the loan guarantee request. Copies of the Recreation Association's financial statements and projections were forwarded for analysis. Corporate Finance Department staff were in contact with representatives from Maples Recreation Association Inc. to clarify any concerns arising from the analysis.

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 Maples Recreation Association Inc. provides community-based sports and recreation activities for residents of Winnipeg in the Northwest area of the City.

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 request for an extension to the existing loan guarantee 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.*

There are no unreasonable restrictions on membership or user fees.

E. *The organization must be non-profit (as defined within the City of Winnipeg's Fees and Charges Policy).*

Maples Recreation Association Inc. is an incorporated organization with non-profit status.

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.*

The Maples Recreation Association Inc. has asked that their original loan guarantee, approved in 1990, be extended to permit them to refinance their loan. The main reason the refinancing is required is that the Maples Recreation Association Inc. took advantage of their right to pay down their mortgage faster than the amortized schedule. Maples Recreation Association Inc. made additional principal payments of $88,500 in 2000 and $50,000 in 2002 as they believed their financial position at the time would accommodate this. However, the Maples Recreation Association Inc. was at the high point of their annual cash flow cycle when these decisions were made. The result is that when they reached the low point of their cash flow cycle this past year, they were slightly more than $150,000 into a line of credit they had arranged with their financial institution. Their financial institution expressed concern over this situation. In the meantime, a new Board of Directors took over the operations of the Maples Recreation Association Inc. and realized the Association had been too aggressive in wanting to pay down the mortgage.

The Recreation Association has provided their 2002 and 2003 year end financial statements which support the fact that they do not generate the type of surplus from operations each year that would warrant being able to pay down the mortgage as quickly as had been done in 2000 and 2002. In addition, they have provided comparative financial statements for the past 5 years as well as actual revenue and expenditures for the first 7 months of the current fiscal year and a projection to the end of the current fiscal year. It appears that their March 31st, 2004 operating results will be very close to their March 31st, 2003 results. As well, they have provided detailed cash flow projections for the next four years.

The projected revenues and expenditures were reviewed by Corporate Finance to verify the reasonableness of the projections. The net cash flow from operations of the Recreation Association is forecasted to be slightly positive as at March 31, 2004 ($2,973) and then generate positive surpluses averaging approximately $15,000 per year over the next 4 year period.

The Recreation Association has developed a committee structure to deal with various aspects of the operations of the Community Centre and Multiplex. They have established a Finance Committee which has created annual budgets for the Maples Community Centre and the Multiplex, including a 5 year budget for each entity. The annual budgets are being reviewed at each monthly board meeting. In addition, they are reviewing the various sport budgets with a view of having each sport operate on at least a breakeven basis and they have made changes with respect to their canteen operations which should provide future financial benefits. The Board has also created a Marketing Committee and Fundraising Committee to try and generate more revenue from the facility.

The 2004 to 2008 projections provided assume City Council approves the refinancing of the existing loan guarantee. Maples Recreation Association Inc.

currently has a loan guarantee outstanding with the Cambrian Credit Union. Financing has been discussed with Cambrian Credit Union and they are supportive of this new proposed arrangement. The anticipated new mortgage payments will not materially impact the operations of the Recreation Association.

G. *The organization structure and the principles of the organization must be judged by the City of Winnipeg as competent to independently implement the business plan of the organization*.

Maples Recreation Association Inc. has demonstrated the ability to implement the business plan for the Community Centre.

H. *Unless there are very special circumstances, the maximum amount of outstanding loan guarantees for any one organization will be $1,000,000.00.*

Including the amount of the extension being requested, the loan guarantee will be for a maximum of $366,000. Maples Recreation Association Inc. currently has a loan guarantee with the City with an outstanding balance of approximately $216,000 as of December 31st, 2003.

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 guarantees 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 original loan guarantee of $525,000, for the Maples Recreation Complex Inc., was approved by Council on June 26, 1990. There is approximately $216,000 remaining on the original loan guarantee. The amount of the loan guarantee being requested, including the $150,000 extension, is $366,000. This represents less than half of the depreciated value of the facility as of March 31, 2003.

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

The extension to the existing loan guarantee to Maples Recreation Association Inc. is for the re-mortgaging of the Maples Multiplex.

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

The Maples Multiplex is currently insured by the City.

The Maples Multiplex was constructed in 1990 at a cost of approximately $960,000. At that time Council approved a loan guarantee for $525,000. The Recreation Association has been diligent about making the payments on their mortgage. In an effort to pay off the balance even faster, they made extra principal payments of $88,500 in 2000 and $50,000 in 2002. In addition, they incurred some

one-time expenses related to renovations in their canteen which should prove to be financially beneficial going forward. This attempt to pay down the mortgage faster has led to cash flow concerns for the Recreation Association during the low period of their cash flow cycle. The request to increase their loan guarantee will allow them to be able to operate on a more financially stable basis. The additional financial exposure to the City in approving this increase is minimal.

Through the due diligence of the Maples Recreation Association Executive, there is an opportunity to resolve the current financial situation and continue the community-operated facility. Alternatively, if this financial situation is not resolved, it may become necessary for the City to assume operational responsibility for the facility, creating additional financial exposure for the City of Winnipeg.

FINANCIAL IMPACT STATEMENT

No Financial Impact

There is no financial impact to the City in the granting of a loan guarantee unless there is a default in the payments on the loan.

"Original signed by Carrie Erickson"
Carrie Erickson

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY:

Community Services
Legal Services

THIS REPORT SUBMITTED BY:

Corporate Finance Department
Financial Services
Prepared by: Garry Steski, Manager of Financial Services
File No.