Agenda – Executive Policy Committee – July 9, 2019

REPORTS

Item No. 6 Assiniboine Park Conservancy Amendment to Loan Guarantee

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the City's loan guarantee relating to APC's operating loan be:

   A. increased from $17 million to $20 million;
   B. extended to expire on December 31, 2023;
   C. amended from a portion that was non-revolving to revolving for the full value of the loan thereby permitting advances and repayments to assist in managing cash flow.

2. That the additional capital of $4.728 million approved in the 2019 capital budget be apportioned $3.383 million to Canada's Diversity Gardens (CDG) with the balance of $1,345 million to be used to fund phase 3 of the Kids Discovery Zone, ensuring the City's investment in the APC capital development plan does not exceed $50 million.

3. That the City enter into, execute and deliver all financial documents and amending agreements required to implement the foregoing, and that Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such financial documents and amending agreements in accordance with this report and any other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

4. That the proper Officers of the City be authorized to do all things necessary to implement the foregoing.

ADMINISTRATIVE REPORT

Title: **Assiniboine Park Conservancy Amendment to Loan Guarantee**

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

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Ruta	M. Ruta	P. Olafson. Interim CFO	M. Ruta, Interim CAO

EXECUTIVE SUMMARY

On July 19, 2017 Council approved a report entitled "Increase in Loan Guarantee on Assiniboine Park Conservancy Line of Credit and Approval of an Amendment to the Assiniboine Park Conservancy Development Plan". Recommendation 2 of the report approved extension of a line of credit to Assiniboine Park Conservancy (APC) to $17 million with repayment by the end of 2020 to assist in providing bridge financing with the planned construction of Canada's Diversity Gardens. APC has requested an increase of the operating line to $20 million and an extension of the loan guarantee commitment to the end of 2023. The estimated cost of the project has increased from $50 million in 2012 to $75 million in 2017 and recently to $97.8 million. APC intends to continue with its fund-raising efforts to finance the increase in cost and requires an extension in repayment of the operating facility to allow for adjustments in cash flow from fund-raising.

On March 20, 2019 Council adopted the 2019 operating budget which included recommendation 1 (f) requiring the Public Service to confirm that APC is complying with the lease and funding agreement (the "Lease"). The recommendation was initiated in response to actions taken by APC to contract out a portion of its operations (custodial services). The Public Service has verified there are no restrictions in the Lease prohibiting APC from contracting out its operations and APC has confirmed that such contracting out was undertaken pursuant to a modified competition; as a result, APC's actions to contract out custodial services do not breach the terms of the Lease. In terms of a high level review, the Public Service will be undertaking a review of APC's procurement policies (some of which are still under development) to ensure that such policies comply with the terms and conditions of the Lease.

RECOMMENDATIONS

1. That the City's loan guarantee relating to APC's operating loan be:

    A. increased from $17 million to $20 million;
    B. extended to expire on December 31, 2023;

C. amended from a portion that was non-revolving to revolving for the full value of the loan thereby permitting advances and repayments to assist in managing cash flow.

2. That the additional capital of $4.728 million approved in the 2019 capital budget be apportioned $3.383 million to Canada's Diversity Gardens (CDG) with the balance of $1,345 million to be used to fund phase 3 of the Kids Discovery Zone, ensuring the City's investment in the APC capital development plan does not exceed $50 million.

3. That the City enter into, execute and deliver all financial documents and amending agreements required to implement the foregoing, and that Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such financial documents and amending agreements in accordance with this report and any other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

4. That the proper Officers of the City be authorized to do all things necessary to implement the foregoing.

REASON FOR THE REPORT

Adjustments to loan guarantees require Council approval. Recommendation 1(f) in the 2019 operating budget states "That the Assiniboine Park Conservancy (APC) operating grant be approved, subject to confirmation from the Winnipeg Public Service that APC is in compliance with the lease and funding agreement." The recommendation relates to an inflationary increase provided in the current lease agreement of $202,000 requested in the 2019 budget.

IMPLICATIONS OF THE RECOMMENDATIONS

Loan guarantees represent financial commitments from the City which could result in financial loss in the event of default. APC prepares audited financial statements and has initiated an established financial reporting system and history of meeting its financial commitments.

HISTORY/DISCUSSION

Financing

Council approved a report entitled "Increase in Loan Guarantee on Assiniboine Park Conservancy Line of Credit and Approval of an Amendment to the Assiniboine Park Conservancy Development Plan" on July 19, 2017. Recommendation 2 of the report included the following:

> That subject to approval of Recommendation 1 and confirmation of incremental funding from the federal and provincial governments in a form satisfactory to the Chief Financial Officer, the following be approved:
>
> - A. Funding of $10 million be added to the Assiniboine Park Conservancy Capital Development Plan in the 2018 Capital Budget and refer consideration of funding

sources to the 2018 capital budget process in respect of Canada's Diversity Gardens.

- B. Additional capital of $4.7 million be referred to the 2018 Capital Budget process to provide temporary funding in 2019 for Canada's Diversity Garden and phase 2 of the Kids Discovery Zone thereby completing the City's obligation to fund $50 million of Capital Development improvements at Assiniboine Park.
- C. A loan guarantee of Assiniboine Park Conservancy's non-revolving term loan facility ($6 million outstanding at March 31, 2017), which expires on December 31, 2018 be extended to December 31, 2020 and increased to its previous level of $17 million to facilitate: construction, the ongoing collection of charitable donation pledges and federal and provincial government grants which are the source of repayment for the loan facility.

The 2016 Adopted Operating Budget approved a loan guarantee for operational cash flow management purposes in an amount not to exceed $500,000. This loan guarantee remains in place. In addition the recommendations remove the provision relating to the remaining non-revolving loans previously associated with the Journey to Churchill of approximately $3.5 million which will now form part of the $20 million revolving loan extension to the end of 2023.

The City met with representatives of APC and was advised the budget for the Canada Diversity Garden project had increased from $75 million to $97.8 million. A summary of discussions is provided below:

- The Class A estimate (equivalent to a Class 1 estimate applied by the City) currently places total cost of the project at $97.8 million. APC indicated several factors forced the project's price to escalate, including a one-year construction delay with respect to awaiting government funding confirmations, an increase in the price of steel and an underground stream that created a need for more expensive foundations. The complex design for CDG, an indoor structure that will offer precise light, temperature and humidity levels for a variety of plants, also played a role in the increase.
- It is anticipated that the project will reach substantial completion by August 14, 2020.
- APC has requested the City consider increasing its loan guarantee from $17 million to $20 million relating to its operating facility with RBC on a revolving basis beyond December 31, 2020 to December 31, 2023 to permit additional time for private fund raising.
- APC attended a Council Seminar on February 14, 2019 to provide an update of APC's progress to date with respect to the CDG project.
- Although APC has been very successful in fundraising, the extent of the new cost estimates represents a significant change. The revised estimate of $97.8 million represents a 30.4% increase over the original estimate of $75 million. The City highlighted potential interim measures in terms of reducing the scope of the project and delaying the award of future contracts such as landscaping until private fund raising is confirmed.
- At March 31, 2019, APC had received private donor pledges relating to the CDG project of $23.1 million which will be collected by the end of 2024. By the end of 2023, APC expects to fundraise $11.8 million of additional pledges to completely repay the operating facility.
- APC has requested the City consider reallocating $4.7 million previously committed to temporary funding for Diversity Gardens and phase 2 of the Kids Discovery Zone. Phase 2 of the Kids Discovery Zone has been funded by private donor contributions so APC has asked that $1.345 million of the total above be allocated to a planned Phase 3

expansion of the Kids Discovery Zone. Based on approval of recommendation 2, the balance totaling $3.383 million would be allocated to CDG increasing the City's contribution from $10 million to $13.383 million. In total, City funding will not exceed $50 million which is the extent of the City's commitment to the Capital Development plan.

- APC is aware that interest carrying costs need to form part of the project requiring funding.
- The City is in the process of assigning a staff person to work with the CDG project team to observe progress on construction. By agreement the capital maintenance grants reduce from $5.1 million to $2 million commencing in 2020. In addition the City and APC are in the process of evaluating use of past funding in maintaining City assets transferred for use by APC at the commencement of the lease.

Lease and Funding Agreement

As noted in the Executive Summary, Council asked the Public Service to ensure that APC was in compliance with the Lease. The Public Service has interpreted Council's request to apply to the issue of contracting out and the increase in requested operating budget of $202,000 in 2019. In this regard, the Lease provides APC with independence, flexibility and control to operate Assiniboine Park, and does not provide any restrictions on contracting out services. As a result, APC's actions in contracting out custodial services, which was undertaken pursuant to a modified competition, do not breach the terms of the Lease. In terms of a high level review, the Public Service will be undertaking a review of APC's procurement policies (some of which are still under development) to ensure that such policies comply with the terms and conditions of the Lease.

The operating baseline grant provided by the City to APC increases annually, with a 2019 increase of $202,000 to $11.078 million, representing increased salaries and benefits relating to the City's complement transferred at inception, utilities, insurance and inflation. In discussions with APC, APC advised that CUPE employment has increased from 128 positions in 2011 to 156 at the beginning of 2019. In addition, approximately 9 custodial positions were outsourced and all employees previously filling those positions were offered alternate employment with APC.

- On October 28, 2015, Council adopted a Debt Strategy for Tax Supported, Utilities and total City borrowing. This report requires an incremental $3,000,000 in debt financing. $190 million of tax supported borrowing capacity will remain if Council approves this Borrowing Authority. The impact of this Debt Financing falls within the debt limits established in the Council policy as outlined in the table below.

Tax Supported net debt as a percentage of revenue not to exceed	80%
Forecasted peak rate including proposed debt from this report	65.3%
Utilities net debt as a percentage of revenue not to exceed	220%
Forecasted peak rate including proposed debt from this report	155.7%
Total City net debt as a percentage of revenue not to exceed	90%
Forecasted peak rate including proposed debt from this report	78.2%
Tax Supported debt servicing as a percent of revenue not to exceed	10%
Forecasted peak rate including proposed debt from this report	5.5%
Utilities debt servicing as a percent of revenue not to exceed	20%
Forecasted peak rate including proposed debt from this report	12.0%
Total City debt servicing as a percent of revenue not to exceed	11%
Forecasted peak rate including proposed debt from this report	6.7%

Tax Supported Debt per Capita not to exceed	1,500
Forecasted peak rate including proposed debt from this report	1,139
Utilities Debt per Capita not to exceed	1,500
Forecasted peak rate including proposed debt from this report	1,388
Total City Debt per Capita not to exceed	2,800
Forecasted peak rate including proposed debt from this report	2,337

FINANCIAL IMPACT

Financial Impact Statement

Date: June 3, 3019

Project Name:

Assiniboine Park Conservancy Amendment to Loan Guarantee

First Year of Program **2019**

	2019	2020	2021	2022	2023
Capital					
Capital Expenditures Required	$ 4,728,000	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	4,728,000	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

2019 capital expenditures required of $4.728 million, approved by Council March 20, 2019, represent $3.383 million to Canada's Diversity Gardens (CDG) with the balance of $1.345 million to be used to fund phase 3 of the Kids Discovery Zone ensuring the City's investment in the APC capital development plan does not exceed $50 million. There is no financial impact to the City in granting the loan guarantee of $20 million unless there is a default in the payment of the loan.

Original signed by K. Lemoine

Kelly Lemoine, CPA, CA
Manager, Finance and Administrative Services
Community Services Department

CONSULTATION

In preparing this report there was consultation with:
Legal Services
Corporate Finance
Community Services

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: CFO's office
Division:
Prepared by: Mike Ruta
Date: June 4, 2019
File No: n/a