Agenda – Executive Policy Committee – June 18, 2020

REPORTS

Item No. 15 Loan Guarantee for The Convention Centre Corporation

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That The Convention Centre Corporation be authorized in accordance with subsection 6(1) of *The Convention Centre Corporation Act* to secure a secured borrowing facility in the amount of $7.5 million ("the borrowing facility") in favour of the Royal Bank of Canada upon terms and conditions determined by The Convention Centre Corporation ("CCC") and acceptable to The City of Winnipeg's Chief Financial Officer.

2. That a $7.5 million loan guarantee in favour of CCC as permitted under subsection 6(2) of *The Convention Centre Corporation Act* be approved, subject to a commitment from the Board of Directors of CCC to service the borrowing facility from the annual operating income of the RBC Convention Centre facility.

3. That the requirement of the Loan Guarantee Policy to require the borrowing facility be related to a capital asset be waived.

4. That in the event CCC is unable to service debt payments on the $7.5 million of the borrowing facility as demonstrated to the satisfaction of the Chief Financial Officer, that the Destination Marketing Reserve (CCC funds) be approved as a funding source for any shortfalls as determined annually by the Chief Financial Officer.

5. That once surpluses from CCC operations are identified, CCC reimburse the City for the full amount of any funds advanced by the Destination Marketing Reserve and any amounts owing under the borrowing facility, as determined by the Chief Financial Officer.

6. That the loan guarantee application processing fee and the loan guarantee standby fees applicable under the Fees and Charges Schedule be waived.

7. That the City enter into, execute and deliver all financial documents, amending agreements and such other agreements as determined necessary by the City Solicitor / Director of Legal Services to implement the foregoing (the "Ancillary Agreements").

8. That authority be delegated to the Chief Financial Officer to negotiate and approve the terms and conditions of such financial documents, amending agreements and Ancillary Agreements, 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.

WINNIPEG PUBLIC SERVICE RECOMMENDATION (continued):

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

ADMINISTRATIVE REPORT

Title: Loan Guarantee for The Convention Centre Corporation

Critical Path: Executive Policy Committee - Council

AUTHORIZATION

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

EXECUTIVE SUMMARY

This report is seeking approval for The Convention Centre Corporation ("CCC") to obtain a secured borrowing facility in the amount of $7.5 million ("the borrowing facility") due to economic hardship and future financial uncertainty that is a result of COVID-19. In addition, the recommendations request approval for The City of Winnipeg to be a guarantor of this $7.5 million borrowing facility.

The impact of COVID-19 and the corresponding public health orders has resulted in the cancellation or postponement of all events at the RBC Convention Centre until at least Fall 2020. It is not anticipated that event business will begin to return until public health orders that limit gathering sizes have been lifted. Even then, full resumption of event booking will not occur until the travel industry and business generally have also recovered.

The loss of events has and will continue to put significant strain on the RBC Convention Centre's cash flows. The CCC has prepared worst case financial projections assuming limited revenue for 2020. These projections indicate the CCC will require financial assistance as early as June 2020, for the remainder of the year and likely into 2021.

CCC is pursuing a number of other measures to mitigate against the negative financial impacts of the COVID-19 pandemic on the operations of RBC Convention Centre including cost reduction measures, investigating all government support programs, lobbying the federal government for additional financial support for convention centres, seeking compensation under insurance policies and investigating non-traditional business.

RECOMMENDATIONS

1. That The Convention Centre Corporation be authorized in accordance with subsection 6(1) of *The Convention Centre Corporation Act* to secure a secured borrowing facility in the amount of $7.5 million ("the borrowing facility") in favour of the Royal Bank of Canada upon terms and conditions determined by The Convention Centre Corporation ("CCC") and acceptable to The City of Winnipeg's Chief Financial Officer.

2. That a $7.5 million loan guarantee in favour of CCC as permitted under subsection 6(2) of *The Convention Centre Corporation Act* be approved, subject to a commitment from the Board of Directors of CCC to service the borrowing facility from the annual operating income of the RBC Convention Centre facility.

3. That the requirement of the Loan Guarantee Policy to require the borrowing facility be related to a capital asset be waived.

4. That in the event CCC is unable to service debt payments on the $7.5 million of the borrowing facility as demonstrated to the satisfaction of the Chief Financial Officer, that the Destination Marketing Reserve (CCC funds) be approved as a funding source for any shortfalls as determined annually by the Chief Financial Officer.

5. That once surpluses from CCC operations are identified, CCC reimburse the City for the full amount of any funds advanced by the Destination Marketing Reserve and any amounts owing under the borrowing facility, as determined by the Chief Financial Officer.

6. That the loan guarantee application processing fee and the loan guarantee standby fees applicable under the Fees and Charges Schedule be waived.

7. That the City enter into, execute and deliver all financial documents, amending agreements and such other agreements as determined necessary by the City Solicitor / Director of Legal Services to implement the foregoing (the “Ancillary Agreements”).

8. That authority be delegated to the Chief Financial Officer to negotiate and approve the terms and conditions of such financial documents, amending agreements and Ancillary Agreements, 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.

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

REASON FOR THE REPORT

Council approval is required for all of the recommendations of this report.

IMPLICATIONS OF THE RECOMMENDATIONS

- Approval of the recommendations and upon approval of same by its Board will enable CCC to meet its 2020 financial obligations for expenditures that are still being incurred for the RBC Convention Centre while no events are being held and no revenue is being generated.
- CCC will secure a borrowing facility of up to $7.5M, which will be secured by an existing general security agreement and guarantee of the City of Winnipeg.
- The City of Winnipeg will guarantee the $7.5 million borrowing facility. Any payments made by the City for this borrowing facility may be paid out of the Destination Marketing Reserve Fund (CCC funds) dependent on the financial status of CCC and will be

required to be repaid by CCC on a schedule, both to be determined by the Chief Financial Officer.

- Standard fees applicable to loan guarantee applications ($1,500 per application and 0.5% per year on outstanding balance) are recommended to be waived to limit financial hardship to the organization currently being experienced.

HISTORY/DISCUSSION

On May 28, 2020, CCC submitted a request (along with a business plan) to the City of Winnipeg, asking for the City's guarantee on a short term secured borrowing facility to a maximum of $7.5 million through June 30, 2022. At the end of this period, to the extent that there is any amount owing on this loan, CCC may refinance this and its existing term loan under an appropriate repayment structure. CCC is committed to minimize any draw on the borrowing facility.

Financial Status

The impact of COVID-19 and the corresponding public health orders have resulted in the cancellation or postponement of all events at the RBC Convention Centre until at least Fall 2020. It is not anticipated that event business will begin to return until public health orders that limit gathering sizes have been lifted. There is no timeline for the removal of the public health orders that directly affect normal business operations at the RBC Convention Centre. Even once the public health orders are removed, full resumption of event booking will not occur until the travel industry and business generally have also recovered; likely well into 2021.

As of May 26, 2020, CCC's operating cash position is $2.5 million.

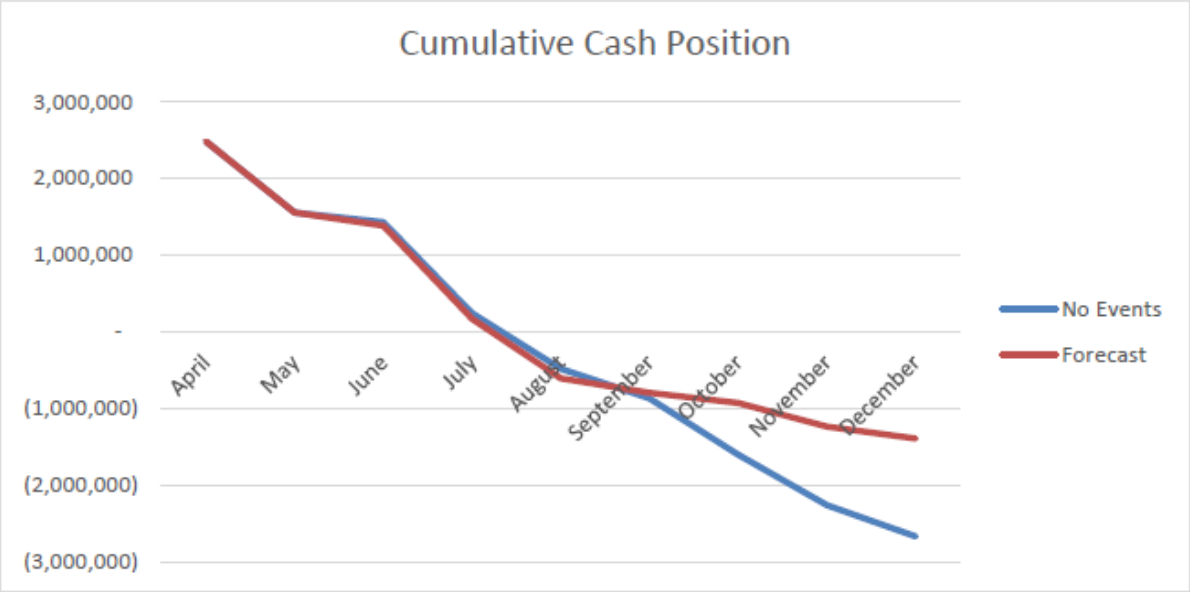
Its unaudited loss to April 30, 2020 is $1.3 million.

CCC has prepared two sets of unaudited financial projections assuming reduced revenue for 2020. In the first case (optimistic – "Forecast"), larger events are able to return in September. Financial projections are based upon events confirmed and contracted with CCC, with an allowance for cancellations. Parking demand returns in July with a re-opening of businesses in the surrounding area. Operating costs remain consistent with historical operations.

The second set of financial projections (pessimistic - "No Events") assume no events in 2020 with continued reduced parking traffic associated with the reduced levels of surrounding business.

The resulting effects on liquidity under either scenario are depicted in Table 1.

Table 1 – Projected Liquidity



Under the No Events financial projections, CCC's cash is overdrawn by close to $3 million by the end of 2020.

Operating losses are projected to be $3.5 million under the "Forecast" financial projections; $5.0 million under "No Events".

Financial Impact Mitigation Strategies

CCC is pursuing a number of other measures to mitigate against the negative financial impacts of the COVID-19 pandemic on the operations of RBC Convention Centre.

- CCC has already implemented cost reduction measures, resulting in savings of $2.3 million in overhead costs under the "Forecast" scenario; $3.3 million under the "No Events" scenario. These cost reduction measures include:
    - Immediate salary rollback (11%) of leadership positions through 2020.
    - Immediate wage rollback (7%) for all other non-union positions through 2020.
    - Hiring freeze on all vacant positions
    - Termination of three term salaried positions.
    - Temporary layoff notice to all members of IUOE (120 day notice period) – layoffs to be determined based on operational need.
    - Short-term layoff notices issues to members of CUPE (4 week notice period).
    - Temporary layoff of non-union staff.
    - All full-time operations staff instructed to utilize banked time and vacation leave.
    - Work-sharing for accounting and event coordination (60% reduction of regular hours).
    - No work assigned to casual positions.
    - Negotiated reduction of housekeeping contract.
    - Deferral of all major budgeted building improvements and IT enhancements.
    - Reduced waste removal, window cleaning service.
    - Cancellation of all travel and conferences.
    - Reduction of memberships.

Even with the above expenditure reductions in place, CCC experiences ongoing costs of approximately $775,000 per month for expenditures such as remaining salaries and benefits, utilities, security, and contracted services.

- CCC is actively pursuing all government programs. CCC is working with its accountants and Canada Revenue Agency ("CRA") to confirm its eligibility regarding the Canadian Emergency Wage Subsidy. The cash flow projections above do not factor in any funds received from that program until such time that CCC has been deemed eligible by CRA.

- CCC is actively engaged with the Convention Centres of Canada which is lobbying the federal government for additional financial support for convention centres to get through to COVID-19 recovery.

- CCC carries business interruption insurance and has filed a claim against this policy. CCC has received a formal denial of coverage response from its insurers as the COVID-19 pandemic is not an insured loss.

- CCC has a 2020 Sales and Marketing Plan that is now serving as a guide to recovery. The sales team of RBC Convention Centre has been working diligently for impacted events to reschedule these later into 2020 and beyond. The sales team has also been investigating non-traditional business such as hosting juried legal trials, film and television locales and hosting of other events.

These projections indicate CCC will require financial assistance as early as June 2020, for the remainder of the year and likely into 2021.

Destination Marketing Reserve Fund

The Destination Marketing Reserve Fund (DMRF) was assessed to determine whether sufficient funding existed to assist CCC temporarily during the COVID-19 pandemic. The DMRF is utilized annually to fund an operating grant to CCC as well as fund the debt payments related to the CCC expansion, as well as specific capital projects (fire stopping, fire damping and washroom renovations). The DMRF's revenue source is Accommodation Tax charged by hotels to its guests. With the hotel industry also seeing a considerable erosion of business, the Accommodation Tax being received has been reduced by approximately 90% of normal amounts. The financial projection of the DMRF (in Appendix 1) assumes this reduction in accommodation tax, with only a slight improvement in Fall of 2020. With the current payment obligations of the Reserve there is not sufficient funding to provide a loan to CCC without the Reserve ending in a deficit position in the near term.

If CCC were to fully draw on this borrowing facility, the annual debt servicing cost (interest only) is estimated to be $200,000 annually. As noted in Appendix 1, there is sufficient projected balance in the DMRF (CCC funds) to fund the annual debt servicing costs through June 30, 2022. The projections assume accommodation tax collections return to normal levels in 2021. Failure to reach those levels may require additional action.

Authority to Borrow

Section 6(1) of *The Convention Centre Corporation Act* provides for the following borrowing powers:

> With the approval of the Council of the City of Winnipeg, the corporation, upon terms and conditions determined by the corporation may,
>
> a) Issue bond, debentures, debenture stock or other securities of the corporation, and pledge or sell them for such sums, and at such prices, as are deemed expedient;
>
> b) From time to time, borrow or raise money for temporary purposes by way of overdraft, line of credit, or loan, or otherwise upon the credit of the corporation from a bank, in such amounts not exceeding in the aggregate the sum of $250,000 of principal outstanding at any one time, and for such periods, as are deemed expedient;
>
> c) Hypothecate, mortgage, or pledge the real or personal property of the corporation or both to secure any such bonds, debentures, debenture stock or other securities, and any money borrowed from the bank.

Section 6(2) of *The Convention Centre Corporation Act* indicates:

> The City of Winnipeg may, on such terms as may be approved by the Council of the City of Winnipeg, guarantee the payment of all or any of the borrowings of the corporation, and the interest thereon, under this section.

The City currently guarantees $33 million of external debt for CCC related to the expansion project and is presently servicing this debt out of the Destination Marketing Reserve Fund.

Any debt servicing of the $7.5 million borrowing facility could be granted out of the Destination Marketing Reserve (CCC funds), the necessity of such to be determined by the Chief Financial Officer.

Loan Guarantee

City Council adopted a Loan Guarantee Policy effective September 28, 2016. This policy provides the City with an approved framework for managing loan guarantees. The criteria for the loan guarantee have been reviewed and have been determined to have been met with one exception.

This loan guarantee is to support operations of CCC. The borrowing facility, therefore, is not directly associated with a capital asset or project. As such, a recommendation to waive this specific requirement has been included in the recommendations to the report.

Debt Strategy

On October 28, 2015, Council adopted a Debt Strategy for Tax Supported, Utilities and total City borrowing.

In addition to the debt implications from this report, this Debt Strategy section has been prepared considering one other report having debt implications:

- *Addressing the Financial Challenges of COVID-19 – Additional Proposed Actions out of the COVID-19 Crisis Cash Flow Management Plan*

Subject to approval of the recommendations of this report, additional borrowing by CCC of up to $7,500,000 is available through this borrowing facility.

$86 million of Tax Supported and $110 million of Utilities borrowing capacity will remain if Council approves the recommendations of both reports, including this one.

The impact of this debt financing falls within the debt limits established in the Council Policy as outlined in Table 2 below:

Table 2 – Debt limits

Tax Supported net debt as a percentage of revenue not to exceed	80%
Forecasted peak rate including proposed debt from this report	66.6%
Utilities net debt as a percentage of revenue not to exceed	220%
Forecasted peak rate including proposed debt from this report	99.4%
Total City net debt as a percentage of revenue not to exceed	90%
Forecasted peak rate including proposed debt from this report	80.3%
Tax Supported debt servicing as a percent of revenue not to exceed	10%
Forecasted peak rate including proposed debt from this report	5.1%
Utilities debt servicing as a percent of revenue not to exceed	20%
Forecasted peak rate including proposed debt from this report	9.4%
Total City debt servicing as a percent of revenue not to exceed	11%
Forecasted peak rate including proposed debt from this report	6.6%
Tax Supported Debt per Capita not to exceed	1,500
Forecasted peak rate including proposed debt from this report	1,166
Utilities Debt per Capita not to exceed	1,500
Forecasted peak rate including proposed debt from this report	828
Total City Debt per Capita not to exceed	2,800
Forecasted peak rate including proposed debt from this report	2,095

FINANCIAL IMPACT

Financial Impact Statement

Date: June 11, 2020

Project Name:

Loan Guarantee for The Convention Centre Corporation

First Year of Program **2020**

	2020	2021	2022	2023	2024
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	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

1. Providing a loan guarantee to the Winnipeg Convention Centre Corporation does not create any immediate financial implications. However, should payments under this guarantee be required the payments will be made from the Destination Marketing Reserve Fund under the CCC Future Capital Works account.

electronically signed by T. Yanchishyn

Tanis Yanchishyn, CPA, CA
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:
The Convention Centre Corporation
Legal Services (as to legal issues)

OURWINNIPEG POLICY ALIGNMENT

N/A

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: Controllership
Prepared by: T. Yanchishyn
Date: June 11, 2020
File No:

Attachments:

Appendix 1 – Destination Marketing Reserve Fund

Appendix 2 – The Convention Centre Corporation Debt and Related City Support

Appendix 1 –
Destination Marketing Reserve Fund

Financial Projections	2019 Actuals	2020 projected	2021 projected	2022 projected	2023 projected
Opening Balance, Destination Marketing Reserve Fund	$ 14,833,623	$ 11,253,711	$ 2,419,178	$ 1,752,663	$ 1,180,148
Revenues					
Accommodation Tax	10,009,474	2,500,000	10,000,000	10,100,000	10,200,000
Interest	205,626	**135,000**	**29,000**	**21,000**	**14,000**
Total revenues	10,215,100	2,635,000	10,029,000	10,121,000	10,214,000
Expenses					
Winnipeg Convention Centre					
$16m loan (City - $8m)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
$17m loan - debt servicing; $16m loan - interest	1,178,695	1,273,432	1,200,000	1,200,000	-
Fire stopping, fire damping, washrooms	2,080,096	1,769,904	-	-	-
Offset - Stuart Olson liquidated damages	-	(1,750,000)	-	-	-
WCC Expansion ($51m) - principal and interest	2,182,014	2,182,015	2,182,015	2,182,015	2,182,015
Downtown Safety Strategy - Phase 1	555,866	967,767	-	-	-
Downtown Safety Strategy - Phase 2	-	806,601	62,500	-	-
	6,996,671	6,249,719	4,444,515	4,382,015	3,182,015
Operating grant	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
WCC Total	8,496,671	7,749,719	5,944,515	5,882,015	4,682,015
Economic Development Winnipeg					
Operating grant	4,042,936	2,889,172	3,500,000	3,535,000	3,570,000
Special Event Marketing Fund	1,126,617	699,227	1,166,530	1,192,211	1,218,047
EDW Total	5,169,553	3,588,399	4,666,530	4,727,211	4,788,047
General Revenue Fund					
Costs	80,406	82,416	83,470	85,289	86,953
Investment management fees	48,383	49,000	1,000	(1,000)	(3,000)
	128,789	131,416	84,470	84,289	83,953
Total expenditures	13,795,013	11,469,534	10,695,515	10,693,515	9,554,015
Closing Balance, Destination Marketing Reserve Fund	$ 11,253,711	$ 2,419,178	$ 1,752,663	$ 1,180,148	$ 1,840,133
Destination Marketing Reserve Fund Equity					
WCC for Future Capital (37.5%)					
Opening	$ 10,756,747	$ 7,513,628	$ 2,201,410	$ 1,506,895	$ 912,380
Accomodation Tax (37.5%)	3,753,553	937,500	3,750,000	3,787,500	3,825,000
WCC capital expenditures	(6,996,671)	(6,249,719)	(4,444,515)	(4,382,015)	(3,182,015)
Closing	7,513,628	2,201,410	1,506,895	912,380	1,555,365
Unallocated	3,740,083	217,768	245,768	267,768	284,768
	$ 11,253,711	$ 2,419,178	$ 1,752,663	$ 1,180,148	$ 1,840,133

Appendix 2 –
The Convention Centre Corporation Debt
and Related City Support

As reported in its audited financial statements for the year ended December 31, 2019, CCC is reporting the following debt:

Demand loan - $10,250,000

Description:
This loan relates to the recent expansion. It is evidenced by a promissory note and secured by a general security agreement and a guarantee from The City of Winnipeg. The demand loan bears interest at RBC prime rate minus 1% (2.95% as at December 31, 2019), maturing December 31, 2023.

Originally financed with a $33 million credit agreement (authority to borrow approved by Council on July 18, 2012). Effective May 31, 2016, CCC revised this credit to $16 million demand loan. On January 31, 2019, Council approved, commencing in 2019, annual payments of $1 million from the Destination Marketing Reserve Fund (DMRF) for the purpose of reducing the City's 50% share of the $16 million demand loan (Province of Manitoba is committed to fund the other 50% share). Commencing in approximately 2023, the $1 million payment will be partially made through tax increment financing (220 Carlton Street) previously approved by Council in 2012.

Long-term debt - $16,059,470

Description:
This loan also relates to the recent expansion. It is secured by a guarantee from The City of Winnipeg. Annual blended payments are $987,892 and bear interest at 4.04%, maturing March 31, 2046.

Refinanced out of original loan of $33 million credit agreement as a $17 million term loan. On September 30, 2015, Council approved that if CCC is unable to service debt payments on the $33 million total loan guarantee as demonstrated to the satisfaction of the Chief Financial Officer, the DMRF will fund any shortfalls as determined by the Chief Financial Officer. This expires once a hotel development in the area of RBC Convention Centre is complete. Once surpluses from CCC operations are identified, CCC will reimburse the City the full amount of funds advanced by the DMRF and applied to the $17 million loan.

In addition, the City is servicing $41 million in long-term debt used to finance the expansion. On July 18, 2012, Council approved the creation of a new 2012 capital project for a grant to CCC for the expansion in an amount of $51 million to consist of and be financed by up to $51 million of external debt. The approval provided that prior to debt, this would be financed by the balance of the DMRF at December 31, 2012. This amounted to $10 million. Debt servicing of this external debt is to be drawn from the DMRF.

As well, on January 22, 2019, Council approved grants of 4.85 million to CCC in respect of improvements necessary to achieve final occupancy status – washroom improvements, fire stopping and fire damping. Repayment of this on an interest-free basis is to be determined by the Chief Financial Officer.