Agenda - Executive Policy Committee - July 14, 2004

REPORTS

Item No. 3 Loan Guarantee - Gateway Recreation Centre Inc.
File FC-2.2

STANDING COMMITTEE RECOMMENDATION:

On July 6, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and recommends to the Executive Policy Committee:

1. That the analysis on the request for a loan guarantee for Gateway Recreation Centre Inc. outlined in the administrative report dated June 29, 2004 be received as information.

2. That the existing loan guarantee(s) to Gateway Recreation Centre Inc. (totalling approximately $2,116,000.00) be increased by $185,000.00.

3. 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 July 6, 2004, the Standing Committee on Fiscal Issues concurred in the administrative recommendation and submitted its recommendation to the Executive Policy Committee.

COMMUNITY COMMITTEE RECOMMENDATION:

On June 1, 2004, the East Kildonan-Transcona Community Committee supported in principle the request for a loan guarantee in the amount of $185,000.00 to the Gateway Recreation Centre Inc., and referred the matter to the City Treasurer to review and determine if the request meets the requirements of the Council Policy for Loan Guarantees, for report directly to Executive Policy Committee.

ADMINISTRATIVE REPORT

RE: LOAN GUARANTEE REQUEST FROM GATEWAY RECREATION CENTRE INC.

FOR SUBMISSION TO: STANDING COMMITTEE ON FISCAL ISSUES

ORIGINAL REPORT SIGNED BY: CHIEF FINANCIAL OFFICER

REPORT DATE: June 29, 2004

RECOMMENDATION (S):

That Council receive the following analysis as information in response to the request from Gateway Recreation Centre Inc. for an increase of $185,000 to the existing loans guaranteed by the City. Gateway Recreation Centre Inc. currently has three different loans outstanding which are guaranteed by the City totalling approximately $2,116,000.

REPORT SUMMARY:

Key Issue(s):

Involves a request for approval to increase the amounts on two of the existing loan guarantees Gateway Recreation Centre Inc. currently has from the City.

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): Gateway Recreation Centre Inc. requires additional funding to install a new condenser as well as resolve an outstanding issue with respect to Goods and Services Tax on the construction of their twin arena and soccer complexes. They have discussed the restructuring of their loans with Cambrian Credit Union and the credit union supports the restructuring.

Policy Implications

	No
X	**Yes**

Comment(s): Council's adopted policy with respect to loan guarantees is for a maximum amount of $1,000,000 unless there are very special circumstances. Gateway Recreation Centre Inc. currently has three different loans outstanding totaling approximately $2,116,000 which are guaranteed by the City.

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): There is no financial impact on the City associated with the recommendations of this report unless Gateway Recreation Centre Inc. defaults on the loan.

REASON FOR THE REPORT:

On June 1, 2004 the East Kildonan-Transcona Community Committee passed the following Minute No. 247:

"The East Kildonan-Transcona Community Committee supports in principle the request for a loan guarantee in the amount of $185,000.00 to Gateway Recreation Centre Inc., and referred the matter to the City Treasurer to review and determine if the request meets the requirements of the Council Policy for Loan Guarantees, for report directly to Executive Policy Committee."

HISTORY:

Gateway Recreation Centre Inc. provides community-based sports and recreation activities for residents of Winnipeg in the Northeast area of the City. In 1994, Council approved a loan guarantee of $1,000,000 for Gateway Recreation Centre Inc. for the construction of a twin arena complex. In 1998, Council approved a new loan guarantee of $1,591,000 for the construction of an indoor soccer complex. In 2001, Council approved another loan guarantee of $214,000 related to upgrading deficiencies in the ice plant and ice shed at the complex. As of December 31, 2003, Gateway had a total of approximately $2,116,000 of loans outstanding which were guaranteed by the City.

During the construction of their twin arena and soccer complexes, Gateway took advantage of paying a reduced level of Goods and Services Tax on some of the activities associated with the projects as they believed they were entitled to the reduced level as a result of their relationship with the City. Subsequently, Canada Customs and Revenue Agency has reassessed Gateway's payment of GST and disallowed a portion of these claims. CCRA has asked that the tax owing be paid including interest and penalties. To date Gateway has been assessed more than $17,000 in interest and penalties. While Gateway intends to continue to pursue the reduced level they believe they are entitled to, they have decided to settle with CCRA to prevent incurring further interest and penalty costs. In this regard, they have set up a receivable on their books in anticipation of eventually being able to recover the amounts claimed. In fact, two other large community centres have joined Gateway in pursuing this matter with CCRA. In addition to the GST issue, Gateway is required to replace their Compressor for their twin ice complex at a cost of approximately $85,000.

DISCUSSION:

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 with 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, 2003 the City of Winnipeg was the guarantor of 15 different loans totalling just over $10.8 million.

The following is an evaluation of the information as provided by Gateway Recreation Centre 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 June 1, 2004 meeting of the East Kildonan-Transcona Community Committee, the request from Gateway Recreation Centre Inc. for the loan guarantee was forwarded to the City Treasurer for review. Corporate Finance Department staff were in contact with representatives from Gateway Recreation Centre Inc. to clarify any concerns arising from the analysis of the information provided.

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 Gateway Recreation Centre Inc. provides community-based sports and recreation activities for residents of Winnipeg in the Northeast 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 project for which the loan guarantee is being requested is not in conflict with City policy as it relates to an existing facility which currently has a loan guarantee from the City.

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.*

Gateway Recreation Centre 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.*

Gateway has provided their December 31st, 2003, financial statements which contain comparable figures for 2002. In addition, their financial statements from 2000 and 2001 were also available for review. Comparative information for the first 4 months of each year from 2001 through to 2004 was also provided. For the year ending December 31, 2003, Gateway generated a loss of approximately $18,000 after taking into consideration approximately $159,000 of amortization costs. In 2002, they generated a surplus of $1,399 after taking into account the amortization costs of approximately $166,000. Based on the actuals for the first 4 months of the current fiscal year ending December 31, 2004, Gateway should be able to generate a small surplus similar to 2002.

The projections for the loan payments provided by Gateway assumes the approval of the $185,000 being requested. Gateway has established a pattern of continually paying a higher amount than what is required on their monthly amortization schedule in order to pay off their debt at a faster pace. Even with the additional $185,000, Gateway's loan payments will be higher than what is required as they intend to keep them at current levels.

Gateway operates on a budget of $1.3 million in revenues and expenditures and had a net asset position of just over $900,000 as of December 31, 2003, the majority of which is invested in capital assets.

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*.

Gateway Recreation Centre 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.*

The loan guarantee being requested is for an additional $185,000. As of December 31, 2003, Gateway Recreation Centre Inc. had outstanding loans totalling approximately $2,116,000 which were guaranteed by the City.

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*.

Gateway Recreation Centre Inc. has a total of approximately $2,116,000 of loans currently guaranteed by the City relating to three previous projects undertaken and

this increase of $185,000 represents about 9% of that total. A large part of the increased amount being requested would have been required when the original loans were guaranteed had Gateway paid the GST in full during the construction of those projects. The remainder of the increase being requested represents the cost of replacing the compressor in their twin arena complex.

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

The loan the City would be guaranteeing is related to the twin arena complex and indoor soccer complex which Gateway Recreation Centre Inc. operates.

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

Gateway Recreation Centre Inc.'s assets are insured through the City's Risk Management division of the Corporate Finance Department.

In summary, Gateway Recreation Centre Inc. operates a twin arena complex and indoor soccer facility in the Northeast area of the City. During the construction of their twin arena and soccer complexes, Gateway took advantage of paying a reduced level of Goods and Services Tax on some of the activities associated with the projects as they believed they were entitled to the reduced level as a result of their relationship with the City. CCRA reassessed Gateway's payment of GST and subsequently asked that the tax owing be paid including interest and penalties. To date Gateway has been assessed more than $17,000 in interest and penalties. While Gateway, along with two other large community centres, intends to continue to pursue the reduced level they believe they are entitled to, they have decided to settle with CCRA to prevent incurring further interest and penalty costs, pending the outcome of the appeal. A large part of the increase of the loan guarantees being requested would have been required when the original loans were guaranteed had Gateway paid the GST in full during the construction of the related projects. In addition, Gateway is required to replace their Compressor for their twin arena complex at a cost of approximately $85,000. The additional exposure to the City in approving the increase in the existing loan guarantees is minimal.

FINANCIAL IMPACT STATEMENT

There will be no financial impact to the City as long as the loan being guaranteed is not in default.

"Original Signed by Carrie Erickson"
Carrie Erickson, Manager of Finance and Administration
Corporate Finance

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

THIS REPORT SUBMITTED BY:

Corporate Finance Department
Financial Services
Prepared by: Garry Steski, Manager of Financial Services
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