Agenda – Executive Policy Committee – April 18, 2023

REPORTS

Item No. 15 Request for Loan Guarantee - Southdale Recreation Association Inc. – North Fitness Expansion (St. Boniface Ward)

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That a loan guarantee in favour of the Southdale Recreation Association Inc. for the North Fitness Expansion in the amount of $1,700,000 be approved, contingent upon the Southdale Recreation Association Inc. securing projected grant funding of up to $400,000 from other levels of government.

2. That the requirement that this loan guarantee be secured by the Financial Stabilization Reserve, as per the Loan Guarantee Policy, be waived.

3. That authority be delegated to the Chief Financial Officer to negotiate and approve the terms and conditions of the loan guarantee and the ancillary documents, 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.

4. That the Proper Officers of the City do all things necessary to implement the foregoing.

ADMINISTRATIVE REPORT

Title: Request for Loan Guarantee - Southdale Recreation Association Inc. – North Fitness Expansion

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
C. Stubbs	C. Kloepfer	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The Southdale Recreation Association Inc, doing business as Southdale Community Centre (the "Applicant") is requesting a loan guarantee from the City of Winnipeg to add a fitness centre, a new multi-purpose room and renovate existing meeting rooms. This work will enable the Applicant to provide additional programming and facility space to meet the growing needs of the community.

The population served by the Applicant continues to grow and totals 30,334 based on the 2021 census as Sage Creek and BonaVista are developed further. In 1996, the census documents a population of 13,860 in the catchment. By 2011, this increased to 22,485.

The Applicant is asking for a loan guarantee of $1,700,000 under the Council-adopted Loan Guarantee Policy.

RECOMMENDATIONS

1. That a loan guarantee in favour of the Southdale Recreation Association Inc. for the North Fitness Expansion in the amount of $1,700,000 be approved, contingent upon the Southdale Recreation Association Inc. securing projected grant funding of up to $400,000 from other levels of government.

2. That the requirement that this loan guarantee be secured by the Financial Stabilization Reserve, as per the Loan Guarantee Policy, be waived.

3. That authority be delegated to the Chief Financial Officer to negotiate and approve the terms and conditions of the loan guarantee and the ancillary documents**,** 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.

4. That the Proper Officers of the City do all things necessary to implement the foregoing.

REASON FOR THE REPORT

Council approval is required for all loan guarantees.

IMPLICATIONS OF THE RECOMMENDATIONS

When the City guarantees a loan, it discloses this potential liability in the Financial Statements. If the Applicant is in default of the loan agreement, the City would be obligated to make payments on the loan, amend the loan terms with the lender, or potentially loan directly to the Applicant to ensure the loan payment obligations are met. The City does not have a separate reserve to protect itself against potential default of loan guarantees.

The City's Financial Stabilization Reserve (FSR) provides some loan default protection in this regard. The maximum threshold on the total amount of loan guarantees commitments made by the City of Winnipeg to non-consolidated entities is capped at the lesser of the target level in the FSR or the actual balance. The unaudited FSR balance was $5.252 million as of December 31, 2022. The balance of the FSR is not sufficient to cover a loan default for existing outstanding loan guarantees.

HISTORY/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 that Council may provide; one form being a loan guarantee.

The City adopted a Policy and Criteria to be used as a Guideline in the Consideration of Request for Loan Guarantees (the "Loan Guarantee Policy") on September 28, 2016. Loan guarantees constitute meaningful commitments by the City and these commitments are 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 at December 31, 2022, the City of Winnipeg was the guarantor for nine different organizations totalling just under $77.3 million.

In 2009, the Southdale Recreation Association Inc, doing business as Southdale Community Centre, (the "Applicant") proposed the construction of a new arena, a new pleasure skating rink, and change rooms to complement the existing facility at an estimated cost of $8,351,192 inclusive of taxes.

A $3,200,000 term loan was required to finance the project and a loan guarantee request was approved in December 2009. As of December 31, 2022, the loan is up to date with a remaining balance of $1,704,804. The City has not assisted in any way with the existing loan and is satisfied with the Applicant's management of their financial responsibilities.

The Southdale Community Centre catchment (SCC) continues to grow rapidly as the Southdale Recreation Association Inc. (SRA) accommodates their residents' needs, the availability of room usage is severely strained and users have been turned away. In 2018, the Applicant created a pilot project which incorporated the Sage Creek Leisure Rink into a year-round fitness centre and created an additional multi-purpose room from a storage area.

The success of this pilot project demonstrated the feasibility of the North Fitness Expansion and, therefore, │X│ Architecture was contracted by SRA Management, the City of Winnipeg (Asset Management and Planning, Property and Development departments), and GCWCC. |X| Architecture has achieved 90% planning completion and the project is shovel-ready. The expansion could start in Fall 2023 with completion in Summer 2024.

The expansion will showcase a new fitness centre that will house an open exercise area, exercise equipment, turf training strip and walking track. A new audio-visual multi-purpose room is also included for presentations and training sessions. A gender-neutral change room will allow fitness centre users a private place to change with shower and washroom facilities. A new entrance to the underutilized north parking lot will increase accessibility, especially for seniors who will use the area. The renovated hallway will house a universal washroom, additional storage space and access to three additional multi-purpose rooms. The existing multi-purpose and meeting rooms will be joined to create a larger space and will include the installation of a room divider to separate groups if required.

The addition of these new amenities will also allow for the reopening of the leisure rink. A Class 1 construction estimate, prepared by GWH Construction Management Services, of $3,118,619 plus GST (-10% - +10% accuracy of tender prices) has been provided to the City. As it is difficult to predict the financial implications of potential supply chain issues, the Applicant has set a higher range budget of $3,430,481.

The Applicant is requesting a loan guarantee for $1,700,000 to be amortized with the existing loan guarantee for the West Expansion (approved in December 2009.) This will minimally affect the payment amount and terms.

The North Fitness Expansion funding outline is as follows:

$1,700,000	Loan, guaranteed by the City of Winnipeg
$ 830,481	Current assets
$ 500,000	Fundraising, sponsorship and advertising campaigns
$ 400,000	Grant funding
$3,430,481	

The Applicant is working toward Provincial funding (up to $1.7 million) and smaller grants ($25k-$400k) but is unable to acquire firm commitments until the loan guarantee is approved. Fundraising is underway and $424,000 is currently held in the Applicant's High-Interest Savings Account. Hosting tournaments with raffles and a 50/50, bingos, and a "Spin-a-thon" are some of the planned events over the coming months to specifically raise additional funds.

The Public Service has been involved in the project to help ensure alignment with relevant City standards such as the Winnipeg Accessibility Design Standard. The Fitness Expansion will increase the size of the recreation centre and, therefore, the annual universal funding formula (UFF) grant payments will increase accordingly.

The following is the criteria and policy related to requests for loan guarantees as adopted by Council on September 28th, 2016:

A. *The Public Service will consider requests for loan guarantees from organizations that have a direct affiliation with the City's service delivery.*

The Applicant is a recreational organization that provides services from a City-owned facility.

B. *The organization requesting the loan guarantee must provide a service, which is compatible with the City's authority to provide loan guarantees as set forth in The City of Winnipeg Charter and, in whole or in part, falls within the mandate of the City of Winnipeg.*

The Applicant operates a multi-purpose recreation centre which includes an indoor arena, banquet hall, multi-purpose room and full-service canteen. The North Fitness Expansion project will add additional programming, storage room and add accessibility features to the centre.

C. *The organization's services and assets must be available to the community at large without restrictions based upon ethnicity, religion, race or sexual orientation and without unreasonably restrictive membership or user fees.*

The services are available to the community at large, without restrictive membership policies or user fees.

D. *The organization must be non-profit.*

The Applicant is a non-profit organization.

E. *The organization structure and the principals of the organization must be judged by the Chief Financial Officer of the City of Winnipeg as competent to manage the project and to independently implement the Business Plan of the organization.*

The Applicant has been in existence for almost 50 years. Over the years, each new Executive with the assistance of the community has worked to ensure the long-term viability of the recreation centre.

In 2009, the City guaranteed a loan for the Applicant with RBC for $3,200,000. As of December 31, 2022, the balance outstanding is $1,707,804. The Applicant has demonstrated ability to meet its obligations with respect to the current outstanding loan guarantee and projects positive cash flows to meet the future payments of the new loan.

F. *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 North Fitness Expansion project is not in conflict with City policy.

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

The project is related to a City-owned capital asset. Southdale Recreation Centre currently houses two full-size indoor ice rinks, a multi-use gymnasium, two multi-purpose rooms, two kitchens and a pleasure skating rink which is temporarily closed to test the viability of a year-round fitness centre. Once the expansion is complete, the Centre will have a new fitness centre, multi-purpose room and a gender-neutral change room and better access to parking. Current meeting rooms and multipurpose rooms will be

renovated creating more storage and more accessibility within their existing facility, and the pleasure skating rink will be reopened.

H. *The capital asset must be insured to the satisfaction of the Chief Financial Officer both during and after construction. The City's interest is to be protected as a mortgagee on insurance policies, subject to a Standard Mortgage Clause.*

The facilities operated by the Applicant are owned by the City and are currently insured by the City.

I. *The organization must follow the City's asset and project management processes, in particular, risk assessment and the establishment of proper budget contingencies.*

Management of the Applicant has been actively working with the City of Winnipeg Public Service and the GCWCC.

J. *Loan Guarantees will not be considered for amounts under $1,000,000.00.*

The loan guarantee is for an amount of up to $1,700,000.

K. *The loan that the City is being asked to guarantee should not represent more than 50% of the total funding of the project.*

The loan guarantee amount of $1,700,000 represents 49.6% of the estimated project cost.

L. *The amortization period of the loan and the associated loan guarantee cannot exceed the life of the asset.*

The loan and loan guarantee do not exceed the life of the asset.

M. *Requests for loan guarantees must be supported by a comprehensive and feasible Business Plan which includes the information necessary to make a decision with respect to approving a loan guarantee, which includes demonstrating the ability to repay the loan.*

The Applicant submitted a comprehensive Business Plan, financial and other information outlining the project.

Financial information from the Applicant shows net income from 2018 to 2022. In 2020, net income of $4,029 was earned throughout COVID closures and, in 2021 and 2022, net income increased to $210,046 and $180,415, respectively, which greatly surpassed pre-COVID profits. The Applicant forecasts a drop in net income during 2023 and 2024 to $75,000 and $30,100 due to construction expenses within areas of the facility not yet accessible for revenue. Net income then recovers in 2025 to 2027, ranging from $105,900 to $144,000. The revenue projections provided by the Applicant use moderate inflationary increases, conservative participation growth. and demonstrate the Applicant's ability to service the loan.

The Applicant's year-end financial statements show sufficient current assets to fund approximately 25% of the project costs, as shown in the funding outline.

FINANCIAL IMPACT

Financial Impact Statement **Date:** March 9, 2023

Project Name:

Request for Loan Guarantee - Southdale Recreation Association Inc. – North Fitness Expansion

COMMENTS:

There are no immediate financial implications from the recommendations in this report. If Southdale Recreation Association Inc. (SRA) defaults on its loan, the City would be obligated to make payments on the loan, amend the loan terms with the lender or potentially loan directly to the Community Centre to ensure the loan payment obligations are met. Any financial implication of the default will be assessed when and if SRA defaults on the loan obligation, as this cannot be predicted at this time.

Lioubov Gavrilova-Crozier, March 9, 2023

Lioubov Gavrilova-Crozier, CPA, CA
Manager of Finance & Administration (Campus)

CONSULTATION

This Report has been prepared in consultation with:

- Corporate Finance department - Controllership and Risk Management divisions.
- Community Services – Finance and Asset Management Offices.
- Legal Services

OURWINNIPEG POLICY ALIGNMENT

Our Winnipeg 2045 Goal: Good Health and Well-Being

4.1 Health Equity – Provide municipal services through a health equity lens, to fully leverage desired health and safety outcomes through proactive community development opportunities.

4.11 Equitable Service Access – Prioritize equitable access to recreation and parks systems, services, and infrastructure, in order to: enable active living; connect people and nature; create supportive environments; build community capacity; and achieve desired health outcomes with a focus on children and youth.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

N/A

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

N/A

SUBMITTED BY

Department: Corporate Finance
Division: Treasury
Prepared by: Cathy Stubbs Supervisor of Treasury
Date: March 14, 2023
File No: N/A