

TCU Place Financial Support

ISSUE

The COVID-19 pandemic and closure of TCU Place for an extended period of time has halted the ability for the Arts and Convention Centre to generate revenue while still having operating expenses to support a skeleton staff and to maintain the building. A short-term cash flow shortfall is forecast to bridge the facility's operations until future investments mature rather than liquidating these at significant penalty.

RECOMMENDATION

That the Governance and Priorities Committee recommend to City Council:

1. That the City of Saskatoon provide a short-term line of credit to TCU Place as per the terms identified in the report of the Chief Financial Officer dated June 21, 2021, for cash-flowing operations up to a maximum of \$3 million for a term no more than three (3) years with an option for extension subject to City Council approval;
2. That the City Solicitor's Office prepare the necessary bylaw for City Council approval;
3. That appropriate public notice be provided; and
4. That the City Solicitor's Office be authorized to prepare the appropriate agreement for the line of credit, and that the Mayor and the City Clerk be authorized to execute the agreement under the Corporate Seal.

BACKGROUND

Since the pandemic was declared in March 2020, TCU Place has been essentially closed except for a small number of allowed events.

TCU Place has requested short-term cash flow assistance from the City of Saskatoon (City) to bridge the operations until maturity of TCU Place held investments up to 2024.

Currently, a small number of staff are still required to run the building, plan for future events and deal with customer inquiries regarding cancelled or rebooking of events.

TCU Place receives a \$500,000 operating grant per year from the City. The City also covers the annual contribution to the Civic Buildings Comprehensive Maintenance Reserve which in 2021 is \$1,078,400. In addition, the City covers a small amount of a loan repayment resulting from the TCU Place expansion project in 2007 of \$180,000 per year in which 2021 is the final year of the payment.

TCU Place posted an operating deficit in 2020 of \$2.96 million in which it covered the entire amount through reductions to its reserves to balance the books. Most of the remaining reserve funds of \$8 million are invested with varying maturity dates from 2022 until 2024.

DISCUSSION/ANALYSIS

While TCU Place has reserve funds available to offset operating losses, the organization prior to the pandemic, had invested about \$8 million in a number of investments to optimize the value of the funds that were earmarked for future use. Unfortunately, with the pandemic, TCU Place's 2020 operations were significantly affected which forced the City's arms-length corporation to dip into its cash reserves to balance its books. The 2021 forecast is also negative with an expected deficit of approximately \$2.7 million which will require funding to backfill the loss. Should TCU Place not be able to fund this deficit, the City would be required to fund the shortfall.

TCU Place has reserve fund balances that could be used to offset the 2021 and future years' operating shortfalls, however, these funds are invested and will mature in various amounts and dates from 2022 until 2024. TCU Place could liquidate these investments but at a significant penalty estimated at \$19,000 per investment. Therefore, TCU Place approached the City's Administration for other options to cash flow its operations for the short term. This request was for an operating line of credit that would be secured by TCU Place investments and would be repaid to the City upon maturity of these investments.

TCU Place acted early when the pandemic was declared, immediately laying off part-time, casual and non-essential staff, as well as reducing all full-time staff members to 80% hours. The total staff complement was reduced from 63.5 full-time-equivalents (FTEs) to 18. In 2020, 380 events were cancelled and about \$8.1 million in event revenue was lost, which was a decrease in revenue from the previous year by over 75%. The net operating income for 2019 was a surplus of \$860,000, while 2020 posted a deficit of \$2.96 million. TCU Place reduced expenditures in 2020 by \$5.2 million.

Throughout 2020 and 2021, a skeleton team delivered a few small events and conducted sales activities to ensure viability of future events. TCU Place applied for and were denied the Canadian Emergency Wage Subsidy due to the building being owned by a municipality. Delegates from TCU Place met with several members of parliament and funding bodies to attempt to secure funding but discovered they were not eligible for the majority of the programs; however, TCU Place did receive approximately \$50,000 in provincial tourism supports.

TCU Place is preparing for minimal activity in the summer of 2021 with six concerts, up to three weddings subject to provincial health regulations, and some smaller meetings. Staff will be brought back as allowed but will require retraining after 18 months out of service, and new staff will also need to be hired. As indicated by TCU Place, they are preparing for a busy fall.

The Cities Act does not allow the City to lend money to third-party organizations or individuals except if "the loan is made to one of its controlled corporations or business improvement districts established by it" (Section 151(1)(b)). Therefore, this line of credit loan would be permissible under *The Cities Act*.

Terms of the Line of Credit Loan

The terms of the line of credit loan that both the City and TCU Place Administrations have agreed upon, and in which the TCU Place Board of Directors endorse, are as follows:

- Maximum amount of the line of credit is \$3 million.
- Maximum length of time the line of credit is outstanding is three (3) years, with an option for extension upon City Council and TCU Place Board of Directors approvals.
- Interest rate applied to the outstanding balance on the line of credit will be applied on a monthly basis (at month end) at a rate equal to the City's investment income rate plus a small premium for administration which would be recalculated each year on January 1. (The current rate to applied to the line of credit starting in 2021 would be 1.24% per annum.)
- TCU Place is not required to make any payments on the outstanding balance over the life of the line of credit but must have it fully paid off within the three (3)-year term.
- TCU Place would secure the line of credit with its investments.
- TCU Place Board of Directors and City Council would both need to approve the Line of Credit and terms of this short-term loan.

FINANCIAL IMPLICATIONS

In order to offset any impact to tax payers, the loss of available investment income by funding this line of credit needs to be assessed an interest charge equal to the investment rate, plus offset the Administration's efforts to monitor, bill and collect the funds which is the premium being charged and included in the interest rate being assessed to TCU Place. This rate is being set at 1.24% which will be reassessed on January 1, 2022 and annually on January 1 for the duration of the line of credit.

TCU Place Administration is confident that once fully reopening the Arts and Convention Centre, revenues will rebound and they will be able to generate the funds to return to a profitable enterprise and cover any interest charges of the line of credit. TCU Place's investments will be secured against this line of credit posing no risk to the City, as the investment balances well exceed the line of credit maximum.

POLICY IMPLICATIONS

Council Policy No. C03-027, Borrowing for Capital Projects, was recently amended by City Council at its meeting on November 30, 2020, that clarifies that borrowing may be done internally through an investment of its own available cash balances similar to investments the City makes externally. While this lending of money is not for a capital project, the mechanism of using the City's available cash balances as an investment for internal projects is allowed.

OTHER IMPLICATIONS

There are no privacy, legal, social, or environmental implications.

NEXT STEPS

Upon City Council approval of the line of credit loan, the TCU Place Board of Directors must also approve this loan and provide a written resolution confirming its approval.

Upon verification of approval by both parties, the City Solicitor's Office will prepare the necessary bylaw for City Council approval, loan agreement and appropriate Member's Resolutions as the sole member of the corporation.

REPORT APPROVAL

Written by: Kerry Tarasoff, Chief Financial Officer

Approved by: Jeff Jorgenson, City Manager

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