

WINSPEAR EXPANSION PROJECT - INTERIM FINANCING REQUIREMENTS

Recommendation

That the March 5, 2025, Financial and Corporate Services report FCS02920, be received for information.

Requested Action		Information only	
ConnectEdmonton’s Guiding Principle		ConnectEdmonton Strategic Goals	
CONNECTED This unifies our work to achieve our strategic goals.		Urban Places	
City Plan Values	BELONG. LIVE. ACCESS. PRESERVE. CREATE.		
City Plan Big City Move(s)	A community of communities	Relationship to Council’s Strategic Priorities	Arts and culture
	A rebuildable city		
Corporate Business Plan	Transforming for the future		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none">Bylaw 16521 - City of Edmonton Capital City Downtown Community Revitalization Levy Bylaw		
Related Council Discussions	<ul style="list-style-type: none">April 28, 2015 City Council, Community Services report CR_2004 Francis Winspear Centre for Music - Staged Funding AgreementMay 25/26/27, 2020 City Council, Financial and Corporate Services report CR_8009, Spring 2020 Supplemental Capital Budget AdjustmentAugust 31, 2020 City Council, Integrated Infrastructure Services report CR_8363, Downtown District Energy Initiative - Winspear AgreementJuly 4, 2023, City Council, Integrated Infrastructure Services report IIS01386, Downtown District Energy Initiative - Project UpdateMarch 20, 2024 Executive Committee, Urban Planning and Economy report UPE02234, 2024 Community Revitalization Levy Update - Downtown, The Quarters Downtown, BelvedereJanuary 22, 2025, Financial and Corporate Services report FCS02831, Winspear Expansion Project		

WINSPEAR EXPANSION PROJECT - INTERIM FINANCING REQUIREMENTS

Previous Council/Committee Action

At the January 22, 2025, Executive Committee meeting, the following motion was passed:

That Administration work with The Francis Winspear Centre for Music to provide a report with further information and steps required to implement Option 5, Interim financing to complete construction until final funding can be secured, as outlined in the January 22, 2025, Financial and Corporate Services report FCS02831, including options for the City to provide operating grants or enable new revenue sources to service the debt.

Executive Summary

- The Francis Winspear Centre for Music (the Winspear) is undertaking an expansion project that will add over 50,000 square feet of new space and is expected to generate an estimated \$4.5 million in economic benefits during its first year. Designed with a second performance hall, classrooms, and mixed-use immersive spaces, the expansion is intended to meet the needs of artists, youth, the public and community groups.
- The Winspear has secured \$84.8 million of funding, leaving a gap of \$33.4 million with no final funding secured.
- Administration has explored the possibility of interim financing. However, this is not considered a viable option as no final source of funding has been identified and the Winspear does not have the capacity to repay a loan.
- Given interim financing is not feasible, any support for the Winspear would need to be provided in an operating grant. A one-time funding source would need to be identified for the grant.
- The Financial Stabilization Reserve (FSR) is not considered a valid funding source as it is currently below the minimum required balances. Any amounts drawn from the FSR will affect the FSR repayment strategy, which will have an impact on the Pay-As-You-Go replenishment and the planned approach to create a dedicated universal renewal fund.
- Funding \$33.4 million from tax levy would require a one-time tax increase of 1.7 per cent.
- Providing any form of funding to Winspear for this project is outside the normal budget decision making and prioritization process. Typically, funding requests of this nature are considered during the budgeting process alongside all other priorities.

REPORT

The Francis Winspear Centre for Music (the Winspear), located in the Edmonton Arts District, is undertaking a significant expansion project to add a second performance hall (the Music Box), classrooms and mixed-use spaces. The expansion project is expected to generate 3,500 construction and 1,800 creative jobs. The completed Winspear Centre will host 2,000 patrons nightly, run daytime programming and attract tourists, generating an estimated \$4.5 million in economic benefits during its first year.¹ The expansion aims to enhance community engagement

¹ <https://www.winspearexpansion.ca/expansion>

WINSPEAR EXPANSION PROJECT - INTERIM FINANCING REQUIREMENTS

and educational programming, including a new 550 seat performance venue with increased accessibility.

The Winspear project started in 2011, fifteen years ago, with a concept design of a stand alone development of Lot 97. Today, the project represents the integration of the two structures. The initial project design of a stand alone building with a multi story parking structure was changed to an integrated building, connecting the existing concert hall, and adding programming spaces and improvements to the existing facility to increase facility versatility. An above ground parking structure was removed, substituted by underground parking, and the District Energy Plant was also integrated. The budget for the new design including all commercial components was \$89.2 million in 2019.

The economic environment of the pandemic not only raised the costs of construction (due to inflation and supply chain issues) but also impacted the business case of the remaining commercial space of the building, prompting more redesign allowing for increased community programming. Post COVID, the total cost of all components of the project was \$115.2 million, but capital renewals that have intersected the project timelines bring the total to \$118.2 million. The Winspear has secured \$84.8 million of funding, leaving a gap of \$33.4 million.

Loans to Not-For-Profit

Under section 264(2) of the *Municipal Government Act* (MGA), municipalities are able to loan money to non-profit organizations if Council considers that the money loaned will be used to benefit the municipality. If the City provided a loan to the Winspear, two sources of funding would need to be identified: the City's source of funds for providing the money to the Winspear, and the Winspear's source of funds for repaying the loan to the City. A loan could be interim financing or long term financing.

City's Source of Funds for Providing a Loan to the Winspear

The City is unable to borrow funds through the Government of Alberta Treasury Board and Finance (and in turn use those funds to establish a loan arrangement with Winspear) as the Winspear facility is not a City asset. This leaves working capital (cash available from the City's day-to-day operations, cash management and investments) as the only available option to loan funds to Winspear. Following the City's best practices, when the City issues loans to other organizations with working capital as a source of funds, the amount of the loan is to be appropriated within the Financial Stabilization Reserve (FSR) as a backstop in the event the organization is not able to repay the loan, or a portion of the loan.

At the end of 2024, the FSR was below the minimum balance. As part of the Fall 2024 Supplemental Operating Budget Adjustment (SOBA), Council approved an exemption to City Policy to allow for a five year repayment strategy for replenishing the FSR (instead of the required three year payment plan). At the March 18, 2025, City Council meeting, Administration will present FCS02818 Pay-As-You-Go Replenishment and Dedicated Universal Renewal Fund - Draft Strategy. In addition to the five year plan to replenish the FSR, this repayment strategy will replenish Pay-As-You-Go funding in response to decisions in the Fall Supplementary Operating Budget and Capital Budget Adjustments. Once the FSR is back above the minimum balance and Pay-As-You-Go is fully replenished, funding will be redirected towards a new Dedicated Universal

WINSPEAR EXPANSION PROJECT - INTERIM FINANCING REQUIREMENTS

Renewal Fund. The appropriation of an additional \$33.4 million within the FSR would push the FSR further below its minimum balance and impact the aforementioned strategies.

Based on this, Administration would not recommend the use of working capital as a funding source for providing a loan to the Winspear.

Winspear's Source of Funds for Repaying Loan to the City

Regardless of the term of the loan (interim or long term), Administration must identify how the loan will be repaid.

Interim Financing:

Interim financing is generally used to cover a temporary cash shortfall between when construction payments need to be made, and when a known source of funding will be available. As noted in the January 22, 2025, Financial and Corporate Services report FCS02831, a source of funding to repay an interim loan for the \$33.4 million shortfall has not been identified, and no significant additional funding opportunities have been identified. The Winspear's Executive team has also indicated that they have explored all significant funding opportunities and there are no additional revenue opportunities or grants available that could be used to fund the expansion (or repay interim financing provided by the City). Furthermore, completing the project with interim financing may make the Winspear ineligible for new grants or other funding opportunities since expenditures incurred prior to a new grant agreement are often considered ineligible.

Without a permanent source of funding identified, an interim loan to the Winspear would be considered high risk and is not advisable.

Long-term Financing:

The Winspear has indicated that without an on-going annual operating subsidy from the City they would not be able to pay back the loan from the City. Any loan would have a maximum repayment term equal to the initial term of the lease ending March 15, 2045 (up to 20 years). Administration's practice is to provide operating funding through short-term agreements (generally four years). The Winspear Executive has indicated that an operating subsidy would be required to guarantee repayment of the loan over a 20 year term.

An operating subsidy that provides funding to repay a loan is not a viable option and is considered challenging for the following reasons:

- Providing an operating subsidy to repay the loan offers loan forgiveness at the point in time the loan is provided and is essentially a grant with funds distributed in advance. The MGA does not contemplate a loan arrangement of this nature.
- A loan with a corresponding grant is unusual as it is not based on commercially reasonable terms and will require tax levy funding to repay.
- A loan of this nature could set a precedent for other non-profit organizations who find themselves in similar situations approaching the City for funding.
- A loan arrangement will require the City to grant \$2.7 million every year for 20 years for a total undiscounted cost of \$54 million. Alternatively a grant of \$33.4 million would require a one

WINSPEAR EXPANSION PROJECT - INTERIM FINANCING REQUIREMENTS

time tax increase of 1.7 per cent in 2025 but require less funding from tax payers in the long run.

Required Steps prior to entering a Loan Agreement

The Board of Directors for the Winspear would need to authorize the loan financing arrangement between the City and the Winspear. A loan agreement and bylaw would be required with a maximum term for repayment equal to 20 years. Loan agreements and related bylaws require clear repayment terms, therefore the operating subsidy would need to be established and incorporated into any loan agreement. Conditions normally placed on loans to non-for-profits include semi-annual payments of principal, interest and an administration fee until the loan has been fully repaid. Interest charged is usually based upon indicative interest rates from the City's lender, the Government of Alberta, at the time of the lending. The estimated annual debt servicing of a \$33.4 million loan for 20 years at current rates of interest would result in annual payments of principal and interest of \$2.7 million. Without a long-term operating support agreement it is unlikely that a loan will be authorized by the Winspear's board.

Steps required to proceed with a loan include:

- Council direction to Administration to draft terms for a lending agreement for Council approval, and a new loan bylaw for first reading. The lending bylaw will require advertising and the required petition period prior to second and third readings.
- Council approval to appropriate \$33.4 million of FSR funds to backstop the loan to Winspear.
- Administration would analyze the impact of this decision on the five year repayment strategy to replenish the FSR to its minimum balance, repay the Pay-As-You-Go reserve, and implement the Dedicated Universal Renewal Fund (currently scheduled for the March 18, 2025, City Council meeting).

One-Time Operating Grant

The option of providing a one-time operating grant towards the Winspear's \$33.4 million funding gap was explored within the January 22, 2025, Financial and Corporate Services report FCS02831. The most significant challenge with a grant is the lack of funding source.

- Pay-As-You-Go, a flexible source of funding that could be utilized to provide grant funding if required, is oversubscribed. The balance is currently in a deficit position based on decisions made during the Fall 2024 Supplemental Capital Budget Adjustment to reduce transfers to Pay-As-You-Go in order to reduce the tax levy increase in 2025 and 2026. A strategy to replenish Pay-As-You-Go and create a dedicated universal renewal fund will be discussed at the March 18, 2025, City Council meeting.
- Using the FSR to fund a grant is not advised as it is already below its minimum balance. Use of the FSR has implications on the strategy to replenish the FSR which in turn impacts the strategy to replenish Pay-As-You-Go that was reduced as part of the 2024 Fall Capital and Operating Supplementary Budget Adjustments and the strategy to create a dedicated universal renewal strategy.

Council could implement a one-time tax increase to fund the \$33.4 million funding request. This would equate to approximately 1.7 per cent tax increase in 2025.

WINSPEAR EXPANSION PROJECT - INTERIM FINANCING REQUIREMENTS

Budget and Financial Implications

Financial implications have been identified through the report. Administration cautions that the desire to find a creative solution to the current challenge of insufficient funding risks entering an arrangement that is more costly in the long term. Decision making should focus on whether to fund the \$33.4 million and if so at the full amount or a partial amount.

Providing funding to Winspear for this project is outside the normal budget decision making and prioritization process. Typically, funding requests of this nature are considered during the budgeting process alongside all other priorities.

If Council is not comfortable to make the decisions at this time, Winspear will continue with its current construction staging program as funding becomes available.

Community Insight

Administration has not completed public engagement specific to the Winspear or the expansion project. However, groups such as the Edmonton Chamber of Commerce, Edmonton Downtown Business Association, Building Owners and Managers Association (BOMA) Edmonton and the Downtown Revitalization Coalition emphasize the importance of safety and vibrancy in the downtown core. Industry's Downtown Investment Plan identifies the Winspear Expansion Project as a recommended short term investment action. The Winspear contributes to this vibrancy, welcoming over 250,000 visitors each year², which is expected to increase following the completion of the expansion.

In an online survey, conducted in April 2024 for the Rice Howard Way Entertainment District³ respondents chose live music as the number one activity they would be most interested in visiting in an entertainment district.

GBA+

The Winspear provides a range of immersive programs that enable visitors of all ages and from all walks of life to explore music, creation and connection. The expansion would provide even more opportunities for classes, workshops and immersive experiences, including the creation of a new performance venue with increased accessibility.

Environment and Climate Review

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

² <https://www.winspearcentre.com/more/about/about-winspear/>

³ <https://engaged.edmonton.ca/entertainmentdistrict>