

Fort Edmonton Management Company

Operating Loan Request

Recommendation

That Executive Committee recommend to City Council:

1. That the terms of the loan agreement between the City of Edmonton and Fort Edmonton Management Company, for an amount not to exceed \$1.688 million, as outlined in Attachment 1 of the November 30, 2020, Citizen Services report CS00179, be approved, and that the agreement be in form and content acceptable to the City Manager.
2. That \$1.688 million be appropriated from the Financial Stabilization Reserve in the event of a default of the loan.

Executive Summary

Fort Edmonton Management Company has requested a loan of \$1.688 million from the City of Edmonton as a short-term solution to address current operational challenges the company is experiencing.

Report

Fort Edmonton Management Company requires operational funds to ensure Fort Edmonton Park can open as planned in 2021. The park has been closed for general admissions for two years due to the Fort Edmonton Park Enhancement project work. In 2020, the park was also closed to most rentals to allow construction activity at the park to occur without interruption to ensure the project is completed on schedule. COVID-19 restrictions impacted Fort Edmonton Management Company's financial and operational position as rentals had to be cancelled and employees laid off.

Fort Edmonton Management Company has pursued a number of mitigation strategies including operating and staff reductions and exploring funding through grants, sponsorships, and other partnerships. While some funding has been received for targeted operational or programming elements, it does not solve the immediate funding needs to cover costs for the remainder of 2020 and to get the park operational for 2021. The Fort Edmonton Management Company is requesting a \$1.688 million loan to continue the work required to open the Indigenous People's Experience along with the remainder of the park next summer.

The Fort Edmonton Management Company worked with the Social Enterprise Fund to secure a loan of the same amount for the development and operations of the Indigenous People's Experience. Terms of the loan from Social Enterprise Fund included simple interest of 5.5 percent per year, a five-year term, and monthly blended payments. Pre-disbursement requirements/conditions of the loan included:

- A. A guarantee from the City of Edmonton for the full amount of the loan;
- B. Signed copies of the Memorandum of Understanding signed with the Confederacy of Treaty Six First Nations and the Metis Nation of Alberta, and;
- C. Development of acceptable outcomes measurements, especially around the First Nations' ongoing appraisal of and engagement in the new facility

The loan from the City would be made in lieu of the Fort Edmonton Management Company accepting a loan offer from the Social Enterprise Fund. The interest rate offered in a loan from the City would reflect the City's own current cost of borrowing at the time of lending. The indicative five-year term rate has been just under 1 percent since July 2020. This could mean interest savings of up to \$200,000 over the term of the loan.

Administration will bring forward a loan bylaw for first reading at the December 7, 2020 City Council meeting.

Budget/Financial Implications

The loan not exceeding \$1.688 million, would be appropriated from the City's Financial Stabilization Reserve, to be used in the event of a default by the Fort Edmonton Management Company. After approval of this loan, the balance of the unappropriated Financial Stabilization Reserve would be approximately \$133.5 million which is above the minimum level of \$115 million and below the target level of \$191 million as set in City Policy C217D Reserve and Equity Accounts and based on the 2019 audited financial statement. The loan would be repaid over a five-year term and bear interest at a rate based upon indicative interest rates from the City's lender, the Government of Alberta, at the time of the lending. Adjustments to the operating budget including annual interest and administration fee received on the loan will be brought forward as a part of the Spring 2021 Supplemental Operating Budget Adjustment.

The City of Edmonton is the sole shareholder of Fort Edmonton Management Company, a non-profit company. City Council, in their role as shareholder of Fort Edmonton Management Company, is required to authorize all borrowings made by the company. The financial results of Fort Edmonton Management Company are consolidated within the City of Edmonton's financial results therefore the loan from Social Enterprise Fund to Fort Edmonton Management Company would have impacted the City's borrowing limits with or without the guarantee. The guarantee was requested by SEF as the Fort Edmonton Management Company has limited assets to

secure the loan. If Fort Edmonton Management Company were to accept the loan from Social Enterprise Fund, in the event of default the City would be responsible for the payment of the loan. The risk of guaranteeing the loan is consistent with the risk of lending the money directly. Lending the money directly will allow the City to incorporate reporting requirements and conditions into the lending agreement.

Fort Edmonton Management Company is confident that repayment is achievable as the Park reopens and their cash flow stabilizes. Their projected cash reserve by the end of 2024 is \$3.2 million, excluding impacts of this loan. If Fort Edmonton Management Company cannot repay the loan, the City would take all steps necessary under the loan agreement to enforce payment.

Legal Implications

The loan agreement would contain a term that the loan is conditional upon first, second, and third reading of a loan bylaw. This would include both the required advertising and petition process. Under the *Municipal Government Act* sections 264 and 265, the City has the ability to loan to a non-profit organization and controlled corporation, through an advertised loan bylaw, if City Council considers that the use of the money loaned would be used for a purpose that would benefit the municipality.

Public Engagement

Public engagement was not conducted for this report as loan terms are created by Administration and City Council approval is required.

Corporate Outcomes and Performance Management

Corporate Outcome: The City of Edmonton has a resilient financial position			
Outcome	Measure	Result	Target
The loan to FEMCo does not adversely impact the City of Edmonton's financial position	FEMCO projected cash reserve	Oct 2020: \$1.3 million	2024: ~ \$3.2 million

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
If recommendation is approved						

Fort Edmonton Management Company - Operating Loan Request

Financial	Fort Edmonton Management Company projected cash flows are lower than anticipated impacting the ability to repay the loan	3 - Possible	3 - Major	9 - Medium	Support Fort Edmonton Management Company leadership on cost reduction and revenue generating strategies to ensure projected cash flows are achieved	
Commercial	The City does not negotiate a new management agreement with Fort Edmonton Management Company before the expiry of the loan agreement potentially affecting loan repayment	2 - Unlikely	2 - Minor	4 - Low	Working with Fort Edmonton Management Company to get a new management agreement in place before the current agreement expires	
If recommendation is not approved						
Financial	Fort Edmonton Management Company would not have financial resources to open the park and Fort Edmonton Management Company would have to scale down or phase the reopening	4 - Likely	3 - Major	12 - Medium	Support Fort Edmonton Management Company in the development of contingency planning on how to reopening to maximize revenue while minimizing costs	
Public Perception	Fort Edmonton Management Company would not have financial resources to open the park and the park would remain closed leading to a poor perception of the City	4 - Possible	2 - Minor	8 - Low	Work with Fort Edmonton Management Company on communications to the community explaining the situational impacts that led to this direction	

Attachment

1. Terms of the Loan Agreement between The City of Edmonton and Fort Edmonton Management Company

Others Reviewing this Report

- M. Persson, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- B. Andriachuk, City Solicitor