



CITY OF  
ST. CATHARINES

## Corporate Report

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**Report from** Financial Management Services, Accounting and Payroll

**Date of Report:** July 4, 2013

**Date of Meeting:** July 22, 2013

**Report Number:** FMS-200-2013

**File:** 68.45.99 & 10.57.11

**Subject:** Niagara Symphony Association Line of Credit Renewal

### Recommendation

That Council approve the request from the Niagara Symphony Association ("Symphony") for a one year extension in the Line of Credit Guarantee from the City of St. Catharines in the amount of \$60,000, with the following conditions:

- Restrictions on the use of the Line of Credit as deemed prudent by the Director of Financial Management Services
- Regular reporting of financial status, internal prepared and externally audited financial statements and business plans/budgets
- Monthly reports from the applicable financial institution on the amount advanced against the Line of Credit
- A member of City Council remain appointed to the Niagara Symphony Association's Board of Directors for the term of the guarantee
- Any request for a temporary or permanent increase in the Line of Credit be approved by the Director of Financial Management Services; and

Further, that the City Solicitor be directed to prepare the necessary by-law authorizing the execution of the agreements and other related documents. FORTHWITH

### Summary

At the February 22, 2010 City Council meeting, Council provided the Symphony with a guarantee for a working Line of Credit obtained from the Royal Bank of Canada (RBC) in the amount of \$60,000 for a period not to exceed thirty months. A one year extension was granted by Council at its meeting held July 23, 2012.

The extension is due to expire on September 5, 2013. The Symphony has requested that the City extend the guarantee for an additional year. Council must decide no later than August 6, 2013 whether to extend the guarantee for the Line of Credit.

Staff recognizes that the Symphony is an important programming component for the Performing Arts Centre. Section 107(2) of The Municipal Act gives City Council the authority to make a grant which includes the power to guarantee a loan.

## **Background**

At the February 22, 2010 City Council meeting, Council provided the Symphony with a guarantee for a working Line of Credit obtained from the Royal Bank of Canada in the amount of \$60,000 for a period not to exceed thirty months. The Symphony requested that Council provide a one year extension which was approved by Council at its meeting held July 23, 2012.

The one year extension is due to expire on September 5, 2013 and the Symphony has requested that the City extend the guarantee for the Symphony's Line of Credit for an additional year. If Council decides to decline the Symphony's request for an additional year, the City must give RBC 30 days notice to terminate the Line of Credit agreement. Therefore, Council must decide no later than August 6, 2013 whether to extend the guarantee for the Line of Credit.

## **Report**

### **Background Information – Niagara Symphony Association**

The Symphony is a charitable organization employing a 52 member professional orchestra with the goal to "serve the residents of Niagara by providing concerts and educational programs." Per Symphony management, they have an annual audience of 8,000 patrons for 14 concerts held at Brock University each season.

The Symphony is involved in music education, providing in-school concerts and master classes and an annual Summer Music Camp at Ridley College. The Symphony has also developed a Composer in the Classroom Programme (Primary School), a Musical Encounters Programme (High School), a Youth Club, and Post-Secondary Student Ticketing which provides affordable access to Symphony programming (University).

### **Financial Results - Niagara Symphony Association**

The Symphony's audited financial statements for the year ended July 31, 2012 show a "Deficiency of Revenue over Expenses for the Year" (Net Loss) of \$94,244 in 2012 and \$17,934 in 2011. Note that the Symphony's results in 2011 were stronger due to a one time concert held at the Jackson Triggs Amphitheatre with Canadian singer Chantal Kreviazuk with ancillary revenues generated from the documentary recorded by HBO Canada and CD sales of the live concert. The Net Loss per the 2010 audited statements was \$64,134.

The "Net Deficiency" for the Symphony grew to \$284,079 in 2012 from \$189,835 in 2011. This figure represents the excess of liabilities over assets. As at July 31, 2012, the Symphony had \$53,102 in assets with \$337,181 of liabilities.

The audited financial statements show that the Symphony is accumulating losses year over year and that as at July 31, 2012 for every \$1 in assets held the Symphony has \$6.35 in liabilities.

In the Notes to the Financial Statements, the Symphony stated that “Management recognizes that the cumulative deficiency from operations is significant and the Symphony’s ability to operate in the future is dependent upon increasing revenues.”

While the 2013 operating year has not yet been completed, internal non-audited financial statements from Symphony management project that the Symphony will generate Net Income before Extraordinary Items of \$527.

### **Reliance on Line of Credit**

In the original request for the City to guarantee the Line of Credit, the Symphony stated that “The Symphony also respectfully requests that this guarantee be provided for a period not to exceed Thirty (30) months, during which time our debt-load will have been eliminated and we will have earned our own unsecured working Line of Credit.” Symphony management has stated to Staff that their intent is to ultimately secure the Line of Credit without City assistance however they are currently unable to do so.

Deferred revenue represents amounts collected for the subsequent performance season. At the end of 2012, the Symphony had collected \$177,090 in deferred revenue with a cash balance of \$4,942. This indicates that the Symphony is funding current year operations with money collected for future year performance.

Symphony management recognizes the heavy reliance on the Line of Credit for their operations and the need to increase revenues. Management acknowledges the risks regarding their cash flows. As of June 30, 2013, Symphony management states that none of the payable balance of approximately \$40,000 is older than 90 days. A review of the Symphony’s June 2013 Line of Credit statement shows a nil balance.

### **Future Outlook**

During the 2013 fiscal year, the Symphony hired a new Managing Director to oversee operations. Part of the incoming Managing Director’s mandate was to stabilize the Symphony’s financial situation through an emphasis on fundraising and controlling costs.

According to the Symphony’s internally generated statements, the Symphony is projected to generate a Net Income Before Extraordinary Items of \$527 in 2013 which is a dramatic improvement from the 2012 audited statements which show a Net Loss of \$94,244.

Net fundraising income has increased by \$75,873 which accounts for most of the projected improvement. Symphony management has emphasized corporate sponsorships and fundraising events in addition to the traditional individual donations.

The remainder of the improvement comes from the projected decrease in non-fundraising expenses of \$14,802.

### **Other Considerations**

The Symphony has been working closely with the City as it is anticipated that they will be a significant partner in the opening of the City's Performing Arts Centre. In discussions with Symphony management, they believe that they would be unable to secure a suitable Line of Credit without City assistance and that the Symphony's operations, at this time, may not be feasible without a Line of Credit.

Section 107(2) of The Municipal Act gives City Council the authority to make a grant which includes the power to guarantee a loan. The City has the ability to make such grants on such terms as to security and otherwise as Council considers appropriate and in the best interest of the municipality. Currently, the City is the guarantor for the Operating Line of Credit of the Niagara Grape & Wine Festival in addition to the Symphony. Should either organization default, the City would be responsible to pay the outstanding loan amount. Effectively, this would result in an automatic grant being paid to that organization.

If Council were to deny the Symphony's request to extend the Line of Credit for an additional year, there is a risk that RBC would call the Line of Credit. As of June 30, 2013 the Line of Credit has a nil balance however as previously indicated the Symphony uses cash received upfront for future performances to fund current liabilities. Without a Line of Credit mechanism to manage cash flows, Symphony operations could be impaired due to the inability to satisfy outstanding payables.

### **Developing a Line of Credit Guarantee Policy**

On July 23, 2012, Councillor Stevens requested that staff prepare a Line of Credit Guarantee Policy. After careful consideration, Staff recommends against adopting a Line of Credit Guarantee Policy. By adopting a policy, the City may further encourage organizations to approach Council for Line of Credit Guarantees, each of which brings additional financial risk to the City in the event that any of these organizations default on their loan.

Due to the inherent risk to the City, Staff typically recommend that all Line of Credit Guarantees be denied. Note that the Line of Credits currently guaranteed by the City were approved by Council by virtue of Section 107(2) of the Municipal Act for organizations that were deemed by Council to be appropriate and in the best interest of the municipality.

With the exception of the City of Toronto, staff was unable to find another municipality with a Council approved Line of Credit Guarantee Policy.

## **Financial Implications**

A loan guarantee has no immediate financial impact for the City, but does result in the potential for an automatic grant in the future should the Symphony encounter further financial difficulties and default on their Line of Credit.

Each year Council provides an allocation in its annual budget to fund municipal grants. In 2013, 100% of the municipal grants budget was allocated to specific grants. Therefore, if the Symphony were to default on their Line of Credit, there are no funds available in the 2013 municipal grants budget to accommodate the potential default. This exposure would be restricted to the lesser of the original guarantee of \$60,000 or the amount actually advanced against the Line of Credit. While the balance as at June 30, 2013 is nil, it is a certainty that the Symphony will require draws from the Line of Credit over the course of the extension period.

## **Conclusion**

Staff believe that based on the audited financial statements for the Symphony and the reliance on the Line of Credit for their cash management, guaranteeing the Symphony's Letter of Credit contains risk to the City. There are no funds available in the municipal grants budget to accommodate a potential default by the Symphony. However, given the Symphony's improving projected financial position and the upcoming partnership through the Performing Arts Centre, Staff recommends that Council approve the request from the Symphony for a one year extension in the Line of Credit Guarantee from the City of St. Catharines in the amount of \$60,000 provided that the following conditions be implemented:

- Restrictions on the use of the Line of Credit as deemed prudent by the Director of Financial Management Services
- Regular reporting of financial status, internal prepared and externally audited financial statements and business plans/budgets
- Monthly reports from the applicable financial institution on the amount advanced against the Line of Credit
- A member of City Council remain appointed to the Niagara Symphony Association's Board of Directors for the term of the guarantee
- Any request for a temporary or permanent increase in the Line of Credit be approved by the Director of Financial Management Services

Further, that the City Solicitor be directed to prepare the necessary by-law authorizing the execution of the agreements and other related documents. FORTHWITH

## **Notification**

It is order that Ms. Candice Turner-Smith, Managing Director, Niagara Symphony, 101 King Street, Unit 16, St. Catharines, ON., L2R 3H6 be advised.

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