

REAL COVID-19 Cashflow

Date	December 9, 2020
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Financial Services
Item No.	EX20-38

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Authorize the Executive Director, Financial Strategy and Sustainability for the City to negotiate, approve and enter into all necessary agreements with The Regina Exhibition Association Limited (REAL) and HSBC Bank Canada on behalf of the City, and generally to do all things and to execute all documents and other papers in the name of the City in order to facilitate the change to REAL's credit facilities as outlined in Appendix A to this report.
2. Instruct the City Solicitor to prepare amendments to *Bylaw 2015-25, The Regina Exhibition Association Limited Borrowing and Guarantee Bylaw, 2015* to amend the credit facilities in that Bylaw based on the terms and conditions authorized by the Executive Director, Financial Strategy and Sustainability and Appendix A to this report.
3. Pursuant to clause 5.2(f) of the Unanimous Member's Agreement for REAL, authorize REAL to amend the credit facilities outlined in REAL's loan with HSBC Bank Canada based on Appendix A to this report.
4. Authorize the Executive Director, Financial Strategy and Sustainability, as the City's proxy, to exercise the City's voting rights in REAL to approve any organizational resolutions or documents that may be required of REAL in relation to the proposed changes to the credit facilities in *Bylaw 2015-25* as outlined in this report.

5. Authorize the Executive Director, Financial Strategy and Sustainability to submit annual grant funding to REAL of \$700,000 per year beginning in 2021 with the grant to be included in the 2021 General Operating Budget, on the following conditions:
 - a. That the grant funding be used for the sole purpose of making principal and interest payments on the outstanding debt REAL has with HSBC Bank Canada.
6. Approve these recommendations at its meeting on December 16, 2020.

ISSUE

The pandemic continues to greatly impact the cashflow of the Regina Exhibition Association Limited (REAL). The operations of REAL typically result in a cash outflow at the beginning of the year with cash inflows occurring through the summer and fall when the bulk of the shows and events take place on the property. While REAL has taken significant actions to reduce their operating expenses and related cash outflows, the actions have been insufficient to ensure REAL has cash on hand to meet its payment obligations. Based on current projections, REAL will need a further injection of funds by February 2021.

IMPACTS

The impact of the recommendation is an increase in the overall debt of REAL by \$8 million to a total of \$21 million. The City guarantees all debt related to REAL and this debt counts against the City's debt limit. The City's current debt limit is \$450 million with \$313 million outstanding as of November 26, 2020. Approval of the additional debt would result in a projected year end debt of the City of Regina and consolidated entities of \$321 million.

The recommendation is that the debt would be taken out by REAL and guaranteed by the City. The debt will be held by REAL, recorded in their financial statements, and included in the City of Regina's consolidated financial statements at year end. Recording the debt on REAL's financial statements will ensure that impact of the COVID-19 pandemic is reflected in their financial statements and that they continue to be viewed as an independent entity.

The impact of COVID-19 on REAL's core business means that REAL, for the time being, cannot service this additional debt without impairing their ability to deliver services. To support REAL as an ongoing entity of the city, Administration estimates that REAL will need a grant from the City of \$700,000 per year to service this debt and maintain operations. The recommendation includes the allocation of an annual grant that is intended to be used to pay principal and interest payments on this new debt. The grant will be evaluated annually until REAL is able to service the debt. The value of this grant will increase the City's operating budget and may reduce the City's financial flexibility in the near term.

The pandemic continues to impact the local and global economy and there are many unknowns, including how long the pandemic will last and how soon an effective treatment or vaccine will be available to the public. The recommendation preserves financial flexibility for the City and keeps reserve funds available to Council to manage further COVID-19 impacts and other City priorities.

Taking debt at this time does not preclude the City from a future decision to retire REAL's additional debt with a subsequent grant when the COVID-19 pandemic ends, and the total cost of the pandemic is known. This would be presented to Council as an option in the future if permitted by the financial position and overall financial flexibility of the City.

OTHER OPTIONS

Administration has evaluated the following other options to provide REAL cashflow support.

1) The City borrow and grant \$8 million to REAL.

The City could borrow the funds and then provide the funding in the form of a grant to REAL. This option would be preferred if the City's debt costs were lower than REAL's. Administration has reviewed this option and determined that there is no significant difference between the current borrowing costs of REAL and the City. The downside of this option is that this would place the debt on the City's financial statements rather than REAL's. Another downside to this option is that it would take more time for the City to borrow the funds than the time required for REAL to increase the existing credit facilities at their bank.

2) Fund partially from reserves supplemented by the City or REAL debt.

The City could fund a portion of the required amount from the General Fund Reserve supplemented by increasing the REAL credit facilities or borrowing directly and granting the funds to REAL. Two reserves provide the most flexibility to Council; the General Fund Reserve and the Asset Revitalization Reserve. The General Fund Reserve is the more appropriate reserve to use to provide cash flow support to REAL. The Asset Revitalization Reserve is used to fund renewal of City capital assets.

The General Fund Reserve is forecast to have an uncommitted balance of approximately \$23 million at the end of 2020. This balance represents the minimum target for the reserve. Drawing further on this reserve in the near term is not recommended as it reduces the financial flexibility available to Council to deal with other emergent issues.

COMMUNICATIONS

Public notice was issued on November 28, 2020 of the intent to authorize further financing

to REAL through amendments to the borrowing and guarantee bylaw for the Regina Exhibition Association Limited.

DISCUSSION

REAL undertakes the care and management of City-owned lands and facilities located at Evraz Place. REAL is a municipal corporation whose voting memberships are owned entirely by the City of Regina. The governing document for REAL's relationship with the City is the *Unanimous Members Agreement (UMA)* executed on January 1, 2014.

In general terms, REAL is to provide, operate and maintain multi-purpose facilities for events and activities (including sports and other entertainment) and to promote agricultural industries and services.

REAL's mandate as set out in the UMA is to:

- Operate in the best interests of the community and enrich the quality of life for people in the community through the hosting and delivery of local, regional, national and international events.
- Develop, operate and maintain City and other facilities to provide world-class hospitality for trade, agri-business, sporting, entertainment and cultural events that bring innovation, enrichment and prosperity to the community.
- Operate with an entrepreneurial spirit and to pursue expanded business ventures that could generate additional revenue.

As an organization that focuses on delivering world-class events, the COVID-19 pandemic has had a greater impact on REAL's revenue-generating activities compared to other municipal corporations. REAL's year-to-date revenue has decreased by over 60 per cent compared to 2019. REAL has taken considerable steps to manage costs through the pandemic. During the pandemic, REAL provided the Saskatchewan Health Authority use of the International Trade Centre for use as a field hospital. REAL has continued to maintain facilities open for use as permitted by public health orders to serve the community.

Under clause 5.2(f) of the UMA, REAL is required to obtain Council approval of the borrowing of any money or the issuing of any debt obligation. Further, pursuant to section 153 of *The Cities Act*, Council authority is required to guarantee the repayment of a loan between REAL (as the City's municipal corporation) and its lender. Given this, a bylaw authorizing the borrowing/guarantee is required to be passed by Council prior to REAL increasing the debt with its current lender, HSBC Bank Canada, and prior to the City further guaranteeing this increase.

In CM20-8, Administration discussed the impacts the COVID-19 pandemic has had on REAL. The report outlined REAL's need for additional cash flow to continue minimal operations through the pandemic. To support REAL, Council authorized a change to

REAL's credit facilities to increase REAL's operating credit facility to the maximum available within the City's current \$13 million debt guarantee. The report indicated that if the pandemic lasted longer than initially expected, REAL may require further support.

The recovery of revenues is expected to be gradual, meaning that as public health orders are lifted, the willingness of patrons and fans to attend various events at a pre-COVID level will happen over time. It is also critical to recognize that the majority of the business at REAL is depended upon disposable income available within the marketplace and it should be anticipated that should an event be permitted to return, there remains a risk in the ability of guests and patrons to spend on rentals, tickets, or food and beverage in the short to mid-term. It is currently anticipated that it could take until 2022 before revenues are fully recovered (pre-COVID levels).

REAL estimated that its operating credit facility will be fully utilized by the end of November. In the interim, Administration has advanced the \$300,000 per month payment to REAL for Operations and Maintenance of Mosaic Stadium for the remainder of 2020 and 2021. This cash flow allows REAL to continue operations through February 2021 when further support is needed.

To maintain continued operations to January 1, 2022, REAL indicates it will require an additional \$8 million in funding. The increase in debt will result in REAL incurring up to an additional \$330,000 in interest costs per year in addition to existing debt servicing costs. Administration has analyzed REAL's ability to service debt and recommends that the City provide grant funding annually to ensure debt service costs do not impair REAL's ability to remain sustainable into the future. Administration recommends that the amount granted be equal to the cost of servicing a \$8 million, 15-year debenture or \$700,000 per year. REAL will be required to apply the full value of the grant to principal and interest payments on the debt considered in this report. The purpose of this grant is to help REAL return to pre-COVID financial viability. Returning to financial viability requires the timely retirement of debt.

REAL's credit facilities are at a variable interest rate of 2.2 per cent. If interest rates rise, REAL's debt service costs will increase further. If interest rates rise, the value of the grant provided by the City should increase to cover the increased debt service cost. For example, if interest rates increase to 3.2 per cent, the amount of the grant would be the annual debt servicing costs of a \$8 million, 15-year debenture at 3.2 per cent interest, or \$800,000.

If Council authorizes the increase in debt and the guarantee, this will count against the City's debt limit. The City's current debt limit is \$450 million with \$313 million outstanding as of November 26, 2020. This new debt will increase the City's projected debt to \$321 million and will leave approximately \$130 million in debt available to the City for other projects.

REAL's has also projected its cash flow requirements into 2022. Current analysis indicates REAL may require some additional funding for the first few months of 2022 to meet its cash flow requirements. Administration will continue to work with REAL and monitor the

impacts of COVID-19 on REAL's operations throughout 2021, and if necessary return to Council in late 2021 with an update and recommendations should REAL require additional cash flow support into 2022.

The April 15, 2020 City Council report, CM20-8, also identified that REAL owes the City approximately \$4 million related to its commitment to pay for the installation of certain food and beverage assets in the stadium. The increased debt in this report does not address this issue. The City and REAL are continuing to have conversations about the repayment of this amount and intend to return to Council at a future date when the pandemic has passed and REAL's cashflow has stabilized, with a recommendation.

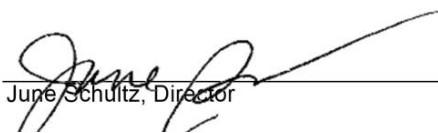
DECISION HISTORY

The original decision to approve REAL's debt of \$13M and provide a guarantee is set out in CR15-23 from the March 23, 2015 Council meeting. The amendment to REAL's debt facilities is set out in CR20-8 from the April 15, 2020 Council meeting.

The recommendations in this report require City Council approval.

Respectfully Submitted,

Respectfully Submitted,


June Schultz, Director

12/1/2020


Barry Lacey, Exec. Director, Financial Strategy & Sustainability

12/3/2020

Prepared by: Jonathan Barks, Risk Management Advisor

ATTACHMENTS

Appendix A - REAL Credit Facility Structure