

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON JULY 19, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	PROMISSORY NOTE BETWEEN THE CITY OF LONDON AND LONDON CONVENTION CENTRE

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the attached proposed by-law (Appendix "A") **BE INTRODUCED** at the Municipal Council meeting to be held on July 26, 2016 to:

- a) **APPROVE** a ten year promissory note between The Corporation of the City of London (the City) and London Convention Centre (LCC); and
- b) **AUTHORIZE** the Mayor and the City Clerk to execute the promissory note (Appendix A and Appendix B).

PREVIOUS REPORTS

- 2016 Corporate Services Committee – February 29, 2016 – 2016 Debenture Issuance

BACKGROUND

The London Convention Centre (LCC) opened in 1993 and is now in the 21st year of operation. In 2009, the 2nd floor of the London Convention Centre was updated with new carpet, wall finishes, paint, LED lights in the east foyer and more energy efficient lighting in the ballroom. This was the last major facility upgrade.

In a study completed for the LCC in 2012, by HLT Advisory and LMN Architecture, "the LCC is beginning to show some signs of deferred maintenance. The facility requires capital investment to support the current level of operations ..." The LCC study further indicates, "the primary exhibit hall (i.e. the Ballroom) is sufficiently large to accommodate current and anticipated market demand, suggesting the LCC footprint is generally adequate. However, while current demand levels do not support additional exhibition/ballroom space, the venue is almost certainly not reaching existing potential as a result of:

- Inadequate crush (pre-function) space outside the Ballroom that limits the ability of event organizers to stage attendees in this area prior to entering the ballroom;
- Configuration of the Ballroom and location of the kitchen which prevents use of the entire ballroom when subdivided
- Lack of signature space (a "wow" space) for high-impact events; and
- Limited flexibility for medium-sized breakout sessions.

To remain competitive, the HLT Advisory/LMN Architectural study suggests "*LCC management could capitalize on more efficient use of existing space with modest reconfiguration/renovation.*"

On February 26, 2015 Council by resolution approved \$1,965,000 – Debt Financing loan to LCC for the reconfiguration of the main level.

Municipal Council, at its session held on February 26, 2015 resolved:

That the 2015 Operating Budget for the following services within Economic Prosperity BE APPROVED:

iii) London Convention Centre

- \$569,000 (Base Budget)

Plus:

- \$1,965,000 – Debt Financing – Additional Investment Request #4-Reconfiguration of the Main Level; it being noted that future debt servicing costs may be offset by increased revenues generated by the reconfiguration of the London Convention Centre. (Additional Life Cycle Capital Budget)

LCC identified that they would be able to self-finance the project, using the revenue realized as a result of converting space to more revenue generating space that would assist in paying back the loan. This arrangement was further recognized in the 2016 – 2019 Multi Year Operating Budget that LCC provided to Civic Administration, i.e. City of London Repayment which was budgeted to commence beginning in 2017.

The purpose of this report is to present the promissory note and provide an update on the progress of this project.

Promissory Note Summary

In lieu of including this project as part of the City's debenture issue, Administration will advance the funds for this project to LCC. The funds will be borrowed from the City's Efficiency, Effective & Economy Reserve (EEE) with LCC paying back the EEE over 10 years. The interest rate the City will charge LCC is 2.30% over a 10-year term, consistent with the capital markets debt issuance in March of 2016.

A promissory note provides more flexibility to LCC to pay off the principal sooner, rather than traditional debt financing.

The London Convention Centre agrees to the terms of the promissory note.

See Appendix B – Promissory Note

Amount	\$1,965,000.00
Term (years)	10
Rate	fixed rate of interest of 2.30% compounded annually

The promissory note issuance complies with both the Municipal Act and with the City's Investment Policy.

Project Update

Annually, the LCC hosts 350 to 400 events contributing \$15 to \$20 million directly to the local economy. On average convention delegates spend \$309 per delegate day in the community. Events hosted at the London Convention Centre drive economic growth and add vibrancy to the core for London.

The London Convention Centre 1st Floor Renovation Project is the first major capital upgrade since opening in 1993. The project includes the conversion of a small theatre and administrative offices to flexible event space; updating of lighting and finishes; improved accessibility with new way finding and signage throughout the entire facility, door hardware and the installation of hearing assistance equipment in the new salons; and the installation in the east foyer of architectural regionally-themed panels at the entrance of the salons. The renovation increases rentable space by 2,951 sq. ft. or 6.4%. New signage with Braille text, tactile (raised) text, high contrast colours and digital directory screens with audio cues for the visually-impaired will create a barrier-free environment for all. The theme panels provide a narrative that explores the past, present and future of our community while enhancing the entrances to the salons.

The total budget for this project is \$5.044 million. The LCC is contributing \$2.4 million from the capital reserve held by the City of London. The LCC was successful securing \$715,000 in project support through the Canada 150 Community Infrastructure Program administered by the Federal Economic Development Agency for Southern Ontario. Remaining funds will be financed through the City of London.

The project remains on schedule with an August 2016 completion.

Metrics

Key metrics to be monitored after the completion of the project include;

- The amount of new revenue generating event space
- Revenue growth
- LCC contributions to capital and operational reserves

Summary:

With the approval of the debt financing loan to LCC during the 2015 Budget process, a promissory note was determined to be the best vehicle to document this arrangement. Consistent with the City's debt issuance process, the City looks to issue debt upon substantial completion of projects. Since LCC's renovation is near completion, this promissory note is being brought forward to formalize the arrangement.

Metrics have been established to measure the success of the improvements.

Acknowledgements:

The promissory note has been prepared by Financial Planning & Policy with the assistance of Legal Services.

PREPARED BY:	REVIEWED BY:
LAURIE GREEN FINANCIAL BUSINESS ADMINISTRATOR	IAN COLLINS SENIOR FINANCIAL BUSINESS ADMINISTRATOR
RECOMMENDED BY:	
MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER	

cc. Lori Da Silva, General Manager, London Convention Centre
 Jennifer Smout, Solicitor
 Annette Ripepi, Manager Accounting & Reporting

APPENDIX A

Bill No.
2016

By-law No.

A By-law to approve and execute a promissory note between The Corporation of the City of London, and The London Convention Centre Corporation and to authorize the Mayor and City Clerk to execute the agreement.

WHEREAS subsection 5(3) of the *Municipal Act, 2001* provides that a municipal power shall be exercised by by-law;

AND WHEREAS a promissory note from the London Convention Centre would qualify as and eligible investment under section 418(1) of the *Municipal Act* as such prescribed under Ontario Regulation 438/97 ss 0.1 ui as a security that the municipality may invest in.

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. The agreement to be entered into between The Corporation of the City of London and The London Convention Centre Corporation regarding the \$1,965,000.00 promissory note, attached as Schedule 1 to this by-law, is approved.
2. The Mayor and the City Clerk are authorized to execute the agreement approved under section 1 above.

This by-law shall come into force and effect on the day it is passed.

PASSED in Open Council on July 26, 2016

Matt Brown
Mayor

Catharine Saunders
City Clerk

First Reading – xxxx, 2016
Second reading – xxxx, 2016
Third reading – xxxx, 2016

APPENDIX B

PROMISSORY NOTE

Date:

To the order of: **THE CORPORATION OF THE CITY OF LONDON** (the "Lender")
300 Dufferin Ave., P.O. Box 5035
London, Ontario
N6A 4L9

Borrower: London Convention Centre Corporation

For Value Received, the undersigned (the "Borrower") promises to pay on the Maturity Date to or to the order of the Lender at the office of the Lender specified above, the principal amount specified below ("Principal") together with interest at the rate specified below ("Interest"). All payments received under this promissory note (the "Note") shall be applied first to the payment of Interest, and second to the payment of Principal.

This Note is a negotiable instrument.

The following are the terms and conditions of the Note:

1. Principal:

The Principal of this Note is: ONE MILLION NINE HUNDRED SIXTY FIVE THOUSAND DOLLARS (CAD\$1,965,000.00).

2. Regular Installment Payment

TWO-HUNDRED TWENTY-TWO THOUSAND TWO-HUNDRED FOUR DOLLARS THIRTY-SEVEN CENTS (CAD\$222,204.37) such payments to be made annually on the first day of August during the term of this Note commencing on August 1, 2017.

3. Maturity Date:

This Note shall mature on August 1, 2026.

4. Interest Rate

Interest shall be payable at a fixed rate of interest of 2.30% per cent per annum, calculated and compounded annually not in advance and payable before and after maturity or default and judgment on the amount outstanding from time to time.

5. Default

In the event of a default of the payment in accordance with the terms of the Note of any Principal or Interest, the Borrower and every permitted endorser shall pay all costs incurred by the Lender in enforcing and collecting upon this Note, including legal costs on a full indemnity basis.

6. Right of Prepayment

- (1) The Borrower may, prepay the whole or any part of the Principal together with all accrued interest provided:
 - a. Any prepayment may only be made on August 1st;
 - b. Any amount of prepayment shall not be less than the sum of FIFTY THOUSAND DOLLARS (\$50,000.00);
 - c. The Borrower shall provide the Lender at least thirty (30) days prior written notice of its intention to prepay which notice shall include the amount to be prepaid;
 - d. Any notice given under c. shall be irrevocable and shall bind the Borrower; and
 - e. Where the prepayment amounts to the full amount of the Principal outstanding, such prepayment shall include all accrued interest.

- (2) In the event of repayment of any part of the Principal amount, the total remaining Principal shall be amortized over the remaining years of the loan at the same fixed rate of interest of 2.30% per cent per annum.
- (3) The Lender shall provide the Borrower with an adjusted amortization schedule within thirty (30) days of an annual payment date on which a prepayment was made by the Borrower.

7. No Assignment

The Borrower may not assign or endorse this Note or its obligations thereunder at any time without the express written consent of the Lender which consent may be unreasonably withheld.

Signed and sealed as of the date first above written

LONDON CONVENTION CENTRE CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:
(seal)