

Staff will review the MCIEG program prior to the next intake to improve the process to mitigate these challenges going forward. This may include a review of the criteria, eligibility and staff oversight to more closely align with other City grant processes.

PURPOSE

To provide options on how to protect the City's potential investment concerning the Other Guise Theatre Society's request for a grant of \$250,000 through the Major Community Initiatives and Events Grant program to refinance 716 Johnson Street.

BACKGROUND

In February 2024, during the 2024 budget discussions, City Council directed staff to create the Major Community Initiatives and Events Grant (MCIEG) program. The program intends to provide financial support for major community initiatives and events that align with the City's 2023-2026 Strategic Plan objectives and priorities, which are currently not eligible for funding through other City grant programs.

On August 1, 2024, Council referred to staff for further consideration of ways to protect the City's potential investment regarding the refinancing acquisition of 716 Johnson Street and the Society's request for \$250,000 through the MCIEG program. The Society needs additional capital to refinance the acquisition of 716 Johnson Street before December 31, 2024, to meet the terms of an existing investors' mortgage.

The vision for 716 Johnson includes a black box theatre, rehearsal, office, and food and beverage space to provide a hub for the performing arts downtown. This meets the objectives of Create Victoria and Council's Strategic Plan 2023-2026 to invest in artistic, theatrical, and music spaces.

This report is specific to the Society's grant request through the MCIEG and how the City can protect its potential investment in 716 Johnson as an arts hub. Staff have reviewed the grant application and consulted with colleagues in Finance and Real Estate to determine additional options for this specific grant request that could protect the interests of the City. In short, options 1-3 make any contribution to the Other Guise Theatre repayable to the City should the Society be concluded or its operations of an arts hub at 716 Johnson Street come to an end. Under option 4 no monies would issue. City staff also reviewed these options with the applicant to get their perspective on which options, if any, are viable and feasible; the Options Section below includes their perspective on each.

ISSUES & ANALYSIS

The City provided \$100,000 to the Other Guise Theatre Society in 2023 toward the acquisition of 716 Johnson Street. On January 10, 2023, the Society purchased 716 Johnson Street for \$2,394,000 and two mortgages were registered against the property. The July 2023 BC Assessment assessed value of 716 Johnson was \$1,824,000.

Based on the Society's December 31, 2023, Financial Statement, \$1,927,283 remains outstanding on the two mortgages. Each of these mortgages has a term that requires the consent of the mortgagee prior to another charge being registered on title to the property.

The holder of the second mortgage has required repayment of that mortgage, in the approximate

amount of \$1.3 million. If the second mortgage is not paid out by December 31, 2024, the mortgagee will trigger a sale of the property. The Society has approached other potential funding partners to try to obtain sufficient monies to pay out the second mortgage within the required timeframe. The amount that the Society has secured from other sources for this purpose is not known to the City.

Should the City release the requested funds without additional conditions included under this grant program, the monies could go toward paying out the second mortgage, there is a risk the building could still be sold by the mortgagee or by the Society without functioning as an arts hub for a reasonable period of time or at all.

Another challenge with this application, is the nature of debt repayment to other investors to acquire a commercial building. The City's Grant Policy stipulates that land purchase and land improvements, deficit or debt repayment are not eligible (Appendix B). The City does have an acquisition fund through the Cultural Infrastructure Grant program, which funded this project in 2023. Staff recognize that applicants need significant funding for major renovations and acquisition of real estate properties and are reviewing ways that we can increase the maximum funding asks within the Cultural Infrastructure Grant program.

In addition, the MCIEG program guidelines will be reviewed and recommend changes to mitigate these challenges going forward. The Cultural Infrastructure Grant is potentially the most appropriate City grant program to address these types of requests going forward.

A major concern raised during Create Victoria was the urgent need to upgrade, protect, and increase the availability of affordable arts and culture spaces. These space related challenges are a result of rapidly rising property values and lease rates, which are also spurring redevelopment of older spaces. These challenges have been exacerbated during the COVID-19 pandemic as several music and performing art related venues have permanently closed, further reducing the availability of cultural spaces in the city.

OPTIONS & IMPACTS

OPTION 1: Forgivable Loan

In addition to the terms and conditions normally included in the City's MCIEG grant program (see Appendix A to this report) the City could make it a condition of the grant that the Society enter into a contract with the City for a forgivable loan. The following terms have been discussed with the Society and appear to be feasible.

- The loan will only issue if and when the Society has provided evidence satisfactory to the City that it has secured the balance of the funds to pay out the second mortgage;
- The City will provide the monies directly to the Society's lawyer, in trust, to pay out the second mortgage,
- The loan will not bear interest;
- The loan will have a ten-year term, and 10% of the loan will be forgiven for each year that the Society:
 - o Remains in good standing
 - o Does not become insolvent or bankrupt
 - o Operates the building at 716 Johnson as an arts hub which hosts dance, theatre, and music events and programs on a regular and ongoing basis

- For the purposes of the loan agreement, "operating" includes periods of time pre-approved by the City in writing, where the venue is closed for renovations that contribute to the building's operation as an arts hub

This option ensures that monies are directed only to the purpose for which they were issued. It only requires agreement between the City and the Society. This option effectively operates as a grant if the conditions are complied with, but entitles the City to recover some, or all the monies issued if the Society is concluded or no longer operates 716 Johnson as an arts hub. The limitation of this option is that the loan is not secured. It can be difficult or impossible to collect on an unsecured loan.

A forgivable loan is the most favourable option for the applicant as it will meet the funding deadlines and commitments required by Other Guise Theatre to secure future investments from other funders.

OPTION 2: Register a mortgage to secure a forgivable loan

This option is like option one except it would involve the City registering a mortgage against title to the property to secure the forgivable loan, and include the additional condition that the loan will only be issued upon evidence satisfactory to the City that each of the existing mortgagees consent to the registration of a mortgage in favour of the City, on terms satisfactory to the City.

This ensures that monies are directed only to the purpose for which they were issued. The benefit of this option is that the City has a better chance of recovering monies issued if the Society concludes or stops operating the property as an arts hub. The drawback of this option is that it requires two third parties to consent to the registration of the City's mortgage. The City has little control over whether this agreement could be successfully negotiated. It would take considerably more staff time to facilitate this option than the other options identified in this report.

The applicant is not sure the two existing mortgage holders would agree to these terms.

OPTION 3: Agreement and Irrevocable Letter of Credit ("ILOC")

This option would require the Society to enter a contract with the City on the following terms, in addition to the terms and conditions normally included under this grant program:

- The Society will operate 716 Johnson Street as an arts hub which hosts dance, theatre, and music events and programmes on a regular and ongoing basis for a term of ten years.
- For the purposes of this agreement, "operating" includes periods of time pre-approved by the City in writing, where the venue is closed for renovations that contribute to the building's operation as an arts hub.
- Monies will only issue once the Society has provided
 - o Evidence satisfactory to the City that it has secured the balance of the funds required to pay out the second mortgage.
 - o An irrevocable letter of credit in the amount of \$250,000, redeemable by the City in the event of a breach of the promise to operate as an arts hub or the bankruptcy, dissolution, or failure to maintain good standing of the Society.
- The City will provide the monies directly to the Society's lawyer, in trust, to pay out the second mortgage.

This option ensures that monies are only directed to the purpose for which they are issued, and recoverable if the Society is in breach of the agreement. The drawback for the Society of this option

is that it requires the agreement of a bank which can also involve fees, charges and administrative resources for the Society to undertake. In speaking with the applicant, this option was not favourable due to the time and resources required to seek an ILOC.

OPTION 4: Decline the grant application

Council has the option to deny the grant request and hold the balance of the MCIEG grant at \$250,000 for future applications.

Declining the grant request would be in alignment with the City's overarching City Grant Policy, which identifies land purchases, deficits or debt repayment as ineligible.

OPTION 5: Approve the grant application

Council can approve the grant with or without any additional conditions they would like staff to consider. Please see Appendix A with existing terms and conditions for MCIEG applicants.

While there are existing terms and conditions for this grant program, they do not include securing the amount of the potential grant in any enforceable way.

Accessibility Impact Statement

Funding will provide the necessary support to increase opportunities for people with disabilities to participate in city-supported special events and initiatives (Accessibility Framework) and may reduce financial barriers to non-profit organizers.

2023 – 2026 Strategic Plan

Arts, Culture, Music, Sport and Entertainment:

Support arts programming, including public programming, live music and public art.

Support and simplify processes for creating murals, events, festivals and experiential activities.

Enhance supports and amenities for recreational, youth and professional sports in the city.

Impacts to Financial Plan

No impacts to the 2024 Financial Plan.

Official Community Plan Consistency Statement

The recommendation aligns with the following objectives in the Official Community Plan:

Section 14: Economy

14 (f) That the function of the Urban Core as the primary regional centre of employment, learning, arts, culture, entertainment, recreation, and specialty retail is maintained and enhanced with high quality facilities, services, and events.

Section 16: Arts and Culture

16.6 Encourage broad access to arts and culture facilities, events, and activities for people of all ages, incomes, backgrounds, and lifestyles.

16.7 Encourage education, training and informal learning opportunities in the arts, design, and culture.

16.20 Establish and maintain partnerships with professional artists and arts and cultural organizations to program the use of public space.

16.21 Continue to permit festivals, celebrations, and special events in public spaces, such as streets, parking lots, plazas, civic squares, and other open space.

16.22 Increase the use of parks for festivals, celebrations, and special events.

16.23 Continue to support and enable local, non-profit groups to host festivals, celebrations and special events through services, incentives, and regulations.

CONCLUSION:

The MCIEG program is designed for flexibility to support the City's 2023-2026 Strategic Objectives, and therefore staff are requesting direction from Council on this application. Staff have outlined several ways in which the City's financial interest can be safeguarded should Council wish to proceed with funding this application.

Respectfully submitted,

Nichola Reddington
Manager, Arts, Culture and Events

Kerri Moore
Director of Business and Community Relations

Susanne Thompson
Deputy City Manager and Chief Financial Officer

Report accepted and recommended by the City Manager.

List of Attachments:

Appendix A MCIEG Terms and Conditions
Appendix B City Grant Policy (2025)