



Town of Hinton
Special Meeting of Council
AGENDA
October 25, 2016 - 4:00 PM
Council Chambers, Hinton Government
Centre
2nd Floor, 131 Civic Centre Road
Hinton, Alberta

Page

ADOPTION OF AGENDA

1. Special Meeting of Council Agenda - October 25, 2016

That the Agenda for the Special Meeting of Council of October 25, 2016 be adopted as presented.

DELEGATIONS

1. Hinton Golfing Society

ACTION ITEMS

- 2 - 6 1. Hinton Golf Course - Presented by Denise Parent

ADJOURNMENT



TOWN OF HINTON REQUEST FOR DECISION

DATE: October 20th, 2016

TO: REGULAR MEETING OF COUNCIL OF OCTOBER 25, 2016

FROM: Denise Parent, Director of Corporate Services

APPROVED BY: Mike Schwirtz, Chief Administrative Officer

RE: Hinton Golfing Society (HGS)

Recommendation:

That council supports the request from the HGS to secure a loan of up to a maximum of \$75,000 and directs Administration to explore with the HGS restructuring options to ensure the long term viability of the golf course.

Concluding Statement

The HGS has been reviewing its operation and is requesting the Town to re-consider reviewing its guarantee of the existing loan and consolidating its outstanding accounts. The HGS cannot restructure its debt and accounts payable without the Town's support as the Town owns the land where the golf course is situated. The HGS is requesting a term loan until such time as the review can be completed.

Conformance of recommendation to existing laws and Hinton Council plans

Conforms with:	Yes/No/ Partial	Comments
Municipal and Provincial Laws	Yes	MGA section 264, 266, 268.
Community Sustainability Plan	Yes	Develop and upgrade indoor and outdoor facilities that make Hinton a destination for recreation and leisure activities. Develop a diverse, balanced and vibrant economy.
Council's Strategic Plan	No	
Long Term Capital Plan or Adopted budget	No	

Background / Introduction

The Hinton Golfing Society (HGS) has been in operation since 1962. The HGS has a Lease Agreement with the Town (October 2007 to January 2035) for the operation of the golf course on Town land for \$1.00/year. The property taxes are paid by the society.

2008

January 15, 2008 – HGS makes a request to Council for either i) a Loan Guarantee or ii) to purchase the golf course land for the purpose of building a new clubhouse. At that time it was stated that there are more risks and disadvantages on selling the land than there would be in securing financing.

The original request was to transfer title of lands referred to as Misc. Lease No. MLL870187 Lot 4, Plan 4703TR (the original 9 holes) to the Hinton Golf Society for \$1 (with appropriate legal documentation to ensure that the Town has first right to purchase land back for \$1 in the event of HGS default). The town responded that it is not the Town's practice to transfer or sell land or buildings to a non-profit organization for less than market value, although the Town has leased land for under market value.

The advantages and disadvantages considered by the Town to guarantee a loan for the HGS to build a clubhouse were:

Advantages:

- Help an established local organization (1962) better a community asset providing an outdoor sporting recreation facility that is utilized by residents and tourists of all ages.

Disadvantages:

- The Town would be at risk to assume the guaranteed loan amount.
- Lessens the Town's borrowing limit.

On February 21, 2008 there was consensus that council supports the request from the HGS to secure a loan in the amount of \$836,000 of which \$730,000 was to build a new clubhouse and \$106,000 was to consolidate an existing loan. The loan was approved by ATB as long as the Town of Hinton guaranteed the loan as the Town owns the land where the new clubhouse will be built. It was considered an acceptable risk to secure the requested loan for the HGS.

2011

June 2011 - The HGS is in the process of completing phase 1 of the new Clubhouse and will incur additional costs of \$300,000 to meet Alberta Fire Regulation codes and project completion. Due to the HGS not owning the land where the project (Clubhouse) is located ATB requires the land owner (Town) to secure the loan. No feedback from the public was received on the publishing of the loan guarantee for the HGS.

2012

By April 2012, there were costs overruns from the construction of the golf club and the Town maintained a cap on its guarantee in the amount of \$1,136,000. ATB financed an additional \$416,000 and the Golf Society was left to deal with payables of \$250,000 from the construction of the clubhouse. The total cost to build the clubhouse was \$1,978,000.

In order to comply with the 20 year repayment terms stipulated in the Town's guarantee of the two HGS guarantee borrowing bylaws totaling \$1,136,000 and ATB's loan of \$416,000, the loan payment is restructured to retire the \$416,000 loan over the first 5 years and the \$1,098,993 loan over the following 15 years.

The agreed terms of both loans are:

Loan #1 - Amount outstanding of \$1,098,993 at Prime + .75%

a) Interest only payment for 5 years until the 2nd loan is paid in full on October 31, 2016

b) Thereafter for the remaining 15 years:

i) Interest payable monthly

ii) Principal payment of \$12,125 monthly for 6 months from May to Oct of each year

First payment would be on May 31, 2017 and final payment would be on Oct 31, 2031.

Loan #2 - Amount outstanding of \$416,000 at Prime + 2%

a) Interest payable monthly

b) Principal payments of \$13,875 monthly for the 6 months from May to Oct of each year.

Final payment would be on Oct 31, 2016

The outstanding payables of approximately \$250,000 from the clubhouse construction are to be handled by the Hinton Golfing Society.

2016

The HGS has been reviewing its operation and is requesting the Town to re-consider reviewing its guarantee of the existing loan and to consolidate its outstanding accounts. The HGS cannot restructure its debt and accounts payable without the Town's support as the Town owns the land where the golf course is situated. The HGS is requesting a term loan of \$75,000 until such time as the review can be completed.

Debt Comparison from Financial Statements

From financial statements ended October 31	2011	2012	2013	2014	2015	2016
Loan #1	1,098,993	1,098,993	1,098,993	1,098,993	1,098,993	1,098,993
Loan #2	496,075	416,000	267,400	178,240	89,080	-
Accounts payable – Clubhouse construction	341,798	226,105	191,074	166,988	180,380	99,264
Accounts payable	<u>131,420</u>	<u>91,811</u>	<u>94,027</u>	<u>78,566</u>	<u>110,336</u>	<u>110,000</u>
Total	<u>2,068,286</u>	<u>1,832,909</u>	<u>1,651,494</u>	<u>1,522,787</u>	<u>1,478,789</u>	<u>1,308,257</u>
Note: These numbers exclude the line of credit						

Options

Option 1: Provide a term loan of up to \$75,000 to the operation and explore restructuring options.

The conditions for this term loan would be:

- Town must have at least one member on the board of directors of the HGS.
- Undertake an Independent Business Overview of the golf course operation to ensure long-term viability. This includes an overview of the financial statements and possible restructuring of the operation.

Once the review is completed, the Town will assess the options before considering any further requests to consolidate outstanding accounts.

Option 2: Maintain the Town guaranteed loan support at \$1,136,000 and take no further action.

It is very difficult for the HGS to re-negotiate with a financial institution for a consolidation of their outstanding accounts due to the Town owning the land where the golf course is located.

In the event of a default by the HGS, the financial institution could declare the entire loan due and payable and if not repaid the financial institution could call upon the Town to honor the Guarantee and the Town would be obliged to repay the loan to a maximum of \$1,136,000.

Upon the Town being required to pay the above to ATB the Town would declare the lease in default and evict the HGS and take over the operation of the Golf Club along with all of the buildings and chattels.

Administration Assessment of Options and Conclusion

Option 1: Provide a guarantee on a term loan of up to \$75,000 and explore restructuring options.

This option allows the Town and the HGS to review the operation and consider various restructuring options. Through an independent business review various operational modules could be considered followed by the implementation of a solid business plan. One of the recommendations may be to consolidate all outstanding debt with the Town guarantee. There are a number of options that could be explored to ensure a viable operation.

Option 2: Maintain the Town guaranteed loan support at \$1,136,000 and take no further action.

The HGS is limited in its ability to re-negotiate with a financial institution a consolidation of their outstanding accounts due to the Town's ownership of the land.

If the society defaults, then the Town will have to assume the debt of \$1.1M and take over the operation of the Golf Club along with all the buildings and chattels. The Town will incur monthly costs to maintain the building and grounds and would also have to make a decision as to whether to continue operating a golf course by outsourcing it or close the golf course. The fixed monthly operational costs (utilities, heat, interest on loan, etc.) range from \$10,000 to \$15,000 per month. The Town could also incur additional cost of conducting an independent business review. Supplemental costs to also consider are the continued operation of the facility and a 2017 season.

Administration recommends Option 1 as it maintains the current operation and relationship. It provides an opportunity to work together and to find an acceptable solution for all concerned parties.

CAO Comments

The HGS has shown progress in eliminating a number of their outstanding debts over the past few years but finds themselves in a dire situation with respect to the future of the Hinton Golf Course. Administration is recommending that Council approve a temporary loan guarantee of \$75,000 to provide the HGS the time to look at restructuring their financing and operation.

If the golf course defaults to the Town the fixed operational costs through the winter will mean that the Town will have spent the equivalent of \$75,000 and possibly more to prepare for a 2017 season.

Attachments

1. Excerpts from the Municipal Government Act

Attachment 1

MGA excerpts

The Municipal Government Act states the purpose of loans and guarantees

264(1) A municipality may only lend money or guarantee the repayment of a loan if

- (a) the loan or guarantee is made under subsection (2) or (3)*
- (b) the loan is made to one of its controlled corporations, or*
- (c) the guarantee is made in respect of a loan between a lender and one of its controlled corporations.*

(2) A municipality may

- (a) lend money to a non-profit organization, or*
- (b) guarantee the repayment of a loan between a lender and a non-profit organization*

if the council considers that the money loaned or money obtained under the loan that is guaranteed will be used for a purpose that will benefit the municipality.

266(1) a municipality may only guarantee the repayment of a loan between a lender and a non-profit organization or one of its controlled corporations if the guarantee is authorized by bylaw.

(2) The bylaw authorizing the guarantee must set out

- (a) the amount of money to be borrowed under the loan to be guaranteed and, in general terms, the purpose for which the money is borrowed;*
- (b) the rate of interest under the loan or how the rate of interest is calculated, the term and the terms of repayment of the loan*

(c) the source or sources of the money to be used to pay the principal and interest owing under the loan if the municipality is required to do so under the guarantee.

(3) The bylaw that authorizes the guarantee must be advertised.

268 No municipality may lend money or guarantee the repayment of a loan referred to in section 264 if making the loan or guarantee will cause the municipality to exceed its debt limit, unless the loan or guarantee is approved by the Minister.