

# Report to Council



**Date:** May 2, 2022

**To:** Council

**From:** City Manager

**Subject:** Okanagan Gymnastics Centre – Loan Payment Plan

**Department:** Sport & Event Services

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## **Recommendation:**

THAT Council receives for information the report from the Sport & Event Services Manager, dated May 2, 2022, regarding the loan payment plan for the Okanagan Gymnastics Centre;

AND THAT Council approves the proposed refinancing terms for the Okanagan Gymnastics Centre's outstanding loan amount (\$126,872.84), to be paid over a 3-year term starting May 2022 through April 2025;

AND THAT, the 2022 Financial Plan be amended to include all proceeds associated with the Okanagan Gymnastics Centre repayment plan as outlined in the report from Sport & Event Services dated May 2, 2022

## **Purpose:**

To seek Council approval of the proposed refinancing terms for the Okanagan Gymnastics Centre's outstanding loan amount

## **Background:**

The Okanagan Gymnastics Centre (OGC) is a non-profit society, governed by a volunteer Board of Directors, that has been providing the Okanagan Valley with quality gymnastics training since 1981. Throughout their 40 years of service, the OGC has had a solid history of building strong athletes and making gymnastics an accessible sport for all. Formerly called the Kokanees, the group contributed countless volunteer hours, raised significant community donations, and in 2001, partnered with the City of Kelowna to build a 12,000 square foot facility in Rutland, equipped with state-of-the-art apparatus and modern equipment.

The OGC experienced incredible growth in their new facility and in 2007, they undertook an expansion project, adding 2,500 square feet to the facility footprint. This new space expanded their capacity to

deliver a broad range of programs and training opportunities to the community. Both facility projects were supported by the City through the Municipal Finance Authority financing.

The OGC has continued to grow and develop in their facility, however, in recent years they have faced some challenges related to staff transition and increased competition. As a result, the Board of Directors made some key staffing decisions and operational adjustments to support organizational efficiencies and a renewed strategic direction. Club operations were heading in a positive direction for the OGC when the COVID-19 pandemic hit.

As a result of the pandemic, the OGC had to close its facility, lay-off staff, and reduce expenses. They applied for Provincial/Federal wage subsidy and loan programs and received all available government support but were still in need of building loan payment relief. They were unable to pay their monthly loan payments for an 18-month period, from April 2020 – September 2021, and restarted payments in October 2022.

The status of the OGC's indebtedness to the City is as follows:

|                                       | Deferred Payments | Loan Balance at April 30, 2022 | Total Debt to the City | Loan End Date | Monthly Payment |
|---------------------------------------|-------------------|--------------------------------|------------------------|---------------|-----------------|
| Building loan 1 (MFA Debt)            | 41,993            | -                              | 41,993                 | 21-Sep        | 2,333           |
| Building loan 2 (MFA Debt)            | 76,718            | 302,384                        | 379,102                | 27-Dec        | 4,262           |
| Maintenance reserve                   | 6,300             |                                | 6,300                  |               | 350             |
| Interest Sept 2020-Sept 2021          | 16,101            |                                | 16,101                 |               |                 |
| Total                                 | 141,112           | 302,384                        | 443,496                |               |                 |
| Less payments made Oct 2021-Apr 2022  | (16,320)          |                                | (16,320)               |               |                 |
| Adjusted interest Oct 2021 - Apr 2022 | 2,082             |                                | 2,082                  |               |                 |
| Total                                 | 126,874           | 302,384                        | 429,258                |               |                 |

The OGC recognizes the need to pay the outstanding missed payments. However, due to ongoing uncertainty surrounding COVID-19 and the respective impacts that safety measures have had on club operations, they have requested a measured approach to their payback schedule. Of note, prior to this unforeseen setback, the OGC had regularly made their monthly loan payments for over 18 years without any issues.

#### **Discussion:**

City staff have met with OGC representatives on several occasions to discuss their operational challenges and financial recovery plans. The club's Directors and staff are committed to organizational development and financial recovery. Over the past year, OGC participated in the City's Recovery & Sustainability program and are currently taking part in the BESTi (Building Excellence & Sustainability Together Intensive) program. These programs will help formalize their recovery plans and support their efforts towards ongoing organizational sustainability.

After thorough review of the OGC's 5-year forecast, conversations with their Board and staff team, and careful consideration of repayment options, City staff are proposing that the deferred payments be refinanced into a new loan so that both the deferred payments and Loan 2 are paid down monthly. This new loan would be paid out in April 2025 and Loan 2 would be complete as per the original due date of December 2027.

For the refinanced loan, City staff are recommending that there be an interest adjustment for the time period between October 2021-April 2022 when the OGC was able to restart payments to the City on a monthly basis. This adjustment would be to change the interest calculation from the accounts receivable compounded interest of 1.5% monthly to an annualize interest at prime rate. This would be a reduction of \$11,091.32 in interest. The outstanding amount for deferred payments would then be (\$126,874). It is staff's recommendation that this amount be paid to the City as per the following terms:

- Loan paid back over a 3-year term starting May 2022 through April 2025
- Interest calculated using the prime rate and adjusted at June 30<sup>th</sup> each year to coincide with Okanagan Gymnastics Club's (OGC) year-end
- Monthly payments due on the first of the month
- In addition to the yearly payments, any surplus cash in the year will be used to reduce the debt to the City. This will be assessed at June 30<sup>th</sup> each year to coincide with OGC's year-end
- Monthly financial statements will be provided to the City with variance analysis completed on a quarterly basis that shows how operations are doing in relation to the budget

#### **Conclusion:**

The Okanagan Gymnastics Centre's Board of Directors are committed to the proposed loan repayment schedule and are already considering a number of fundraising strategies to support their payback efforts. As the Club emerges from the impacts of COVID, they are taking a strategic approach to future development and growth. Full club operations have now resumed, and a renewed sense of optimism and positive culture has emerged within the club. Initial program participation numbers for 2022 have been encouraging, with their classes being fully prescribed, and the Club is looking forward to reengaging the community in sport, through gymnastics, for years to come.

#### **Internal Circulation:**

Active Living & Culture  
Financial Services  
Property Management  
Communications

#### **Considerations applicable to this report:**

##### ***Financial/Budgetary Considerations:***

If approved, the 2022 Financial Plan would be amended to include the new payment plan with receipt of a monthly payment of \$3,672.87 totaling \$29,382.92 for the year. These funds would be contributed to reserve to replenish the funds used to pay MFA during the time that the City did not receive payment from the Okanagan Gymnastics Club including the additional interest received. An interest adjustment would be made to reduce the interest on the Okanagan Gymnastics Club's accounts receivable account by \$11,091.32 to recognize the restart of payments to the City.

Considerations not applicable to this report:

*Legal/Statutory Authority:*

*Legal/Statutory Procedural Requirements:*

*Existing Policy:*

*External Agency/Public Comments:*

*Communications Comments:*

**Submitted by:** Doug Nicholas, Sport & Event Services Manager, Active Living & Culture

**Approved for inclusion:** Jim Gabriel, Divisional Director, Active Living & Culture

cc: J. Dueck, Controller, Financial Services