



CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: January 14, 2013	
SUBJECT/REPORT NO: Hamilton Follies Inc. Financial Assistance Request (FCS13005) (City Wide)	
SUBMITTED BY: Mike Zegarac, Acting General Manager Finance & Corporate Services	PREPARED BY: Bartek Lasota (905) 546-2424 ext. 2790
SIGNATURE:	

RECOMMENDATION

- (a) That a grant be provided to Hamilton Follies Inc.(HFI), in the amount of approximately \$48,000, to pay HFI's current indebtedness to Hamilton Entertainment and Convention Facilities Inc (HECFI);
- (b) That \$45,000 be funded from Reserve #104005 – Special Events Subsidy Fund;
- (c) That the remaining amount owing (approximately \$3,000) be funded from Reserve #100025 – HECFI Capital Projects;
- (d) That a condition of grant be included which requires that Hamilton Follies Inc. utilize the grant to pay the amount owing to HECFI in its entirety.

EXECUTIVE SUMMARY

At the October 30th 2012 Council meeting, a letter dated September 28th, 2012, was received from the Follies Variety Show (refer to Appendix A of Report FCS13005), briefly describing their financial circumstances and requesting a one-time financial

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commitment from the City. HFI is seeking financial support equivalent to the amount it owes to HECFI, or approximately \$48,000, as of November, 2012.

HFI is a senior citizens entertainment and variety troupe, whose performances are located in venues primarily in southern Ontario. Based in Hamilton, HFI performs a Christmas and Spring variety show annually, along with other performances, as hired by communities and venues in Canada and the United States.

According to the letter dated September 30, 2012 (Refer to Appendix A of Report FCS13005) , HFI's directors were deceived about its financial sustainability by internal staff resulting in near bankruptcy. HFI is attempting to avoid filing for bankruptcy by seeking financial support from various sources.

Staff is recommending that, due to the specific circumstances of the case, a grant be issued to HFI, in the amount owed to HECFI, or approximately \$48,000 as of November 2012. Staff also recommends that a condition be placed on the grant which requires that the money received be utilized to pay the amount owed to HECFI in its entirety.

Should Council decide not to provide the grant, HECFI will likely be required to write-off the amount owing from HFI, resulting in an operating loss impact of \$48,000, as detailed in the "Financial/Legal/Staffing Implications" section of this Report FCS13005.

Therefore, there is no difference to the City between both scenarios, essentially resulting in the same net impact, as outlined in Figure 1 in the "Financial/Legal/Staffing Implications" section of this Report FCS13005. In discussion with HFI., the HECFI debt is its largest financial hurdle and will significantly aid in allowing the organization to continue as a going concern.

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Currently, HFI is indebted to HECFI in the amount of approximately \$48,000 for past use of its facilities. Due to the organization's financial distress, the amount owed has been included as part of HECFI's allowance for doubtful accounts, resulting in an operating loss impact of the same amount.

Since the City will fund any operating deficits generated by HECFI, the City will be responsible to fund the receivable write-off should HECFI generate an operating loss for the year.

Should the City grant the amount owed to HECFI to HFI, to be used for payment to HECFI, HECFI would then be in a position to recover the write-off and reduce the negative operating impact by the same amount.

By funding the amount largely from Reserve #104005 – Special Events Subsidy Fund, a HECFI reserve which was approved to be closed in 2011 and funds to be returned to

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the City once commitments clear, the net cash impact to the City of providing the grant is significantly reduced. After accounting for commitments, the reserve would have approximately \$45,000 available for funding. Figure 1 below illustrates the net impact to the City under two scenarios: (1) where the organization defaults; and (2) where the grant is provided and funded by the afore-mentioned reserve.

FIGURE 1

Hamilton Follies Inc. Amount Owed to HECFI Bankruptcy vs Grant Comparison			Scenario 2: City Provided Grant		
Scenario 1: Hamilton Follies Inc. Bankruptcy	\$			\$	
Hamilton Follies Inc. amount owed to HECFI	48,000		Hamilton Follies Inc. amount owed to HECFI	48,000	
Receivable Write-off	(48,000)	←	Receivable Write-off	(48,000)	←
<u>Net Receivable Owing</u>	<u>-</u>		<u>Net Receivable Owing</u>	<u>-</u>	
			Receivable Recovery	48,000	→
			Payment for Amount Owed	(48,000)	
			<u>Revised Net Receivable Owing</u>	<u>-</u>	
<u>HECFI Operating Loss Impact</u>	<u>(48,000)</u>		<u>HECFI Operating Loss Impact</u>	<u>-</u>	
Required City of Hamilton HECFI Funding*	(48,000)		Required City of Hamilton HECFI Funding	-	
City Funding Received from Reserve # 104005	45,000		City Funding Received from Reserve # 104005	45,000	
			Grant Paid to Hamilton Follies Inc.	(48,000)	
<u>NET CASH CITY IMPACT</u>	<u>(3,000)</u>		<u>NET CASH CITY IMPACT</u>	<u>(3,000)</u>	

**Assumes HECFI net loss position for the year; operating loss relating to receivable would be absorbed by any net profits earned for the year*

As detailed above, both scenarios result in the same net cash impact to the City. In discussion with HFI, the HECFI debt is its largest financial hurdle and will significantly aid in allowing the organization to continue as a going concern.

Forgiving the debt was also considered; however, this approach would still result in an operating loss impact to HECFI. By utilizing the grant approach, HECFI is able to avoid an operating loss impact from the receivable write-off and the organization would be able to avoid any credit implications from such write-off (assuming no bankruptcy).

Providing loan assistance was not considered as the organization is in financial distress and would not be in a position to repay the loan.

While the amount owed to HECFI amounts to approximately only \$48,000 as of November 2012, the amount is subject to accrued interest between when the Report was written and Council approval. Therefore, the final amount granted will be determined after Council approval, to an upset limit of \$50,000.

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Staffing: None.

Legal: Appropriate legal documentation will need to be drafted and executed in order to assure the condition of payment of the amount owing to HECFI is carried out.

HISTORICAL BACKGROUND (Chronology of events)

At the October 30th 2012 Council meeting, a letter dated September 28, 2012, was received from the the Follies Variety Show (refer to Appendix A of Report FCS13005), briefly describing their financial circumstances and a request for financial assistance from the City. The organization is seeking support equivalent to the amount it owes HECFI, or approximately \$48,000, as of November, 2012.

At the October 30th 2012 Council meeting, Council referred the matter to the General Manager of Finance and Corporate Services. This Report addresses that referral.

POLICY IMPLICATIONS

Grant Precedent

The recommendation to provide a grant to HFI is made on the basis of the specific facts of this case and its impact on HECFI and ultimately City funding. This request and recommendation is in no way meant to set a precedent for future grant requests. Any future requests received will be evaluated on its own facts and circumstances.

RELEVANT CONSULTATION

HECFI
Accounts Receivable Section, Financial Services Division, Corporate Services
Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Refer to the “Financial/Staffing/Legal Implications” section above.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Deny Hamilton Follies Inc. request for financial assistance from the City.

This option involves denying HFI request for financial assistance.

Financial: Should the City deny HFI. request for financial assistance, the City will still be required to fund HECFI's operating loss impact of \$48,000 as a result of the receivable write-off, as illustrated in Figure 1 of Report FCS13005.

Staffing: N/A.

Legal: N/A.

Pros:

- This would avoid any requirement for legal documentation as a result of the grant with condition.
- This would avoid any internal staff process of work.

Cons:

- HECFI would generate an operating loss impact due to the receivable write-off.
- HFI. would likely not continue as a going concern, eliminating the entertainment initiatives it organizes for various groups within the Hamilton area.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- ◆ A culture of excellence
- ◆ Council and SMT are recognized for their leadership and integrity

Intergovernmental Relationships

- ◆ Maintain effective relationships with other public agencies

Growing Our Economy

- ◆ Newly created or revitalized employment sites
- ◆ An improved customer service
- ◆ A visitor and convention destination

Social Development

- ◆ Hamilton residents are optimally employed earning a living wage
- ◆ People participate in all aspects of community life without barriers or stigma

Healthy Community

- ◆ An engaged Citizenry.

APPENDICES / SCHEDULES

Appendix A – a letter dated September 28, 2012, from the Follies Variety Show and received by Council at the October 30th, 2012, meeting, requesting financial assistance from the City

2 King St W., Box 57012 Jackson Square
Hamilton, ON L8P 4W9
Email: geritolfollies@cogeco.ca
Charitable Reg. No.: 10225 8043 RP0001

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follies

variety show

September 28, 2012

Your worship, Mr. Bob Bratina and members of council,

A meeting with Mr. John Hertel and Mr. Rick DiFilippo has prompted us to write to you about the Hamilton Follies. We have been in existence since 1974, entertaining tens of thousands of happy patrons in Canada, the United States and overseas. But likely you know all that because the "Geritol Follies" are a Hamilton institution, and Mr. Bratina has even appeared on stage with us.

In talks with Mr. Hertel, Mr. DiFilippo and members of council, we have been encouraged to tell you our story. Recently, we discovered that our administrator and director have been deceiving us about our financial stability. As a result we nearly folded. Rather than choose receivership we decided to fight back the only way we know how. That is, by taking over the management of the organization ourselves, searching for sponsors and donors and taking an active role in pursuit of more performance venues.

Tasked with the job of looking for financial support, I write to you to ask if the city of Hamilton would consider seriously a one time financial commitment & become the patron of our very valuable Hamilton asset. We keep seniors healthy, happy and active. We benefit their mental wellbeing and contribute to their sense of usefulness in their community. Our audience receives a like benefit and exits our performances humming the tunes and telling each other how they will tell our funny stories at dinner later that evening. It's one of those situations where we may not be missed until we're gone. We as the board of directors of the Hamilton Follies are not prepared to let that happen. We will be bold and we will ask for help. We need your financial assistance now and look forward to hearing that you will be willing to do so as a city sponsor.

Our current indebtedness to HECFI is approximately \$48,000.00 and climbing monthly due to interest. We believe that with our restructuring program, your assistance in this area, and other community and corporate sponsorship, as well as, our own in house fundraising efforts, we will be able to completely recover from our indebtedness.

I thank you for reading my letter and would add that members of the Board are available to answer your questions and tell you our story.

Please help us keep Hamilton's Geritol Follies alive.

For the Board of Directors I remain,

Yours sincerely,



Sofia Buzzelli
Director