



City of  
**Peterborough**

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**To:** **Members of the Committee of the Whole**

**From:** **Sandra Clancy, Director of Corporate Services**

**Meeting Date:** **August 31, 2015**

**Subject:** **Report CPFS15-042**  
**Loan Guarantee to Infrastructure Ontario on behalf of**  
**Peterborough County City Health Unit**

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## **Purpose**

A report to recommend the City provide a loan guarantee to Infrastructure Ontario (IO) for the City's share of the \$3.6 million debenture for the Peterborough County City Health Unit for the purchase and financing of the leasehold improvements at their new premises at 185 King Street.

## **Recommendations**

That Council approve the recommendations outlined in Report CPFS15-042, dated August 31, 2015 of the Director of Corporate Services as follows:

- a) That the City of Peterborough provide a loan guarantee to Infrastructure Ontario for an amount not to exceed \$2.16 million, representing the City's 60% share of the estimated \$3.6 million debenture for the Peterborough County City Health Unit for the purchase and financing of the leasehold improvements at their new premises at 185 King Street.
- b) That the Director of Corporate Services be authorized to prepare all necessary documents including a by-law and corresponding Capital Facilities Agreement with the Peterborough County City Health Unit.

## Budget and Financial Implications

There are no direct costs in providing the loan guarantee; however, it will be a draw on the City's non tax-supported debt capacity.

The all-in debenture rate will be secured for the issue when finalized. Currently, the 30-year serial debenture rate is 3.13%.

In the unlikely event that the Health Unit was unable to fulfill its obligations with respect to the loan during the 30 year term, the City would need to step in and act upon the guarantee being provided.

## Background

Through Report CPFS15-017, dated April 27, 2015, which is attached as Appendix A, Council approved the following recommendations:

- a) That the City of Peterborough commit to provide up to \$3.6 million, for a maximum term of 30 years, at an interest rate of 3.1%, as a mortgage to the Peterborough County City Health Unit for the purchase and financing of the leasehold improvements at their new premises at 185 King Street in the event that funding from Infrastructure Ontario is not available, and
- b) That, in the event that the funding from Infrastructure Ontario is not available, a by-law be approved authorizing the Mayor and Clerk to sign a mortgage and security agreement between the Peterborough County City Health Unit and the City of Peterborough.

## Infrastructure Ontario Requires Loan Guarantee

IO has indicated that they will provide the loan necessary for the Peterborough County City Health Unit (PCCHU) to move in to its new premises, however, the loan must be guaranteed by the County and City.

The all-in interest rate will be secured when the issue is finalized; however, the current interest rate for a 30 year IO serial debenture is 3.13%, which is a very competitive rate.

Staff recommend that the City provide a loan guarantee for up to \$2.16 million representing 60% portion of the principal sum which is estimated to be between \$3.4 million - \$3.6 million. County Council will be asked to provide a similar loan guarantee for its 40% share.

## Capital Facilities Agreement Required

For IO to accept the City guarantee and to avoid any "bonusing" issues under the **Municipal Act**, the PCCHU and the City will need to enter into a capital facilities agreement under 110 (3) of the **Municipal Act**. Section 110 of the **Municipal Act, 2001** provides that a municipality may enter into an agreement with another entity for

the provision of municipal capital facilities and the agreement shall provide for financial assistance by way of a guarantee despite Section 106 of the **Municipal Act, 2001** (bonusing). The classes of municipal capital facilities that are eligible for assistance under subsection 110(3) of the **Municipal Act** include Municipal facilities for social and health services.

### **Impact on Debt Capacity**

The loan guarantee will be a draw on the City's non-tax supported debt capacity. After the \$2.16 million draw, the non-tax supported portion of the City's debt capacity will be \$46.6 million.

### **Option to Provide Mortgage Directly**

Instead of guaranteeing the City's share of the I/O loan for the PCCHU, the City could go back to its original motion in April 2015 which was to provide the loan directly to the PCCHU. However, there is a risk to the City in that while the proposed interest rate is greater than the current average rate of return, at some point during the 30 year term, the City's average investment rate would probably be greater than the 3.13%. Staff were not aware at the time that an option to guarantee the loan would be presented and recommend this option as there is no interest rate risk for the City.

Submitted by

Sandra Clancy  
Director of Corporate Services

Contact Name:

Richard Freymond  
Manager of Financial Services  
Phone: 705-742-7777 Ext 1862  
Toll Free: 1-855-738-3755  
Fax: 705-876-4607  
E-mail: [rfreymond@peterborough.ca](mailto:rfreymond@peterborough.ca)

Attachments:

Appendix A Report CPFS15-017 Potential Mortgage to Peterborough County City Health Unit to purchase and renovate new Premises

## Appendix A

Report CPFS15-017 Potential Mortgage to Peterborough County City  
Health Unit to purchase and renovate new Premises



City of  
**Peterborough**

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**To:** **Members of the Committee of the Whole**

**From:** **Sandra Clancy, Director of Corporate Services**

**Meeting Date:** **April 27, 2015**

**Subject:** **Report CPFS15-017 Potential Mortgage to Peterborough County City Health Unit to purchase and renovate new Premises**

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## **Purpose**

A report to recommend the City commit to provide up to \$3.6 million as a mortgage to the Peterborough County City Health Unit for the purchase and financing of the leasehold improvements at their new premises at 185 King Street in the event that funding from Infrastructure Ontario is not available.

## **Recommendations**

That Council approve the recommendations outlined in Report CPFS15-017, dated April 27, 2015 of the Director of Corporate Services as follows:

- a) That the City of Peterborough commit to provide up to \$3.6 million, for a maximum term of 30 years, at an interest rate of 3.1%, as a mortgage to the Peterborough County City Health Unit for the purchase and financing of the leasehold improvements at their new premises at 185 King Street in the event that funding from Infrastructure Ontario is not available, and
- b) That, in the event that the funding from Infrastructure Ontario is not available, a by-law be approved authorizing the Mayor and Clerk to sign a mortgage and security agreement between the Peterborough County City Health Unit and the City of Peterborough.

## Budget and Financial Implications

Like all investments of surplus cash, a mortgage provided to the Peterborough County City Health Unit (PCCHU) will be charged to the City's investment account and is not an expenditure for which a budget must be established. A 3.1% rate will generate \$1.96 million in interest over the term of the investment.

The 3.1% interest rate has been requested by the PCCHU as it is the interest rate offered by Infrastructure Ontario (I/O) and has been used for all the financial planning of the project. For 2014, the City's average investment rate was 1.81%. If the 1.81% interest rate continued during the term of the mortgage, the City would earn an additional 1.29% than if the City invested the same amount on the open market.

A potential risk is that interest rates will rise and, at some point during the 30 year term, the City's average investment rate will be greater than 3.1% making this investment less attractive.

## Background

Through Report CPFS15-004, dated January 26, 2015, Council approved the following recommendations:

- a) That the Peterborough County-City Health Unit presentation be received;
- b) That, to comply with the Health Protection and Promotion Act, which stipulates a board of health may acquire and hold real property for the purpose of carrying out the functions of the board and may sell, exchange, lease, mortgage or otherwise charge or dispose of real property owned by it only if board of health has first obtained the consent of the councils of the majority of the municipalities within the health unit served by the board of health, the City of Peterborough approves, in principle, the purchase of the first three floors of 185 King Street and the relocation of the Peterborough County-City Health Unit subject to all conditions of the purchase and sale being satisfied to the satisfaction of the Board of the Peterborough County-City Health Unit;
- c) That the Peterborough County-City Health Unit Relocation Business Plan, as provided to City staff and set out in Appendix A to Report CPFS15-004 be approved.
- d) That an additional provision of \$75,817 for the Peterborough County-City Health Unit be included in the 2015 Operating Budget and a similar amount be included in future years' operating budgets as the City's share of additional operating expenses; and

- e) That a provision of \$261,666 one-time funding (\$89,700 be included in the 2015 Capital Budget) for the Peterborough County-City Health Unit for the City's share of relocation expenses and leasehold improvements.

### **Request for Mortgage if I/O mortgage not approved**

The plan for the relocation of the PCCHU included the sale of 10 Hospital Drive. However, the sale did not occur as initially anticipated. A second invitation for prospective purchasers has been issued and it appears that it will be successful. However, there has been a delay in obtaining mortgage approval from I/O for the funds necessary to purchase and finance the necessary leasehold improvements at 185 King Street.

Although it appears likely that I/O will approve the mortgage, such approval, if obtained, could take at least three months. The PCCHU is in a position where it must waive its financing condition by no later than May 8, 2015. The resulting delay in getting I/O approval is causing the project to be in jeopardy.

The Director of Corporate Services received the letter, as set out in Appendix A, on April 20, 2015 requesting the City to consider making a commitment to provide a mortgage to the PCCHU if they are not granted approval from I/O. If financing is available by the closing date of the purchase, the City would not be required to provide the required mortgage.

### **What if I/O Mortgage is not Approved**

The City is not in the banking business and would not regularly be interested in issuing a 30 year mortgage. However, it is likely that the I/O will approve a mortgage for the PCCHU. If I/O does not approve the mortgage, staff are comfortable to recommend that the City make this commitment due to the following:

- the City has been supportive of the relocation for its benefits to the PCCHU as well as the City's downtown;
- the long-term mortgage proposes an interest rate which is greater than the average rate of return on investments the City currently receives on the open market; and
- the City will have the security of the portion of 185 King Street that the PCCHU owns to support the mortgage.

### **Council approval needed prior to May 8**

Whereas the PCCHU must waive its financing condition by no later than May 8, 2015, if Committee adopts this recommendation at its meeting April 27, the Committee report will placed on the April 27, 2015 Council agenda for final approval.

## Summary

If adopted, the recommendation in this report will permit the Peterborough County City Health Unit to waive its financing condition by May 8, 2015 and proceed with its purchase of a portion of 185 King Street and the necessary leasehold improvements.

Submitted by

Sandra Clancy  
Director of Corporate Services

Contact Name:

Richard Freymond  
Manager of Financial Services  
Phone: 705-742-7777 Ext 1862  
Toll Free: 1-855-738-3755  
Fax: 705-876-4607  
E-mail: [rfreymond@peterborough.ca](mailto:rfreymond@peterborough.ca)

Attachments:

Appendix A Letter from Peter Lawless, LLF Lawyers LLP representing the  
Peterborough County City Health Unit





**Pete Lawless**  
[plawless@llf.ca](mailto:plawless@llf.ca)  
(705) 742-1674  
Ext 212

April 20, 2015

City of Peterborough  
500 George Street North  
Peterborough ON K9H 3R9

Attention: Sandra Clancy  
Director, Corporate Services

Dear Sandra:

**Re: Peterborough County-City Health Unit**

We represent the Peterborough County-City Health Unit (the "Health Unit") in connection with the sale of its current premises located at 10 Hospital Drive and its purchase of the first three floors of the existing building located at 185 King Street, Peterborough from Aon Inc. ("Aon"). As you are aware, Aon is converting 185 King Street to a condominium prior to closing, and the Health Unit will be the registered owner of that portion of the condominium which comprises of the first three floors of the building (the "New Premises").

For reasons beyond the control of the Health Unit, the anticipated sale of 10 Hospital Drive is not proceeding as the purchaser did not waive conditions that were in its favour. The Health Unit has undergone a second invitation for prospective purchasers to submit offers for the property and it appears that it will be successful in selling the property but at a lower price than anticipated. As a result, the Health Unit has been delayed in obtaining mortgage approval from Infrastructure Ontario ("IO") for the funds necessary to purchase and finance the necessary renovations of the New Premises. Although it appears likely that IO will approve the requisite financing, such approval if obtained could take in excess of three (3) months. The resulting delays make it impossible for Aon to begin constructing the interior of the New Premises and the delays are such that the sale of 10 Hospital Drive and the purchase of the New Premises are jeopardized and the entire project may have to be terminated.

I am writing on behalf of the Health Unit to request that the City provide a commitment to provide a mortgage loan to our client on terms that are similar to those expected to be obtained from IO. These terms are as follows:

1. Principal Sum - between \$3.4 and \$3.6 Million;
2. Term – 30 years;
3. Interest Rate – 3.1%;
4. Security first mortgage on the New Premises

Our client would continue to diligently proceed to obtain financing from IO and, if such financing is available by the closing date on the terms and conditions satisfactory to and within the budgeting requirements of the Health Unit, then the City would not be required to provide the required mortgage loan.

Our client must be in a position to waive its financing condition by no later than May 8, 2015 in order to ensure that the purchase of the New Premises from Aon can proceed. As a result, we request written confirmation as to whether or not the City will agree to provide the mortgage financing on the terms referred to herein on or before such date.

Please let me know if you require any further information or if you would like to meet with my client to discuss this further.

Yours very truly,

**LLF LAWYERS LLP**

A handwritten signature in black ink, appearing to be 'Pete Lawless', with a stylized, cursive-like script.

Pete Lawless

PL:sc