

TO: Chair and Members of the Finance & Facilities Committee

FROM: Christopher Mackie, Medical Officer of Health / CEO

DATE: 2018 November 1

LOCATION PROJECT – SOURCE OF FINANCING

Recommendation

It is recommended that the Finance & Facilities Committee:

- 1) *Receive Report No. 040-18FFC re: “Location Project – Source of Financing” for information; and*
- 2) *Recommend that the Board of Health approve the selection of the City of London as the funder for office fit-up.*

Key Points

- The Middlesex-London Health Unit has entered into a long-term lease to secure new space at 355 Wellington Street, London.
- To support office fit-up costs for this location, MLHU is seeking financing of \$5,200,000.
- Multiple quotes were solicited from local organizations, including a chartered bank, a credit union, and the City of London.
- The City of London was able to pass on its favourable borrowing rates and has offered the lowest funding rate of prime minus 1.18%, which is being recommended to fund the office space fit-up.
- There is a risk of cost escalation in this project, as market conditions have changed since the fit-up costs were developed and may result in expenditures exceeding \$5,200,000.

Background

The Middlesex-London Health Unit submitted requests for funding proposals to three local institutions. These included a request, via the Chair and Members of the City of London’s Community and Protective Services Committee (CPSC), to seek funding directly from the City. This request, previously outlined in Confidential Report 026-18FFC, was approved by the CPSC at a public meeting held on July 16, 2018.

In total, MLHU received and analyzed three competitive bids for funding, with variable interest rates ranging from Canadian prime to Canadian prime less 1.18%. One bidder also offered pricing based on banker’s acceptance (BA) rates less a range of discounts for revolving terms ranging from 30 to 180 days. Due to the higher volatility of BA rates, which are repriced daily in the market, and shorter loan durations before repricing, it is recommended that price comparisons only include bids based on Canadian prime, which reprices less frequently and reflects changes to the Bank of Canada rate. Although these bids were all competitive, the City of London was able to pass on its preferred borrowing rates to fund the fit-up of the office space at 355 Wellington Street at the lowest rate.

Potential Cost Escalation

Due to changing market conditions, there is a potential that fit-up costs could exceed the initial budget estimate of \$75/square foot. The costs of both materials and labour have increased over the 18 months since the construction costs were calculated. However, efforts will be taken to mitigate these costs whenever possible. This will include alternate materials, designs, or project timing. Any significant material changes to costs that may impact the completion of the relocation project within the planned budget of \$5,200,000 will be reported to the Relocation Advisory Committee as they become known.

Next Steps

MLHU is seeking the Board of Health's approval to enter into a lending agreement with the City of London, the institution able to offer the most favourable terms. However, due to the upcoming City elections, representatives of the City Finance team have advised that they are entering a quiet period and can only resume discussion and formally arrange to advance funds to MLHU by the end of December 2018. This delay should not adversely impact roll-out of fit-up activities in the intervening period, as MLHU is currently able to meet short-term purchasing obligations.

This report was prepared by the Finance Team, Healthy Organization Division.



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