



TO: Chair and Members of the Board of Health

FROM: Christopher Mackie, Medical Officer of Health /CEO

DATE: 2019 February 21

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## LOCATION PROJECT – FINANCE AND BUDGET UPDATE

### **Recommendation**

*It is recommended that the Board of Health:*

- 1) Receive No. 011-19 re “Location Project – Finance and Budget Update” for information; and*
- 2) Consider further staff recommendations that will come forward when build costing is available, prior to the February meeting of the Board of Health.*

### **Key Points**

- The Health Unit is currently working with representatives of City of London Finance to draft a Memorandum of Understanding (MOU) outlining terms of a Line of Credit to fund a portion of the fit-up costs for the relocation to Citi Plaza
- Target date for the Health Unit to access funds is April 1, 2019 with interest terms set at Canadian Prime minus 1.18%. The current rate is 2.77% (3.95% - 1.18%).
- The MOU will outline an option to convert outstanding borrowings within 24 months from inception of Line of Credit to a long term loan under a new lending agreement for a period of 10 years.
- City of London has requested a status update on the financial budget for the fit-up and likelihood of MLHU securing a capital grant to cover fit-up costs.

### **Background**

On July 16, 2018, the Middlesex-London Health Unit submitted a request to the Community and Protective Services Committee of the City of London to consider the extension of a repayable loan for up to \$5.2 million to support fit-up costs for the relocation to Citi Plaza.

A motion was passed that the civic administration be directed to negotiate terms of financing with MLHU for the fit-up costs of new office space and that an appropriate agreement outlining the terms of the financing be brought forward for Municipal Council’s consideration.

Representatives from both MLHU and City of London are currently drafting an MOU outlining the terms of the proposed Line of Credit with a target date of April 1, 2019 when MLHU could access funds. Terms outlined in the MOU will include:

- Line of Credit will be established for a period not to exceed two years.
- Line will be capped at \$5.2 million.
- Interest Rate is Prime minus 1.18%, making the implied current interest rate 2.77% (3.95% - 1.18%)
- Minimum interest-only payments are due monthly on outstanding principal.
- Protocol for drawing on the line of credit to be established with the expectation of one draw per month.
- Line of credit is open during the two-year period and MLHU can pay down principal as funds are available.

- MLHU will have an option to convert outstanding balance in Line of Credit to a long term loan within 24 months (this option would be covered under a new lending agreement with new rates and parameters to be discussed at the time).
- In the Line of Credit Agreement as it is currently drafted the duration of long term debt would not exceed 10 years to match current terms of borrowing used by the City.
- The City's current rate for long term borrowing is approximately 3.1% which is still below Prime.

### **Update**

In preparation of a Memorandum of Understanding, the City has requested updates from the health unit concerning the following issues:

1. Whether MLHU will require additional funds to fit up the new premises in addition to the \$5.2 million originally requested.
2. If the Community Health Capital Program (CHCP) grant request is denied or does not cover the residual debt upon completion of fit-up, would MLHU seek to convert outstanding debt to a term loan.
3. If the City converts the outstanding balance of a line of credit to long-term debt, how MLHU will service this debt in future years.

### **Discussion**

MLHU expects that fit-up costs will exceed the earlier budget target of \$5.2 million. While a landlord incentive of approximately \$2 million and MLHU reserve funds are available, any unforeseen costs or overages may stretch these resources. A revised budget is currently being drafted and will be available prior to February 21. MLHU continues to be engaged with the Ministry of Health and Long-Term Care's Community Health Capital Program grant application process. In the event that proceeds from a capital grant are insufficient to cover residual debt, MLHU intends to set aside sufficient funds on an annual basis to service any long-term debt.

### **Next Steps**

- Representatives from MLHU and City of London to jointly draft an MOU.
- MLHU to update the relocation budget and provide an updated project plan for the City to include in their report to council.
- Any anticipated cost increases over the original \$5.2 million budget will be clearly identified.
- MLHU to outline to City how outstanding debt will be repaid including:
  - a) Continuing application process for capital grants through Ministry of Health (review process is currently on hold); and
  - b) Setting aside funds from annual operating budget to pay down remaining debt over term of loan.
- Terms of the MOU to be ratified jointly by the Board of Health and Community and Protective Services Committee of City of London prior to April 1.

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



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