

THE REGIONAL MUNICIPALITY OF YORK

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**REPORT NO. 1 OF THE COMMISSIONER OF COMMUNITY AND HEALTH
SERVICES AND THE
COMMISSIONER OF FINANCE**
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**For Consideration by
The Council of The Regional Municipality of York
on May 21, 2009**

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LOAN REQUEST - HESPERUS FELLOWSHIP VILLAGE

1. RECOMMENDATIONS

It is recommended that:

1. The Region lend Hesperus Fellowship Village \$755,000 on the terms set out in section 4.2 of this report.

2. PURPOSE

The purpose of this report is to seek Council's approval regarding a request from Hesperus Fellowship Village for \$755,000 of bridge financing to facilitate the development of an affordable housing project in the City of Vaughan.

3. BACKGROUND

Hesperus Fellowship Village provides housing and services to seniors at their current 19 unit facility in the City of Vaughan. The Group has been planning since 2001 to construct additional affordable housing. The new housing project is planned to contain 61 units, of which 60 will be funded under the Canada Ontario Affordable Housing Program.

The group was one of four successful non-profit community partner recipients of an Affordable Housing Program allocation by the Region in 2006. Under the terms of the

allocation, Hesperus will receive up to \$70,000 per unit of federal/provincial funding for the 60 affordable housing units (\$4.2 million) in the planned new project. Further, these projects must be under construction by the end of 2009. If Hesperus does not start construction of its project soon, the group and the Region could lose this funding allocation.

These four projects received a conditional grant allocation from the Region in the amount of \$10,000 per unit (\$600,000 for the Hesperus project) as approved by Council in 2008.

Hesperus has now asked the Region to consider lending the group \$755,000 on a no interest or low interest basis for a term of three years during which time they expect to be able to repay the loan from continued fundraising. Fundraising efforts for the project which began in 2003 raised just over \$400,000 by 2006. In the past two years the group has fundraised a further \$900,000.

In further support of repayment, Hesperus has indicated it will pay the Region 50% of any operational surplus the project generates starting in its second year of operation. Hesperus projects the project will be generating a surplus of about \$70,000 in each of its second and third years of operation.

Additionally, Hesperus indicates it will provide a 2.69 acres piece of land to be used as security for the loan. The land which is situated next to a single family neighbourhood was recently valued by an appraiser hired by the group in an amount of \$1.345 million. The land is zoned agricultural, although the Official Plan has designated the property as Low Density Residential. Planning staff has indicated that, given the low density residential Official Plan designation, it is probable there would only be a minimal process in having the zoning changed. A location of the project is shown on the attached map (Attachment 1).

4. ANALYSIS AND OPTIONS

Generally, the potential risk factors concerning the loan request include the following:

- The project development costs could be underestimated, meaning the group would require additional bridge financing;
- The group may not have all required sources of funds for the project secured;
- The group may not be able to fundraise the required amount within three years;
- The group may incur operational cash shortfalls within the next three years.

4.1 Hesperus requires bridge financing to complete the project

In order to build the project, which is estimated to cost approximately \$15.7 million, Hesperus is required to fundraise about \$2.1 million. To date, the group has fundraised about \$1.3 million in cash leaving an approximate gap of \$755,000. A complete source of funding schedule for the project is outlined in Table 1.

Table 1
Estimated Sources of Funding Required for Hesperus Project

Funding Source	Amount - \$
CMHC insured loan from market lender paid from project cashflow	5,770,123
Land donated by Hesperus	1,800,000
Federal/Provincial AHP Contribution	4,200,000
Fundraising to date	1,306,706
Regional contribution	600,000
Regional Development Charges to be offset	534,691
GST/PST rebate	612,300
City of Vaughan Development Charges to be waived (still to be confirmed)	122,114
Bridge Loan Request from Region	755,000
Total estimated cost of development budget	15,700,934

Source: Hesperus Fellowship Village Loan Request Submission

Note - \$43,400 per unit of the AHP funding will be paid out with interest by the provincial government over 20 years. This funding will be financed up front by a market lender and insured by CMHC in addition to the amount shown here as a CMHC insured mortgage.

In addition to the estimated capital cost of \$15.701 million, the group will arrange with their contractor to post a letter of credit with the City of Vaughan in the approximate amount of \$346,000 in respect of development works which will be returned to the contractor after the development is completed.

4.2 It is recommended the loan to Hesperus be approved with certain conditions

The Region has incorporated several conditions into the AHP Agreement to ensure the project cost is relatively certain, that the group has secured all sources of funding necessary to complete construction and that project costs are monitored during project development. Several of these conditions are incorporated into the following recommendation.

It is recommended the request for a \$755,000 bridging loan to Hesperus Fellowship Village be supported. The Regional Treasurer supports the recommendation subject to the following conditions:

- The Region receives an opinion from a qualified third party quantity surveyor indicating the project cost of \$15.7 million is realistic and achievable for this 61 unit project.
- Prior to the advancing of the \$755,000 loan, the Region confirm all sources of funding for the project are on hand or have been spent on the development as indicated in the group's development budget, including:
 - The full amount of cash equity on hand fundraised by the group in an amount of \$1.3 million
 - The group has secured a CMHC NHA approved loan with all pre-advancing conditions removed in an amount of at least \$8.374 million;
 - The group's quantity surveyor statement indicating the amount of GST/PST rebate is realistic and achievable;
 - The waiving of development charges by the City of Vaughan is confirmed;
 - The group's contractor confirms to the Region that the Letter of Credit required by the City of Vaughan is in place;
 - Any bridge financing which may be required;
 - All other amounts required to fund the 61 unit project.
- The group provides a legal opinion from the solicitor of the affiliated group showing that the parcel of land which will be used as collateral for the loan is available in fee simple and is free and clear of any encumbrances enabling the Region to place a first collateral charge upon the land;
- Housing and Long Term Care staff monitor the project's monthly construction cash flow to ensure the development project is financed as planned
- The site which will be held for security has a value of at least \$1.125 million as confirmed by a third party appraiser hired by the Region;
- The group provides a positive Phase 1 Environmental Site Assessment on the site to be held as security for this loan.
- The Region requires 50% of operational surpluses in the year starting one year after the first full year after the date of substantial completion be directed toward the accrued interest on the loan first and then toward the principle amount of the loan outstanding. The determination of the amount of operational surplus rests solely with the Region upon its review of the group's audited financial statements.
- The Region requires annual reporting on the amount of fundraising committed and raised. All amounts raised and on hand at each year end will be directed

toward the accrued interest on the loan first and then toward the principle amount of the loan outstanding.

- The loan and security documentation be prepared by Legal staff and that the Commissioner of Finance be given authority to execute the Loan documentation on behalf the region.

It is recommended the interest rate of the loan would be 3.5% compounded semi-annually not in advance. This interest rate is representative of the Region's return for investments of a similar term. The loan would be open to principal repayment. Interest on the loan would be due at the end of the three year term. The approximate ending balance of the loan could be about \$838,000 if there are no repayments in the three year period. A loan in this amount would represent a 75% loan to value where the minimum land value is \$1.125 million. It is further recommended the Region make available a two year extension of the loan if necessary on the basis that all accrued interest to the end of the three years would need to be repaid.

5. FINANCIAL IMPLICATIONS

Various primary controls have been in put into place by the Region in respect of the \$4.8 million of funding which will flow to the project from the AHP and the Region's grant program. This loan of \$755,000 plus accrued interest would be sufficiently collateralized by a piece of land worth \$1.125 million.

6. LOCAL MUNICIPAL IMPACT

Lending these funds to Hesperus Fellowship Village will facilitate the development of a much needed affordable housing development in the City of Vaughan

7. CONCLUSION

Hesperus Fellowship Village is nearing completion of securing the necessary funding for the development of its affordable housing project. A secured bridge loan in the amount of \$755,000 from the Region will facilitate development of the project.

For more information on this report, please contact Len Bulmer, Finance and Reserve Specialist at Ext. 1676, or Sylvia Patterson, General Manager, Housing and Long Term Care at Ext 2091.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause is attached to this report.)

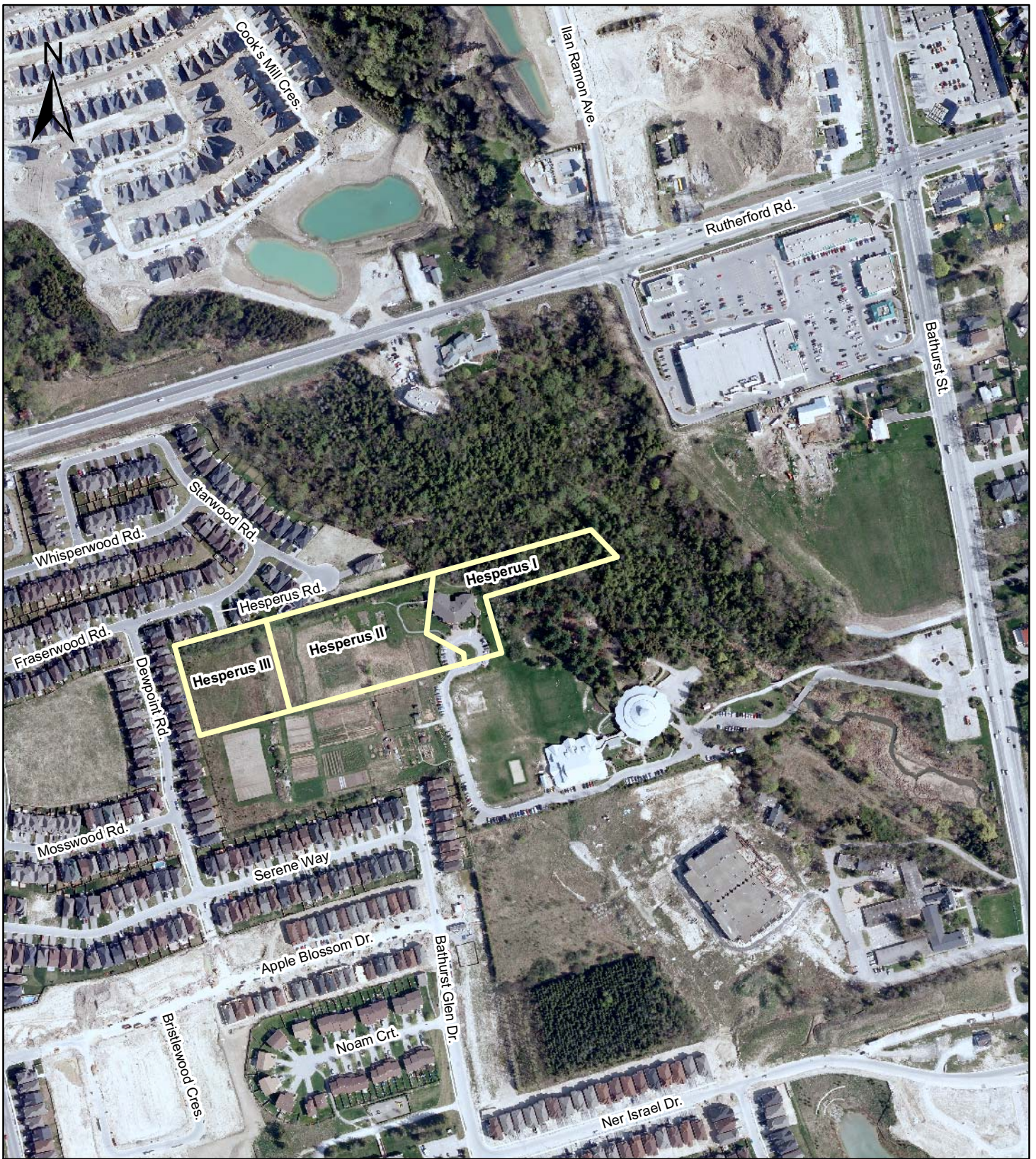
Respectfully submitted,

**May 15, 2009
Newmarket, Ontario**

**J. Simmons
Commissioner of Community
and Health Services**

**L. Russell
Commissioner of Finance**

***(Report No. 1 of the Commissioner of Community and Health Services and the
Commissioner of Finance was adopted without amendment, by the Council of
The Regional Municipality of York at its meeting on May 21, 2009.)***



Current Hesperus Fellowship
Community Property



Produced by: Geomatics
Planning and Development Services Department
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