

Clause No. 12 in Report No. 12 of the Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on June 26, 2014.

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HESPERUS LOAN EXTENSION

Committee of the Whole recommends adoption of the recommendation contained in the following report dated June 5, 2014 from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that Council:

1. Grant a loan extension to Hesperus Fellowship Village for an amount up to approximately \$1.437 million (plus accrued interest owed) with the following conditions:
 - a. The extension will be for one year, ending July 31, 2015 with no option for a further extension;
 - b. The annual interest rate will be 4.5%, accruing monthly;
 - c. Hesperus must make monthly interest payments of \$3,000 during the term of the loan extension;
 - d. The loan may be repaid any time during this period without penalty with payments directed first to any outstanding interest and then to outstanding principal; and
 - e. The existing security in the Hesperus land will remain in force until the loan has been fully repaid.
2. The Commissioner of Finance be authorized to execute all necessary documents to complete this transaction, subject to review by Legal Services.

2. PURPOSE

This report seeks Council approval for a loan extension for Hesperus Fellowship Village under the terms outlined in this report.

3. BACKGROUND

Hesperus was chosen to receive funding under the Affordable Housing Program in 2006 to build a 60 unit housing project in Vaughan

Hesperus was chosen to receive \$4.2 million in Federal/Provincial Affordable Housing Program (AHP) funding via a proposal call in 2006 to facilitate the construction of a 60

unit affordable housing project for seniors in the City of Vaughan. One of the conditions of AHP funding was that projects had to be ready or almost ready to proceed, or funds would be allocated to other Service Managers for eligible projects. In support of this project, the Region provided additional funding in the form of a conditional grant of \$600,000 and a Development Charge offset of \$535,000. The total project cost was approximately \$17.4 million. It was funded through the Affordable Housing Program, a first mortgage of \$8.9 million, tax rebates, development charge offsets and grants from the Region.

The organization experienced financial difficulty prior to and during construction and secured two loans from the Region to complete the project

Hesperus approached York Region in 2009 and requested \$755,000 in bridge funding to start the project in order to meet the program funding timelines. Hesperus represented that the loan was temporary in nature and the funds would be repaid from anticipated fundraising. The bridge loan was approved by Council in May 2009. In support of this loan, the Region took a security interest on an adjacent vacant piece of land owned by Hesperus. The fundraising campaign was not successful in raising the funds needed to repay the loan.

During the construction process, Hesperus encountered delays and cost increases that fully expended their capital budget before the building was complete. Hesperus requested a further loan to finance this shortfall and in May 2011, an additional \$682,000 was approved by Council and advanced to the organization. The Region extended its security on the adjacent property and Hesperus agreed to sell this land and repay the Region within three and a half years or earlier if possible. A 2011 appraisal indicated that the land at its highest and best use would be worth about \$2.96 million. To reach this land value a rezoning would be required, which would cost approximately \$500,000 for a developer interested in purchasing the property. It is expected that any developer's offer to purchase would take this cost into consideration.

The Affordable Housing Program created a financial relationship between the Region and Hesperus

Under the Affordable Housing Program, the Region and the Province entered into agreements with strict repayment provisions should a project default or not move ahead.

If Hesperus had defaulted during the construction process, the Region would have been forced to either take over the construction of the project or sell the building to recoup AHP funds. Neither of these options was seen to be desirable.

4. ANALYSIS AND OPTIONS

Hesperus's additional land offers an opportunity for low density residential development

The property owned by Hesperus acting as security for the loans granted by the Region is located in an area of high-end residential homes. The property is located along Hesperus Road, which provides public access for the newly-built section of Hesperus's building. Hesperus Road connects directly with Fraserwood Road, which is a residential street servicing single family homes that are adjacent to the site (see *Attachment 1*). It is expected that the property would be attractive to a developer interested in its redevelopment potential. The land is currently zoned Agricultural, but is identified in Vaughan's Official plan as low density residential, which allows for residential uses, small scale convenience retail, and detached, semi-detached and townhouse units.

Hesperus has investigated a variety of options to sell the land

Hesperus has actively investigated a variety of options to sell the land, including a lengthy negotiation to sell the land to Habitat for Humanity to maintain a not-for-profit use of the land that met Hesperus's mandate. The potential sale fell through in November 2012 when agreement on a price could not be reached.

Hesperus has been attempting to maximize the sale price for its property through discussions with brokers and other landowners in the area.

Hesperus met with Regional staff from CHS and Finance in September 2013, asking if the Region would have any potential use for the land. The Region indicated that it did not.

A recent sale transaction of a similar property in the area would indicate a value of approximately \$2 million per acre to a private developer of low density residential homes. The same developer has verbally expressed an interest in purchasing the property, and Hesperus expects to receive a formal offer at some point.

The Region's security against the land remains adequate

The expected balance of the Hesperus loan on July 31, 2014 includes \$1.437 million in principal and \$0.205 million in accrued interest, for a total of \$1.642 million. The current loan agreement required Hesperus to repay these outstanding loans on or before July 31, 2014.

The property acting as security for the Region's loans to Hesperus was appraised at \$2.96 million in 2011 and it is reasonable to expect the value has continued to increase since then. Based upon a value of \$2 million per acre achieved by a nearby property that was sold, the Hesperus's land is valued at approximately \$5.4 million. Even taking into consideration the cost of rezoning and site servicing the land value still covers the Region's loans to Hesperus.

It is recommended the loan be extended for a period of one year at an interest rate of 4.5%

Hesperus's current loans expire on July 31, 2014 and carry an interest rate of 3.5%. In order to more accurately reflect the risk undertaken in granting this loan extension, the renewal term should be limited to one year and the interest rate should be increased to 4.5%. It is expected that the one year extension will provide Hesperus with enough time to close a deal with the developer interested in their land and repay the Region in full.

Hesperus has agreed to make monthly interest payments

The loan agreement contains provision for repayment without penalty, whereby any payment made is first directed to accrued interest and then to principal. Hesperus's Executive Director has indicated the organization is able to make payments of \$3,000 per month during the term of the loan extension. If the monthly payments are made as agreed, the estimated ending balance on July 31, 2015 will be approximately \$1.680 million, including \$0.243 million in accrued interest and \$1.437 million in principal. Regular monthly payments will slow the growth of accrued interest, thus limiting the Region's risk until the loan is repaid.

Link to key Council - approved plans

Providing the initial loans to Hesperus supported the "Appropriate Housing for All Ages and Stages" theme areas in Vision 2051. The conditions of the loan extension support the "Manage the Region's Finances Prudently" priority area within the 2011 to 2015 Strategic Plan.

5. FINANCIAL IMPLICATIONS

There are no expected financial implications to the Region as this loan is fully secured by an additional property owned by Hesperus that has sufficient value to retire the loan when it is sold.

6. LOCAL MUNICIPAL IMPACT

The decision on whether or not to extend the loan does not have a direct local municipal impact.

7. CONCLUSION

Hesperus Fellowship Village was successful in completing a 60 unit seniors' affordable housing project in 2012. Despite some financial difficulties during construction, the organization has had no further financial issues during operations. If the Region decides the loans should be extended to give Hesperus more time for repayment, a higher rate of interest would be charged to compensate for the increased risk. The Region is protected through the use of legal agreements and mortgages registered on title.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at ext. 71644.

The Senior Management Group has reviewed this report.

Attachment (1)

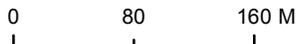


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9100 Bathurst Street, Vaughan
 Hesperus Loan Extension
 Apr 24, 2014



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Legend

- Additional Property Owned by Hesperus
- Hesperus Property Boundary