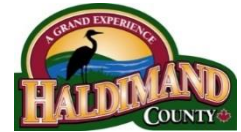


---

# HALDIMAND COUNTY

## Report CMS-GM-05-2018 Loan Guarantee for Aspen Apartments (Capability Support Services Inc.)



For Consideration by Council in Committee on April 24, 2018

---

### OBJECTIVE:

To advise Council of the requirement of a loan guarantee for Capability Support Services to support their development of 14 seniors' affordable housing units which will be known as Aspen Apartments, 663 Broad Street West, Dunnville.

### RECOMMENDATIONS:

1. THAT Report CMS-GM-05-2018 Loan Guarantee for Aspen Apartments (Capability Support Services Inc.) be received;
2. AND THAT subject to the provisions of the Municipal Act, Haldimand County provide mortgage insurance/guarantee to Capability Support Services in an amount not to exceed \$790,000 for the sole purpose of developing 14 seniors' affordable housing units on lands owned by Haldimand County which forms part of the Grandview Lodge land holdings, leased to Capability Support Services.
3. AND THAT the Mayor and Clerk be authorized to sign additional documents from time to time to support the development of the 14 seniors' affordable housing units, known as Aspen Apartments, at Grandview lodge conditional on any document not being in contravention of Council's intent with respect to its support of this project.
4. AND THAT an amending by-law be submitted to Council to amend By-Law No. 1190-11, being the current Municipal Capital Facilities By-Law to permit the guarantee of the loan for Aspen Apartments as requested.

**Respectfully submitted:** B. Hugh Hanly, General Manager of Community Services

**Approved:** Donald G. Boyle, Chief Administrative Officer

### EXECUTIVE SUMMARY:

The seniors' housing project that was awarded to Capability Support Services to develop 14 seniors' apartments, known as Aspen Apartments, is proceeding. Staff have been advised that this project, similar to the Maple Grove Place project at Grandview Lodge, requires a guarantor for the loan amount required to complete the construction of the apartment complex. Council previously guaranteed the loan for the Maple Grove Place project for \$990,000. The developer, Capability Support Services, is asking for a guarantee for a loan in the amount of \$790,000 (rounded from \$788,900 for round number maximum).

The author met with representatives of Capability Support Services and their consultants to review the project and potential need for additional funding. The consultants explained that the funding agent for their health-related services, HNHB LHIN (Hamilton Niagara Haldimand Brant Local Health Integration Network) does not allow surplus funds to be kept, and based on that policy, surplus funds are clawed back by the LHIN, creating a very tight “Debt Service Coverage Ratio” for this project. Capability had counted on operating surpluses across the corporation’s operations to improve the Debt Service Coverage Ratio. This has created an issue for Capability Support Services for this project, as lenders look at the Debt Service Coverage Ratio very closely to evaluate an entity’s ability to repay the loan. This tight Debt Service Coverage Ratio is what is driving Capability Support Services’ difficulty in obtaining financing for the project.

## **BACKGROUND:**

Similar to the development at Grandview Lodge for assisted living (Maple Grove Place), the lender for the required amount of just under \$790,000 has stated that a guarantor is required. Because Capability Support Services is a not-for-profit entity and is impacted significantly by the LHIN’s policy regarding retaining operating surpluses, lenders require a guarantor.

Staff were contacted on March 26, 2018 by Capability Support Services to request, once again, that the County guarantee their loan of \$790,000. Currently, the County has guaranteed the same company’s loan for Maple Grove Place (original amount of \$990,000) which has an outstanding balance of \$745,538 at December 31, 2017.

## **ANALYSIS:**

Haldimand County considers the proposed development of 14 seniors’ affordable housing units to constitute a significant benefit to the community. It was hoped that the provincial grant of \$2,057,055 would cover the cost of the development, but that is not the case. The “pro forma” that outlines the development cost that was provided to the Province as part of the official documentation is attached. It identifies that there is a shortfall of funds of approximately \$790,000 for this project to be completed which would be met through construction and mortgage financing. Capability Support Services was not initially aware that a guarantor would be required to access the balance of the money required to complete this project.

Staff have met with representatives to review the cost of the development which has come in higher than expected. Some savings have been found by changing the manner in which storm water management is handled. Rather than connecting to the storm system that serves the southwest quadrant of Dunnville, which has limitations, a system using a small retention pond and swale across the rear of the Grandview lands will facilitate considerable financial savings. Staff have approved this as part of the development, an easement is not required because of the ownership of the developed lands remains with Haldimand County. The County cannot grant an easement to itself. The Site Plan will provide the information required for this to be registered on the property for future reference.

As a result of this discussion, the final loan amount is not yet known. As previously done, a maximum limit is being requested estimated at \$790,000. The final amount will be communicated to Council.

## **FINANCIAL/LEGAL IMPLICATIONS:**

The County has already enacted a by-law to deem this facility a Municipal Capital Facility for the provision of a municipal affordable housing project. The existing by-law deems this facility as a municipal housing facility and provides financial assistance as follows:

- a) Property tax assistance, if necessary, to ensure taxation for the County's purposes is set at an effective rate equivalent to the resident rate within the County; and
- b) The provision of an annual lease amount less than the fair market value;

Pursuant to S.110 (3) of the *Municipal Act*, Haldimand County has the authority to guarantee a loan to a municipal housing facility, similar to the guarantee provided to Capability Support Services Inc. for the Maple Grove Place development. If Council wishes to provide the requested guarantee, the existing by-law requires an amendment to add the guarantee of the loan to an upset limit of \$790,000. A draft copy of the amending by-law is included as Attachment 2 to this report.

Finance staff have requested a Pro Forma cash flow estimate from Capability Support Services Inc. for the first year of operations to evaluate their ability to meet the underlying loan repayments associated with the loan to be guaranteed. Staff have reviewed this information and based on the current projections, the estimated net earnings are sufficient to cover the anticipated loan repayments provided by their proposed lender. The proposed lender requires a "Debt Service Coverage Ratio" of 1.10 (anything greater than 1.0 indicates sufficient net earnings to meet the required debt obligations). To meet this ratio it is anticipated that Capability Support Services will provide annual contributions of approximately \$10,500.

It should be noted, as outlined in the financing requirements provided by the proposed lender that Capability already has provided General Security Agreements to two lenders of existing projects, and Capability would be required to provide a General Security Agreement for this project to the selected lender. Further, the existing lenders would be required to provide 'letters of comfort' to the selected lender confirming their acknowledgement that the proposed lender is in first place for this new project. As such, there is no ability for the County to secure its obligation in first place against the facility or its contents. The fact that these other security agreements exist is creating some difficulties for Capability Support Services to secure a loan as the financial institutions prefer that they be "first" on title for this project.

This guarantee request carries similar financial characteristics to the previous loan guarantee: the value to be guaranteed, projected ability to pay and limited security to the County. Only the term is greater in this scenario – 40 years compared to 25 years for the previous project. To date there have been no defaults on the loan related to Capability Support Services Inc. for the Maple Grove Place development.

Given the above analysis, staff have not evaluated the direct loan request at this time. The County has not provided loans in the past to private assisted/affordable living developments. In the event that the County is required to meet its loan guarantee obligations, alternative options would be evaluated at that time.

## **STAKEHOLDER IMPACTS:**

Norfolk County, the Service Manager for this project, has been made aware of the request for a guarantee of the loan. Seniors in the County will benefit by the development insofar as there will be 14 new apartment dwellings dedicated for seniors in the Dunnville area. Capability Support Services currently operates a 21-bed assisted living facility directly across the road from this proposed development and can easily provide any support to tenants of the new facility.

**REPORT IMPACTS:**

Agreement: Yes

By-law: Yes

Budget Amendment: No

Policy: No

**ATTACHMENTS:**

1. Development Cost Pro-forma
2. By-law Amendment