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LOAN INCREASE TO HESPERUS FELLOWSHIP VILLAGE

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated April 19, 2011, from the Commissioner of Finance and the Commissioner of Community and Health Services.

1. RECOMMENDATIONS

It is recommended that:

1. The Region increase its loan to Hesperus Fellowship Village from $755,000 to a maximum of $1.83 million for a period of up to three years with terms outlined in this report and any others determined to be required by the Commissioner of Finance.

2. The Commissioner of Finance be authorized to execute the loan documentation on behalf of the Region subject to the prior review of Legal Services.

2. PURPOSE

The purpose of this report is to seek Council's approval to increase a bridging loan to Hesperus Fellowship Village from $755,000 to a maximum of $1.83 million, to further facilitate the development of an affordable housing development in the City of Vaughan.

This report will be considered in private session as it pertains to a property matter.

3. BACKGROUND

The Region has provided significant funding to Hesperus

Hesperus Fellowship Village (Hesperus) provides housing and services to seniors at their current 19 unit facility in the City of Vaughan. In 2006, the group responded to the Region, through a Request for Proposal process, for Federal/Provincial Affordable Housing Program (AHP) funds to build a new 61 unit project (of which 60 units would be affordable under the terms of the program).

The Region, together with the Federal and Provincial governments, have provided funding commitments of over $6 million for the project and have to date advanced approximately $2.5 million of that amount. These funding amounts included a $755,000 bridge loan provided by the Region in 2009 to cover cost increases and a fundraising shortfall. The bridge loan is secured by a $1.0 million collateral charged on a separate piece of land (“secured land”) owned by the group.

Hesperus requires additional funding to complete the project

Hesperus recently submitted a business case indicating they require additional funding to complete the project. Cost increases have occurred due to unforeseen servicing costs to the site, extra insurance and bonding costs, unforeseen and extra building requirements from the local municipality as well as lower than expected sales tax rebates resulting from the introduction of the HST.

4. ANALYSIS AND OPTIONS

Hesperus has asked the Region to lend the group a further $1.072 million plus interest to complete construction. It will pay back $390,000 consisting of holdbacks and rebates before the end of construction and the remaining $682,000 will be paid back over time. Table 1 shows the sources of funding for the project.

Table 1
Sources of Funding and Funding Gap for Hesperus Project
Amount $ (millions)

Funding Sources	Amount Committed
CMHC Insured Loan	6.302
Land	1.800
Federal/Provincial AHP Contribution	4.200
Hesperus Equity	1.307
Regional Contribution	.600
Regional Development Charges Offset	.535
GST/PST/HST Rebates	1.026
City of Vaughan - Waiver of Development Charges	.134
Bridge Loan from York Region	.755
Total Sources of Funding	**16.658**
Revised Total Project Costs	**17.340**
Funding Gap	**.682**

If Council approves Hesperus’s loan request, the peak loan amount during construction is estimated to be $1.83 million. This potential loan amount is comprised of the original bridge loan of $755,000, the funding gap of $682,000 and $390,000 to cover a temporary shortfall. With a current first charge of $1.0 million on the secured land, the Region would need to place an additional charge of approximately $1,100,000 to include potential accrued interest and ensure its position is secured.

Failure to secure immediate additional funds would have significant consequences

If the group is unable to pay its building contractor, liens would be placed on the property by the sub-contractors, construction draws would cease and the project would stop. At a minimum, delays in construction would result in substantial cost increases to complete the project and the need to provide further financing.

Alternatively, failure to secure any additional financing will put the project in default. The construction lender (the "lender") would be able to put the property into foreclosure or assign a substitute proponent to complete the project or sell the property. Hesperus could lose their interest in the property, and it is possible that affordable housing units would be lost.

Should the project not be completed and the housing units lost, the Region could be required to repay the Federal and Provincial funding received through the Affordable Housing Program (AHP) up to a total of $4.2 million. Therefore, to protect its interest, the Region would be put in a position where it would have to assume control in order to complete the project. However, this would also result in additional delays and cost increases.

In order to ensure the project is completed on time and at the lowest cost, it is recommended that the Region provide the additional funding requested by Hesperus, as the fair market value of the project would be more than sufficient to repay the loan.

Hesperus has agreed to sell the land the Region is holding to pay back the loan facility

The Region has requested that prior to advancing any funds, Hesperus provide a Board resolution confirming that they agree to sell the secured land. An option that was explored was for Hesperus to sell the secured land now. However, after discussing this alternative with project stakeholders it became clear that selling the land prior to rezoning could result in a significant price discount. In order to repay the Region's bridge loan and allow sufficient funding to complete the project, this is not a preferred option.

The secured land is currently zoned agricultural, although the City of Vaughan's Official Plan has designated the property as Low Density Residential. City staff informed our external appraiser that a typical process to obtain municipal approvals for a similar site would take 18-24 months.

In recognition of this, Hesperus has asked for the sale to occur within three years, allowing the group to work in partnership with a developer to obtain residential zoning on the property. The developer would cash flow the funds necessary to obtain the required municipal approvals. This would allow the group to recover the maximum amount from the sale of the land while covering off its obligations to the Region for its new project.

The secured land has sufficient value to accommodate the request for extra funding

An external appraiser hired by the Region in March 2011 indicated a current value of $2.96 million for the secured land assuming its highest and best use as low density residential development. The valuation considered the timing and expenses which would reasonably be expected to be incurred to obtain municipal approvals. Realty Services has reviewed the report and confirms the valuation to be appropriate.

The Region's additional funding will be in third security position if it provides Hesperus further financing

Another factor in lending Hesperus additional funds is a second collateral charge placed on the secured land by the lender in the amount of $755,000. This charge was placed by the lender in the event the Region was unable to supply the bridge loan funds requested by the group. It is anticipated that any further security placed by the Region would be in third position.

As shown in Table 2, the Region's additional debt and accrued interest would be adequately secured during and after construction.

Table 2
Region's Security Position on Secured Land
Amount $ (millions)

Description	Security on Land	
	During Construction	After Construction
Regional - First Charge	1.000	2.100
Construction Lender - Second Charge	0.755	.
Regional - Third Charge	1.100	
Total Encumbrances	2.855	2.100
Appraised Value	2.960	2.960

It is recommended the Region increase its loan facility to a maximum of $1.83 million to Hesperus

It is recommended the Region increase its loan facility to Hesperus from $755,000 to an amount not to exceed $1.83 million. Some of the terms and conditions of this new loan would include:

- Loan repayment within three years from the loan agreement execution date;

- Interest will be charged on all amounts from the date of advance at a rate of 3.5 percent calculated semi-annually;
- Operational and fundraising surpluses if any will be directed toward accrued interest first and then toward the loan principal at the Region's sole discretion;
- Within six months of Council approval, Hesperus will provide a written agreement with a developer to secure municipal approvals and sell their excess land.

These conditions, along with any others determined to be required by the Commissioner of Finance, will provide the group enough time to maximize the value of their land while ensuring that the Region's loan is secured.

5. FINANCIAL IMPLICATIONS

The Region, together with the Federal and Provincial governments, have committed over $6 million in funding to the Hesperus project and have to date advanced over $2.5 million of this amount. The group has requested an increase of its loan facility from $755,000 to a maximum of $1.83 million. This increase in risk to the Region is covered with sufficient value in a secured parcel of land.

6. LOCAL MUNICIPAL IMPACT

Providing Hesperus with sufficient funds to allow it to complete its project will allow for the development of much needed affordable housing in the City of Vaughan.

7. CONCLUSION

Hesperus Fellowship Village is constructing an affordable housing project in the City of Vaughan. It has experienced unexpected cost increases and is asking the Region for additional funding to complete construction. Increasing our current loan facility from $755,000 to a maximum of $1.83 million will allow the project to be completed, as well as protect the substantial investment made by the Region and provide much needed affordable housing in the City of Vaughan.

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

The Senior Management Group has reviewed this report.