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REPAYMENT OF LOAN - MARKHAVEN HOME FOR SENIORS

The Finance and Administration Committee recommends:

1. **Receipt of the deputation from Jonathan Tucker, Chair, Board of Directors, Markhaven Foundation;**

2. **Receipt of the following report, April 14, 2010, from the Commissioner of Finance; and**

3. **Extension of the outstanding mortgage to Markhaven Inc., for four years at 4%, subject to:**

   a) **Markhaven paying down $155,000 of the balance of the existing mortgage; and**
   b) **there being no further extension of the mortgage at the end of the new four-year term.**

1. RECOMMENDATION

It is recommended that:
1. Committee provide direction regarding the request from Markhaven Home for Seniors to renew the terms of their outstanding loan.

2. PURPOSE

This report seeks direction regarding the repayment of a loan made in 2003 to Markhaven Inc. (Markhaven), a not-for-profit long-term care facility.

3. BACKGROUND

Region provided loan seven years ago

Regional Council approved a request from Markhaven in 2002 for financing assistance for a redevelopment project to construct a new 96-bed facility in the Town of Markham.

In 2003, the Region provided Markhaven with two loans totalling $1.75 million consisting of a seven year term financing of $1,000,000 maturing on April 30, 2010 and construction bridge financing of $750,000. This loan arrangement provided significant savings to Markhaven in respect to mortgage insurance costs which would have otherwise been charged by Canada Mortgage and Housing Corporation (CMHC).

The term loan, which had an amortization period of 25 years and an interest rate of 4.5%, will have a balance of $878,430.99 including accrued interest at April 30, 2010. The $750,000 bridge loan was subsequently repaid in its entirety upon opening of the facility in 2004.

Markhaven has requested an extension to its current loan arrangements to allow for consideration of a lengthier loan extension

Markhaven Inc. has recently requested that the Region consider extending it current loan arrangements for a period to allow the Region to fully consider renewing its loan arrangements for a longer term. Markhaven is presently in the process of making arrangements with an alternate lender to allow them to repay the Region as scheduled. However, the new funding will impose extra costs to the organization. The Region has extended the loan to May 31, 2010 to accommodate this report.

4. ANALYSIS AND OPTIONS

Renewing the loan would allow Markhaven to realize cost savings

During the past seven years, Markhaven has made every payment when due. Markhaven has indicated that it would be willing to pay down its first mortgage when due at April 30, 2010 by $100,000 from surplus funds it holds.

Markhaven has indicated to staff that its borrowing costs to an alternative lender would be 6.75%. Staff have confirmed with a commercial lender that this rate is competitive for second mortgages which are not insured by CMHC. The Region could lend the funds to Markhaven for a term of another five years at a cost of about 4.0%. This represents the approximate opportunity cost to the Region if it retained these funds and invested them in its normal course of business. On the basis of 18 years remaining amortization, the annual difference in the mortgage payments on the new outstanding balance of $778,430.99 would be about $13,700 per year.

Markhaven acknowledges the original loan was a one time transaction

Markhaven has acknowledged that when this funding was approved in 2002, the Region was clear that the arrangement was a one time transaction. The commercial market had indicated its willingness to enter into the funding arrangement and the Region's involvement was considered only as a method of reducing significant transactions costs that would have otherwise been incurred.

The Region has not renewed loan arrangements in other situations

Since 2003, the Region has provided bridge financing to two groups, a care facility operator and an affordable housing group, to allow them to construct their facilities. In one case, the funds were paid back shortly after the loan was made. In the other case, the group has a period of time to fundraise and pay back its loan to the Region. The Region has also lent funds to a social housing group for needed repairs with which it had a subsidy agreement, allowing the Region to maintain its service level standards under the *Social Housing Reform Act*.

Renewing long term financing arrangements for Markhaven could be seen by other community groups as setting a precedent.

The Region has not previously entered into a long term financing arrangement with a non-affiliated group after it provided assistance during the construction phase of the project. In the case of Markhaven, the Region played an important role in reducing up-front costs to the group. Having achieved the original goal, it is recommended that the loan now be repaid as originally planned. Allowing this mortgage to continue to have reduced payments on a long term basis could set a precedent for other community groups to seek favourable long-term financing arrangements from the Region which could prove to be unsustainable.

5. FINANCIAL IMPLICATIONS

There are no financial implications arising from the recommendation in this report. It would be expected that the rate of return earned by extending the mortgage to Markhaven would be at least equal to any return otherwise earned by the Region on its investments.

6. LOCAL MUNICIPAL IMPACT

There is no impact to local municipalities arising from the recommendation in this report.

7. CONCLUSION

Markhaven Inc. has requested an extension to a loan approved by the Region in 2002. Extending the loan terms could be seen by other community groups as setting as precedent to seek favourable long term financing terms from the Region which could prove to be unsustainable.

For more information on this report, please contact Len Bulmer at Ext. 1676.

The Senior Management Group has reviewed this report.