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DEBENTURE FINANCING FOR BLUE WILLOW HOUSING PROJECTS

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, May 29, 2006, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that:

1. The authorized term of debenture financing for the construction of the Blue Willow Terrace Housing Project be increased from 10 years to 30 years.

2. PURPOSE

This report outlines the need to change the term of debenture financing for the Blue Willow Terrace Housing Project from 10 years as implicitly approved in the 2006 Capital Budget and Business Plan ("the "Budget") to up to 30 years.

3. BACKGROUND

Blue Willow Terrace is an affordable rental housing project situated in the City of Vaughan. The project consists of a four-storey, sixty-unit apartment building for seniors with surface parking facilities. The apartment complex is managed by York Region and Municipal Housing Corporation, Housing York Inc ("Housing York Inc") which will lease the land for the project from the City of Vaughan for a period of 49 years at a nominal rate. The total projected cost for the project is approximately $12.5 million. Debenture financing for up to $4,235,000 was included in the Budget which Council approved on December 15, 2005. At that time, Council set a term limit of 10 years on all debenture financing for all capital projects included in the Budget.

4. ANALYSIS AND OPTIONS

It is generally the Region's practise to finance capital investments for a term of 10 years. In the past, however, debentures issued for Housing York Inc's capital projects have been for terms exceeding ten years. Borrowing for a term of 20 years or more is the preferred term in the housing industry, since it more closely matches the life cycle of the buildings which often exceed 30 years. It also assists the process of setting and maintaining stable apartment rents for the project. In the case of Blue Willow Terrace there will be no on-going government subsidies. Provincial program guidelines and the Region's objective of long-term affordability will prevent rates from being raised to cover any potential increases in interest rates that could occur if the project is re-financed periodically. Additionally, long-term interest rates are currently at a relatively low level and there is a risk that they could increase over the next five to ten years.

Authorization is therefore being requested to increase the maximum allowable financing term from 10 years to 30 years in order to provide Housing York with greater flexibility in setting apartment rents and locking in long term financing based prevailing market conditions. If, for example, 30-year borrowing rates are sufficiently low enough at the time of issuance, Housing York Inc. may wish to lock in their cost of borrowing over the life of the project rather than refinancing the project from time to time (eg. mortgage) and risking higher interest rates.

5. FINANCIAL IMPLICATIONS

The annual debt charges relating to borrowing $4,235,000 for 30 years based on current market rates (5.25%) are approximately $282,000. If the debt was issued for a ten year term but amortized over 30 years, the annual payments would be $270.000. However, there would still be an outstanding balance of $3,419,000 on the debt which would need to be refinanced. As the future interest rate on the amount to be refinanced is unknown, Housing York Inc. would be exposed to an indeterminate interest rate risk.
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6. LOCAL MUNICIPAL IMPACT

There is no direct impact from this recommendation on local area municipalities.

7. CONCLUSION

By approving the extension of the term of debenture financing from 10 years to up to 30 years for Blue Willow Terrace, Council is providing Housing York Inc. the ability to better match its borrowing requirements to the life cycle of the project and its sources of revenue.

The Senior Management Group has reviewed this report.