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# POTENTIAL FINANCING OPTIONS FOR LOCAL HOSPITALS

**The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, April 14, 2004, from the Commissioner of Finance with direction to staff to report to Committee on the process of providing loans to the hospitals located within the Region of York and how payments of the loans would be guaranteed to the Region:**

## 1. RECOMMENDATIONS

It is recommended that:
1. This report be received for information purposes.

## 2. PURPOSE

The purpose of this report is to provide Council with background information relating to options to provide long-term financing to hospitals located within the Region of York.

## 3. BACKGROUND

At its meeting of March 11, the Finance and Administration Committee requested that staff report back on the feasibility of providing financing assistance to local hospitals in the form of either a direct investment or a repayable loan.

Capital costs for hospital infrastructure are anticipated to be significant over the next five to ten years. In 1999, York Central Hospital, Southlake Regional Health Centre and Markham Stouffville Hospital outlined capital requirements totalling $202 million for the following five year period. The Province committed $125 million representing 62% of the total requirements. While the Province of Ontario is responsible for the funding of hospitals, on March 9, 2000, Council approved funding equal to 50% of the Province's contribution or $62.5 million to assist in the funding shortfall. As part of the Region's 2001 Business Plan and Budget, a 2% tax levy increase was approved to pay for hospital capital improvements. The surcharge amounts to an annual contribution of $7.3 million. To date, the Region has funded $13.2 million to Southlake Regional Health Centre and $8.7 million to York Central Hospital.

Although much of this work has been completed, the redevelopment projects for Markham Stouffville Hospital has not yet commenced and the hospitals have indicated there are additional capital projects for which they may request financial assistance from the Region and the Province.

Methods of providing financing that are considered in this report include the following:

- Direct investment from Region's reserves

- Borrowing on behalf of the hospitals
- A grant in the form of a loan or a loan guarantee

Financing assistance provided to hospitals could be in the form of either interim/bridge financing or long-term debt financing.

Investment of the Region's reserves and reserve funds is made in accordance with the Region's Investment Policy and is governed by Provincial regulations. Section 418 of the Municipal Act authorizes the Region to invest its reserves and reserve funds in prescribed securities and Ontario Regulation (O.R.) 248/01 stipulates what securities a municipality may invest in. At this time, O.R. 248/01 does not permit the Region to invest or hold hospital securities.

Long-term debt issued by the Region is undertaken within the parameters set out by the Region's Capital Financing and Debt Policy and regulated by Section 401 of the Municipal Act. The Municipal Act allows the Region to borrow for its own and local municipal purposes and permits it to borrow on behalf of local school boards.

Grants in the form of a repayable loan or a loan guarantee are permitted under Section 107 of the Municipal Act. This section stipulates that Council can make a grant for any purpose that it considers to be in the interests of the municipality provided such assistance is not given to a manufacturing business or other industrial or commercial enterprise.

## 4. ANALYSIS AND OPTIONS

The following is an analysis of the four options investigated by staff to potentially provide financing assistance to local hospitals. As previously cited the type of financing is to a large degree dependant on how much funding the hospitals require and how long they need it.

### 4.1 Direct Investment

The Region invests in predominately high grade marketable securities in keeping with its objectives of preserving capital and maintaining adequate liquidity. The Investment Policy includes a list of eligible investments which complies with Ontario Regulation 248/01. Currently neither provincial regulations nor the Region's Investment Policy authorize a direct investment in local hospitals.

To consider investing in a security issued by or backed by a local hospital would require petitioning the Province to revise Ontario Regulation 248/01 to include hospitals as eligible investments. The Region could petition the Province on its own or seek other municipal support either directly or through the Association of Municipalities of Ontario (AMO). Either method would result in a protracted process and would not serve the hospital's immediate needs.

Should the Province grant the Region authority to invest directly in hospitals, the Region would be best served to restrict the size (less than five million dollars) and term (less than five years) of any investment as anything larger or longer could be problematic. When considering this option it should be noted that any investment in a local hospital would effectively be fixed for the term of loan. Such an investment would not be as liquid or transferable as government bonds or high-grade corporate debt. To invest a significant amount of the Region's reserves for an extended period could jeopardize capital commitments which the reserves were created to serve. Therefore the amount and term of any investment should be limited in size and duration.

### 4.2 Repayable Grant

In 2002 Council approved a loan for up to $1.8 million to Markhaven Inc. (Markhaven) for a period not to exceed seven years to assist in the financing of the construction of a long-term care facility in Markham. Council had authority to lend Markhaven these funds by virtue of its ability to make grants under section 107 of the Municipal Act. Section 107(2)(1) of the *Municipal Act* goes on to stipulate that the power to make a grant includes the power to make or guarantee a loan to a non-for-profit institution when it is in the interests of the municipality.

The Markhaven request was accompanied by a thorough and viable business plan and the loan itself was adequately secured. Costs for the project as well as operating costs and revenues were vetted and considered reasonable and realistic. As well, the Region was advancing only a small portion of the overall costs with Markhaven contributing their own capital in addition to bank financing. The Region's loan was for a maximum term of seven years and it provided demonstrable savings to Markhaven both in interest costs and CMHC fees. The loan was funded from the Region's General Capital Reserve.

It should be stressed that the loan to Markhaven was for a relatively small amount ($1.8 million) and for a relatively short term. The potential needs of local hospitals however, could be many times greater than Markhaven and for a term exceeding ten years.

As in the case of Markhaven, any advance to a local hospital should give consideration to the following:

1. Business Plan – does the hospital provide a viable business case indicating verifiable cash flows, an ability to repay any loan and appropriate security for the loan.

2. Liquidity – Is the term of the loan relatively short (less than 10 years) such that it does not commit the Region's reserves for an excessive period of time. The Region has a relatively finite amount of discretionary reserves, therefore the size of any loan would need to be limited.

### 4.3 Borrowing on Behalf of Hospital

Currently there is no provision in the Municipal Act authorizing the Region to borrow on behalf of local hospitals as there is permitting it to borrow on behalf of area municipalities and school boards.

Again the Region could petition the Province to change its regulations to permit this undertaking. However, issuing debt on behalf of local hospitals could place constraints on the Region's debt capacity as its own capital requirements over the next 10 years are considerable. The 10 Year Capital Plan forecasts gross expenditures of approximately $5.6 billion with debt financing requirements of approximately $2.2 billion. Borrowing on behalf of hospitals in any significant amount would likely impact the Region's "AAA" credit rating.

### 4.4 Loan Guarantee

Alternatively, the Region could provide a loan guarantee to the hospital thereby reducing its costs of debt financing between 10 to 20 basis points. Again, the Region's ability to guarantee a loan made by a hospital is granted under Section 107 of the Municipal Act.

Although the debt guarantee would not be recorded as a direct long-term liability on the Region's financial statements, a footnote would probably be required detailing its contingent liability and this obligation could also impact the Region's debt capacity in the future.

As previously cited, the Region has significant capital infrastructure needs over the next ten years. Any additional debt obligations resulting from loan guarantees granted to local hospitals would impact its debt capacity and the Region's "AAA" credit rating.

## 5. FINANCIAL IMPLICATIONS

There are no immediate financial implications to the Region. However, should Council approve a loan or a loan guarantee for a hospital there may be either liquidity or debt capacity/rating implications. The Province closely monitors the Region's debt obligations and sets guidelines limiting the amount of debt servicing costs in relation to the Region's revenue base. To add to the Region's own current and projected borrowing requirements could result in debt servicing costs that exceed Provincial guidelines.

## 6. LOCAL MUNICIPAL IMPACT

There is no immediate impact to local municipalities from this report

## 7. CONCLUSION

Provincial statutes do not authorize the Region to either borrow on behalf of or make a direct investment in a local hospital. However, Section 107 of the Municipal Act does provide authority to make a grant in the form of a repayable loan or loan guarantee to a hospital.

Due consideration should be given to the viability of any business case presented; the ability of the hospital to repay the loan; the security being provided; the size and term of the loan; and the impact on the Region's liquidity and debt capacity.

The Senior Management Group has reviewed this report.