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REQUIREMENTS FOR PROVIDING SHORT-TERM FINANCING ASSISTANCE TO HOSPITALS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, May 10, 2004, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The Province be requested to amend Ontario Regulation 438/97 to include securities issued by hospitals located in Ontario as eligible investments for municipalities;

2. The Province be requested to provide a financial guarantee for securities issued by hospitals; and

3. The Province be requested to provide clarification of the scope and timing of financing provided by the newly created Ontario Strategic Infrastructure Financing Authority (OSIFA) as it relates to hospitals, including the application process and eligibility requirements.

2. PURPOSE

This report provides further information regarding the Region's requirements and conditions for providing short-term financing to hospitals located within York Region.

3. BACKGROUND

At its meeting of May 6, 2004, the Finance and Administration Committee (the Committee) received a report entitled "Potential Financing Options for Local Hospitals" and requested staff to further investigate and report back on resolving impediments to providing short-term financing assistance to local hospitals.

The report outlined several options for providing financing assistance, including direct investment by the Region from its discretionary reserves and providing a grant in the form of a loan. The report also stressed that any advance to a local hospital should be limited in size and duration, as such a loan or investment would be non-marketable.

Ontario Regulation 438/97 stipulates those securities that are eligible investments for municipalities. At this time, Provincial regulations do not permit municipalities to make direct investments in hospital securities.

However, under Section 107 of the Municipal Act, the Region is permitted to make a grant in the form of a loan to a hospital. This method of financing has been used in the past to provide short-term financing assistance to Markhaven Inc.

4. ANALYSIS AND OPTIONS

Regardless of the method used to provide financing assistance, there are two important considerations that need to be addressed to protect the Region's financial interests, namely that:

1. Both the size and duration of any loan/investment be limited, and
2. Due consideration be given to proper security for the loan and the borrower's ability to repay.

4.1 Direct Investment

For the Region to consider investing in a security issued or backed by a local hospital the following two actions would need to be taken.

First, the Province should be requested to amend Ontario Regulation 438/97 to include hospitals as eligible investments. The Region could request this on its own or, if support for this motion was not forthcoming from the Province, then it could consider seeking other municipal support either directly or through the Association of Municipalities of Ontario (AMO). The Region should also request that the Province provide a guarantee of the loan obligations taken out by the hospital thereby providing greater reassurance to the Region of repayment. This guarantee would reflect the commitment and responsibility the Province has to fund hospitals.

Second, upon amendment to Ontario Regulation 438/97, the Region's Investment Policy would need to be revised to include hospital securities as an eligible investment.

4.2 Repayable Grant

Section 107 of the Municipal Act already authorizes the Region to make a grant in the form of a repayable loan (either short or long-term) to a not-for-profit institution such as a hospital. The Region used this provision in 2002 when it provided Markhaven Inc. with a loan of $1.8 million for up to seven years to assist in the construction of a long-term care facility in Markham.

Funds advanced under this method must be from the Region's discretionary reserves which, as at December 31, 2003, totalled approximately $94 million. As these reserve balances are finite and may be required for future purposes, any loan advance should be both short-term and limited in size.

In addition, prior to finalizing any loan to a local hospital, as with any loan or investment, due consideration must be paid to borrower's ability to repay and the security for the loan.

These concerns can be generally addressed, provided:

1. The Province guarantees and/or co-signs any loan agreement between the Region and a local hospital; and/or

2. A bank or other accredited financial institution provides a statement/letter of commitment indicating their commitment to provide long-term financing upon substantial completion of the project.

It should be noted that the Region is not responsible for funding hospital expenditures but would be providing assistance on a short term basis to cover interim or bridge financing needs only.

4.3 2004 Provincial Budget Initiatives

On May 18, 2004 the Province announced the following initiatives in its 2004 Budget relating to hospital funding:

- $470 million increase in hospital operating funding in 2004/05 representing a 4.3 percent increase over 2003/04 levels;

- $300 million in hospital capital funding for 2004/05; and

- The creation of the Ontario Strategic Infrastructure Financing Authority (OSIFA) to provide efficient and affordable capital financing for public infrastructure priorities, including hospitals.

Although the intent of these initiatives is to alleviate funding/financing pressures existing in the health sector today, the Ontario Hospital Association indicated that the $470 million increase falls short of 2004/05 operating requirements by approximately $500 million. Additionally, details of the scope and timing of OSIFA financing have not yet been announced and therefore the program may not relieve any short-term capital financing/funding requirements of the Region's local hospitals.

5. FINANCIAL IMPLICATIONS

There are no immediate financial implications to the Region from this report. Should the Region lend funds to hospitals or invest in their securities, it would do so at market rates existing at that time. Notwithstanding, the market rates would be less than commercial bank rates available to the hospitals.

6. LOCAL MUNICIPAL IMPACT

There is no immediate impact to local municipalities from this report.

7. CONCLUSION

Although Provincial statutes do not currently authorize the Region to invest directly in hospitals, the Region could petition the Province to amend Ontario Regulation 248/01 to include hospitals as eligible investments.

Alternatively, the Region does have the ability to make a grant in the form of a loan to hospitals.

In either case, prior to advance of any funds to a local hospital, the Region should be provided with appropriate security and assurance that these funds will be repaid. As well, any advance should be on a short-term basis and limited in size in consideration of the Region's investment objectives to maintain liquidity and preserve capital.

The Senior Management Group has reviewed this report.