City of Mississauga
# Corporate Report

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| Date: April 14, 2025<br><br>To: Chair and Members of General Committee<br><br>From: Geoff Wright, P.Eng, MBA, City Manager and Chief Administrative Officer | Originator's files:<br><br>Meeting date:<br>April 23, 2025 |

## Subject
**Hospice Mississauga New Facility Construction Loan Arrangement**

## Recommendation
1. That Council provide direction regarding the request made by Hospice Mississauga for financial assistance in connection with the construction of a new twelve bed Hospice facility building. Council may refuse this request or alternatively, select one of the following two options as identified by City Staff:

   a. Option 1: The City agrees to serve as a loan guarantor in connection with a proposed loan agreement in support of the construction of a new Hospice facility at 2176 Speakman Drive, Mississauga, on the following conditions: (i) the overall obligations of the City as loan guarantor are limited to the repayment of up to $16.25 million dollars (including principal and interest) for a period of up to 30 years from the date of the loan agreement; (ii) that city staff conduct such due diligence investigations and take such actions as may be necessary and prudent to ensure the City's loan guarantor obligations are limited as per section 1(a) herein; or

   b. Option 2: The City and Hospice Mississauga enter into a Memorandum of Agreement to include the following: (i) the City agreeing to lend Hospice Mississauga up to $16.25 million dollars, at a rate of interest of the City's investment rate of return or higher, for a period of up to 30 years, to build the facility at 2176 Speakman Drive and to secure such loan through a leasehold mortgage and other security instruments, (iii) such other terms and conditions as the parties may mutually deem appropriate for a loan commitment of this nature.

2. That if Council provides direction to proceed as a loan guarantor per Option 1, to authorize the City to enter into a collateral agreement directly with Hospice Mississauga, including such other documents or agreements as may be recommended by the City Solicitor, to govern their relationship during the term of the loan, including the imposition of corporate

oversight measures to ensure Hospice Mississauga is conducting itself in a financially prudent manner.

3. That if the City of Mississauga is required to fulfill the guarantor's repayment obligations under Option 1 above on behalf of Hospice Mississauga, that the funds be transferred from the Fiscal Stability Reserve (#30125), and that all repayments from Hospice Mississauga to the City of Mississauga be reimbursed to the Fiscal Stability Reserve (#30125).

4. That the City Manager and the Chief Financial Officer are hereby authorized to execute all agreements and documents as may be necessary to allow the City to pursue Option 1, in form and content satisfactory to the City Solicitor.

5. That if Council provides direction to proceed with Option 2, City staff are authorized to commence negotiations for a Memorandum of Agreement, the form and content of which must be satisfactory to the City Solicitor and thereafter be approved by Council before execution of same by the City.

# Executive Summary

- Hospice Mississauga ("Hospice") is planning to build a new twelve bed hospice facility in the City of Mississauga (the "City") to serve the needs of the terminally ill community. Hospice has approached the City inquiring about financial assistance relating to the construction costs of the facility. City staff have considered this request and have identified two possible options for City Council to consider if it wishes to provide financial assistance:

  Option 1: Hospice currently has a new 49-year land lease with Trillium Health Partners to construct the facility at 2176 Speakman Drive in Mississauga. However, to proceed, Hospice requires a construction loan to finance its construction costs. Each of the institutional lenders approached by Hospice have advised Hospice that it needs to secure a third party to serve as a loan guarantor on the construction loan, otherwise, any proposed loan application would be denied. Hospice is now asking the City to serve as their loan guarantor on a construction loan estimated to be $16.25 million dollars, based on the estimated construction costs and projected cash flows. The overall amount that Hospice will be required to borrow and repay under the loan may be greater and will depend on their final construction project costs, borrowing rate, duration of the loan and their cash flow position.

- Option 2: Hospice will continue to use the lands at 2176 Speakman Drive to build their facility, however, the construction costs would be financed in part through a loan from the City to Hospice, amortized over a period up to 30 years. The parties would negotiate a Memorandum of Agreement (the "MOA") to settle the terms and conditions of this arrangement, in form and content satisfactory to the City Solicitor and subject to approval by City Council.

- Staff have conducted a preliminary financial and risk assessment of Hospice's request for financial assistance using information provided by the Hospice, their recent audited financial statements, cash flow projections and construction budget. Fundraising activities, donations and grants represent the only income sources for Hospice and the only source of cashflow for their loan repayments.

## Background

Hospice is a not-for-profit organization that is celebrating 40 years of operations in Mississauga. It operates as a community-based service that provides counselling and care to terminally ill patients in hospitals or at their home. Hospice currently does not own a facility with beds and Mississauga is currently the largest city in Canada without a purpose-built hospice facility for the terminally ill community.

If the construction of this proposed new facility proceeds, it will be staffed around the clock, providing 12 suites with gathering spaces and clinic rooms. It will also enhance care for patients and their families while easing the pressure on our local health systems.

The Hospice Vision Statement is to lead, provide, partner and inspire excellent hospice palliative care in our community. The Hospice Mission Statement is to provide compassion, support and advocacy that lessens the distress of serious illness and loss on individuals, families and the community.

The Hospice has confirmed that the Ontario Ministry of Health has committed a one-time grant of $3 million dollars to support the construction of the 12-bed facility (i.e. based on $250,000 for each bed).

## Comments

Based on the current facility design, the construction cost of the new Hospice facility is estimated to be roughly $28 million to $33 million dollars. Based on the Hospice's preliminary cash flows and cash reserves, the Hospice will require a long-term commercial loan of up to $16.25 million (in addition to its fundraising activities) to fund this construction project.

The Hospice approached Infrastructure Ontario and several other major financial institutions to request approval of a loan but were unsuccessful as these lenders do not recognize fundraising or donation revenues as reliable revenue sources for the purposes of a commercial loan approval. The Hospice was advised that unless it can secure a third-party loan guarantor with a solid and reputable financial standing, Hospice will not qualify for a loan.

Hospice has discussed this situation with City staff and if Council determines it appropriate to provide financial assistance, there are two possible options for Council to consider:

Option 1: The City as Loan Guarantor

Under this option, the City would agree to serve as Hospice's loan guarantor under an institutional commercial loan to build the facility at 2176 Speakman Drive in Mississauga. This site is roughly one acre in size and is subject to a 49-year lease with Trillium Health Partners as the landlord and Hospice as the Tenant. Hospice is planning to use a construction line of credit until completion of the construction project and will only draw on the line of credit when construction payments become due. Based on current project plans, the construction progress draws would begin sometime in late 2025 when the construction is expected to begin and will continue until 2027 when the construction project is expected to end.

Once construction of the facility is complete, the Hospice will then convert the balance in the line of credit, estimated to be $16.25 million dollars, to a long-term mortgage or loan arrangement with the same financial institution. Hospice plans to repay the long-term loan over a 25 to 30-year period. For reference, the interest cost on a 30-year mortgage of $16.25 million dollars, at a 5% annual interest rate, is roughly $15.4 million. This equates to a total repayment amount (including principal and interest) of $31.7 million, and an annual loan repayment of $1.06 million over 30 years. To minimize the City's financial exposure, Option 1 proposes a loan guarantee capped at $16.25 million including principal and interest. Should Hospice fail to meet its loan repayment obligation, the funds will be drawn from the City's Fiscal Stability Reserve.

Based on Hospice's audited financial statements as of March 31, 2024 in Appendix 2, Hospice's construction fund generated $748,801 in revenues and incurred fundraising and administrative expenses of $393,630 (at 52% of revenues), with a net surplus of $355,171. Hospice officials have indicated they expect fundraising and donation revenues to increase after the Hospice's operations commence.

Below are some issues and risks associated with the City serving as a loan guarantor:

(a) If the City agrees to serve as the loan guarantor, the City will be stepping into the shoes of Hospice (while the guarantee is in effect) and will be fully liable for all of Hospice's obligations described in the loan agreement between the proposed lender and Hospice. Depending on the wording of the particular loan agreement used by the lender, which is subject to review by City staff, the lender may also have the right to demand that the City make payments on the loan even if the Hospice is not in default.

(b) There is no certainty that Hospice can continue to generate ongoing fundraising and donation net revenues of approximately $1 million per year every year to meet its 25-year to 30-year loan repayment obligations. Hospice's current revenue projections are based on their management's best estimates as there are no legally binding commitments to substantiate the promise of future pledges. The only verifiable contribution amount is the $3 million dollar grant from the Ontario Ministry of Health. The Ministry has not agreed to make any additional contributions towards the construction project.

(c) Hospice's ability to repay the long-term loan is also contingent on the final amount of the loan. The actual loan amount may increase due to unforeseen project cost escalations or construction delays. Hospice is currently in the process of retendering the construction project through Trillium Health Partners after their previous tender expired in January 2025.

(d) The City is unable to determine to what extent future revenues of Hospice will be prioritized towards loan repayment instead of their operations, administration costs or other capital investments. Based on their 2024 financial statements, over 43% of the Hospice construction fund revenues was used towards salaries and benefits of their non-operations staff, and 9% of their revenues was used towards administration costs.

(e) Hospice does not currently own any land or material capital assets. The significance of this is that all loan payments made by the City on behalf of Hospice will not be secured against any assets that can be seized and sold by the City. In other words, the aggregate of all loan guarantee payments made by the City to the lender will constitute an unsecured debt from Hospice to the City.

<u>Option 2: The City Partnering with Hospice</u>

Under this option, Hospice would continue to use the lands at 2176 Speakman Drive as the site of their new facility, but rather than using institutional financing, the City would enter into a loan agreement directly with Hospice whereby the City as the lender extends up to $16.25 million in loan funds and Hospice repays the City over an amortization period of 25 to 30 years, at the City's investment rate of return or higher, or a rate as otherwise agreed to by the parties. Under Option 2, the loan will be secured with the leasehold mortgage. Hospice would also be able to engage in a more flexible loan repayment schedule with the City, that would allow expedited prepayment of the debt without any added penalties or fees that financial institutions typically charge. This will also allow Hospice to repay their debt at a faster pace if, and when, they experience an influx of fundraising revenues, which will also help reduce their overall cost of borrowing.

To move forward with this Option 2, the parties would negotiate a Memorandum of Agreement (the "MOA") to settle the overall terms and conditions of this arrangement, in form and content satisfactory to the City Solicitor and be nonetheless subject to approval by City Council.

Conditions and Restrictions

To address the risks associated with serving as a loan guarantor or a lender, City staff recommend the following conditions and restrictions be imposed;

1) If Council approves Option 1, that City staff review and negotiate all loan related documents and agreements to ensure that the City's obligations as a loan guarantor are limited to the total sum of $16.25 million dollars, during a loan period of no more than 30 years. Any request by the Hospice or the lender for an increase to the loan guarantee amount would not be permitted without a further report being approved by Council.

2) City of Mississauga staff must be given access to such data, reports and documentation as may be required to assess the construction project and the City's obligations as loan guarantor and lender, including but not limited to the following:

    - Hospice's annual operating and capital budget, annual audited financial statements, and monthly or quarterly cash flow forecasts.
    - Hospice's construction tender, contracts, budget and progress reports.
    - Hospice's bank statements, line of credit and all loan application related agreements or documentation.

    The City of Mississauga will further reserve the right to inquire about, and audit, Hospice's financial transactions and reports.

3) Hospice and the City must enter into and sign an agreement governing their relationship during the loan term that includes, among other matters, the following:

    - Hospice will be required to prioritize the repayment of the construction loan over its Operating expenditures and the Residential Hospice Fund's expenses. Accordingly, any costs or charges of raising funds for the Hospice Residential Fund and the debt associated with the fund must not exceed 15% of their total revenues in a fiscal year based on their audited financial statements.

    - The net surplus (excess revenues over expenditures) of the Residential Hospice Fund must be sufficient to cover the annual loan repayment amount. Should the Hospice forecast a decrease in its projected fundraising proceeds, it must reduce its discretionary expenditures. Salaries and benefits of the Residential Hospice Fund must not exceed 25% of its total revenues in a fiscal year based on their audited financial statements.

    - In the event the above conditions are breached, the City would retain the right to enforce cost reductions, as appropriate.

- Hospice will be required to provide a list of their grants, fundraising and donation proceeds and adopt in its Mission Statement an obligation to direct, in any given year, sufficient donations to the Residential Hospice Fund to ensure the solvency of the Residential Hospice Fund.

- Assign such operational oversight to the City of Mississauga as may be required by the City Solicitor, including assigning the appropriate Finance representative from the City, to be a Board member of Hospice, and to ensure that the Hospice conducts itself in a financially prudent manner.

The Municipal Act, 2001

In connection with the Hospice request for financial assistance and whether Option 1 or Option 2 is selected, Sections 107(1) and (2) of the *Municipal Act, 2001* provides that a municipality in fact has the authority to make grants and the power to make grants includes the power to make a loan with interest or to guarantee a loan. However, this authority remains subject to the bonusing provisions in Section 106 which clarify that a municipality shall not assist directly or indirectly any manufacturing business or other industrial or commercial enterprise through the granting of bonuses for that purpose. We bring to Council's attention that Hospice Mississauga is a validly organized and subsisting not-for-profit corporation (governed by the Ontario *Not-for-Profit Corporations Act, 2010*) whose charitable purposes include care for the terminally ill. Accordingly, Hospice Mississauga would not be categorized as a manufacturing, industrial or commercial enterprise.

# Financial Impact

Option 1: The City as Loan Guarantor

If the City proceeds with the loan guarantee under Option 1, the loan guarantee has no immediate financial impact to the City of Mississauga. The arrangement will be disclosed in the notes of the City's audited financial statements. The loan guarantee will not have any impact to the City's tax levy budget or its debt annual repayment limit (ARL). If the Hospice is unable to meet their loan repayment obligations at any time during the term of the loan, the City will become fully responsible for making the required payments on the Hospice's behalf, to be funded through the City's Fiscal stability reserve. A corresponding receivable, in addition to an interest charge equivalent to the City's borrowing rate (currently around 5%) or a rate as agreed to by the parties, will be set up for the amount owing from the Hospice. Any subsequent repayments of that receivable from the Hospice will be reimbursed to the Fiscal stability reserve. Staff will endeavour to ensure that serving as a loan guarantor will result in a maximum transfer from the City's Fiscal Stability Reserve of $16.25 million dollars, regardless of whether the Hospice's final total amount owing from their financial institution exceeds this amount.

If the Hospice fails to pay the entire bank loan of $16.25 million, the maximum financial impact to the City would be the sum of the $16.25 million plus the lost return on investment of this amount. The lost return on investment would be based on the average 3.3% rate of return of $16.25 million compounded annually to perpetuity. For reference, a 30-year compounded return of a $16.25 million investment equates to around $26.8 million.

Option 2: The City Partnering with Hospice

Operating revenue impacts:

If the City proceeds with the partnering arrangement under Option 2, the City will set up a loan receivable for the amount owing from Hospice, up to $16.25 million, based on the loan amortization schedule and borrowing terms of the negotiated MOA between the City and Hospice.

The City's current rate of return on its cash and investment balances is around 3.3% and its rate of borrowing is around 5%. These rates are subject to change during the 30-year period depending on market conditions.

- If Council directs providing Hospice with an interest-free loan of $16.25 million dollars for 30 years, the total financial loss to the City for the lost interest would be around $15 million. This will result in a reduction in the allocation of investment income that would be used to help fund the City's capital projects.

- If Council directs providing the loan to the Hospice at a rate equal to the City's annual rate of investment return, then there would be no financial impact to the City.

- If Council directs providing the loan to the Hospice at a negotiated rate above the City's annual rate of return, then it will result in an additional annual revenue to the City. For example, at a rate of 4% to 5%, the City would earn roughly $100K to $400K in additional annual interest revenues, depending on the repayment schedule. The total interest earned on this loan arrangement would be roughly $650K to $812.5K per year. The revenue would be applied to the City's operating budget to reduce impact on the net tax levy.

If Council approves Option 2, it is recommended that the City charges Hospice at the City's annual investment rate of return or higher, to prevent any negative tax impact. It is notable that any interest rate charged by the City which would be in any case lower than the market interest rate that Hospice would pay, would be financially beneficial to Hospice. For example, the current benchmark borrowing rate consistent with this type of loan that Hospice would undertake is 6%. Even if the City charges Hospice a rate of 3.3%, this would provide an approximate subsidy to Hospice of $9.5 million over the 30-year life of the loan.

If the Hospice fails to repay the loan to the City, the City would have the ability to take ownership of the Hospice building, and can choose to sell or lease out the building, or repurpose the building for other uses.

## Conclusion

Staff are seeking Council direction concerning the request for financial assistance from Hospice. Council may choose to refuse the request or alternatively, grant the request by pursuing one of the two options identified by City staff in this Report. Under Option 1, the City can serve as a loan guarantor under an institutional loan for the Hospice facility at 2176 Speakman Drive, Mississauga. Under Option 2 the City can be the lender and provide Hospice with a commercial loan and secure it with the facility.

## Attachments

Appendix 1: Hospice Mississauga – Building fundraising campaign document
Appendix 2: Hospice Mississauga's 2024 audited financial statements

Geoff Wright, P.Eng, MBA, City Manager and Chief Administrative Officer

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