

Staff Report



To	City Council
Service Area	Corporate Services
Date	Monday, June 29, 2020
Subject	The Elliott Community – Consent to Guarantee External Funding

Recommendation

1. That the increase in debt of \$2,000,000 that The Elliott Community is seeking from an external lender be approved.
 2. That the City Treasurer be authorized to enter into an agreement to guarantee The Elliott Community's loan with an external lender in the total amount of \$4,000,000.
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Executive Summary

Purpose of Report

To provide Council with a recommendation in response to the request from The Elliott Community ("The Elliott") to increase their external financing from \$2,000,000 to \$4,000,000.

Key Findings

Staff have reviewed the information received by The Elliott and have outlined the various risks and opportunities associated with guaranteeing the requested funds.

Staff recommends that the City guarantee the loan request of \$4,000,000 if the following requirements are met: the rates the loans are secured for are competitive; details of the cash treatment of the past capital contributions intended to fund Long Term Care are provided; accelerating debt repayments is considered as part of their next strategic plan.

Financial Implications

There are no direct financial implications of guaranteeing the requested funds for The Elliott.

The indirect implications include the impact on the City's credit rating and consolidated financial statements. Guaranteeing debt means that there is potential, should The Elliott run into financial difficulties, that the City will be required to finance any outstanding debt obligation.

The increase of \$2,000,000 in the City's guaranteed debt commitment will not likely impact the City's credit rating or the users of the consolidated financial statements.

Report

Background

The Elliott is a local board of the City as established by The Elliott Act, 2002. All areas of operation are overseen by a Board of Trustees appointed by City Council. The by-laws of The Elliott Community indicate that The Elliott may not borrow money without prior consent of City Council, and that City Council should respond within 45 days of obtaining any requests.

In [February 2018](#), Council approved The Elliott's request to borrow \$2,000,000 and that the City would guarantee this debt. As part of this approval, Council expected the following conditions would be met:

- the rates the loans are secured for are competitive;
- details of the cash treatment of the past capital contributions intended to fund Long Term Care are provided;
- accelerating debt repayments is considered as part of their next strategic plan.

In June 2020, the City received a letter from The Elliott, as included in Attachment-1, requesting consent for The Elliott to obtain additional financing of \$2,000,000 from an external lender and further, that the City be the guarantor for this additional amount. As outlined in the letter, the financing will go towards funding a significant roof project that was more costly than originally planned due to the roof condition. The Elliott is also faced with a number of legislatively required adjustments to the facilities in response to the COVID-19 Pandemic.

Outlined below are the reasons why staff support the recommendation to guarantee the loan, as well as potential risks to be aware of given that The Elliott is a Local Board of the City.

Assessment of Financing Request

Safety and Legislative Requirements

As outlined in The Elliott's letter, the funds being request will be used for capital repairs and upgrades as well as COVID-19 related safety improvements which are all necessary to meet legislative and safety requirements in order to provide a safe environment for residents, families, and staff. In the event that the City does not provide the approvals being sought, it could result in The Elliott facing legal implications and potential fines due to non-compliance.

Current Funding and Financial Condition

In partnership with The Elliott, the City undertook a project in 2014 to transition The Elliott to be the City's Long Term Care provider and to fund The Elliott for these services accordingly. The agreement is structured to provide The Elliott autonomy to run its business as without significant interference by or reliance on the City.

Throughout this project, an analysis of The Elliott's finances was conducted and it was determined that the ongoing operating contributions would be approximately \$1,200,000. In addition, a Building Condition Assessment found the building to be well maintained and in good condition, which resulted in a recommendation that a capital reserve fund be established to meet future capital replacement funding requirements with annual contributions of \$212,000. Utilizing debt and other

reserve fund strategies to manage the annualized funding through years of variable capital need is in alignment with the intent of the agreement in place.

The Service Level Agreement between The Elliott and the City restricts The Elliott from requesting additional levels of funding, except for extraordinary circumstances. The Elliott is following the guidelines of this service agreement by not requesting capital funds or additional funds to offset the debt servicing costs.

In addition to the annual funding, the City also has an outstanding loan receivable from The Elliott for \$14,385,147 as of May 31, 2020. The loan was to fund the redevelopment of The Elliott's Long Term Care facilities in 2008. Principal and interest are being repaid quarterly, and the loan matures in 2036.

Risks - Default on Payment

The risk associated with any loan is that the organization obtaining the funding would be unable to pay the loan and eventually default. If The Elliott has an unforeseen situation where they are unable to pay this loan, the City would be liable to make payments on their behalf. A preliminary assessment of the impact of the additional financing on The Elliott's current loan covenants will need to be considered by the external lender in advance of any funds being approved. The City rates the risk of this occurring at a low level based on past financial history of repaying debt commitments and managing cash flow requirements across all of the The Elliott's business lines.

Alternatives – City Lend Funds

Although not requested by The Elliott, City staff gave consideration to lending the additional \$2,000,000 directly to The Elliott. This approach is not recommended by staff since the City already carries over \$14 million of debt on behalf of The Elliott and the City is not in the business of being a lender. Given the goal to have both entities associated at arm's length, and current cash flow pressures that the City is experiencing from COVID-19, staff feel it's more appropriate for The Elliott to utilize external financing. Further, because this request is to increase an external financing facility that is already in place, it is much more administratively beneficial for both entities to execute the external financing increase. With the City guaranteeing the loan, the negotiated rate should be competitive to reflect the low risk associated with the lending of these funds.

Requirements

Based on the Service Agreement, The Elliott is to provide an annual strategic plan to the Committee of Management. Staff continues to request that The Elliott develop a long-term financial strategy that considers cash flow and the potential of accelerating the repayment of the external loans and its loans to the City.

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Consultations

There was no formal consultation process associated with this report.

Strategic Plan Alignment

While supporting The Elliott as the City's legislative responsibility to have a municipally-designated Long-term Care Facility, agreeing to increase the financing guarantee supports the Building Our Future Strategic Plan pillar. The recommendations in this report enable The Elliott to maintain their critical infrastructure, and enhances community well-being and safety for the delivery of long-term care services.

Attachments

Attachment-1 The Elliott Request for External Financing Guarantee

Departmental Approval

N/A

Report Author

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This report was approved and recommended by:

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