



**Feb. 7, 2011**

## **City Council Committee Report**

**To: Mayor Canfield & Council**

**Fr: Charlotte Edie, Treasurer**

**Re: Kenora Health Care Centre Debt**

### **Recommendation:**

**Whereas** Kenora City Council provided financing to the Kenora Health Care Centre for the purchase, rehabilitation and expansion of the Kenora Medical Clinic with the intent of establishing a state of the art medical facility in the City of Kenora; and

**Whereas** that goal has now been achieved;

**Now therefore, let it be resolved that** the Kenora Health Care Centre be directed to pursue external financing options to pay out the loan balance due to the City in the amount of \$6,845,000.

### **Background:**

In 2006 Council ratified By-Law #14-2006 authorizing a loan of up to \$1.8 million to the Kenora Health Care Centre, a not-for-profit corporation, to acquire and operate the former Kenora Medical Clinic. Later in the same year Council passed By-Law #127-2006 to increase the amount of the loan from \$1.8 million to \$2.45 million in response to the final cost estimates to renovate the clinic. The loan was further increased in 2007 by By-Law #47-2007 to \$2.8 million. Interest was calculated monthly at 4.05% on these advances.

The Paterson Foundation committed \$100,000 per year for 5 years as a donation to offset the loan balance. To date the entire \$500,000 has been received and the balance of this portion of the loan is currently \$2.3 million.

In December 2008 Council amended By-Law #14-2006 to increase the loan amount to \$6.55 million. The additional advance of \$3.75 million was for a land ambulance facility and family health team offices. This additional advance was increased to \$4.675 in February 2009 resulting in a total loan advance of

\$7.475 million. Council granted an interest free holiday on the \$4.675 million for 2009 and 2010. Interest of 3% per annum is now charged on the total balance effective January 1, 2011.

In 2006 the City of Kenora set out to support the initiative by the Kenora Health Care Centre Board to provide a state of the art health care facility in the City of Kenora. That goal has now been achieved. The entire loan has now been advanced and Council has two options with respect to the disposition of the investment:

1. Council could direct the Kenora Health Care Centre to finance the entire amount of the debt either with an external financial institution; or
2. Council could choose to finance the entire amount through the Citizens' Prosperity Trust Fund.

In the interim the Kenora Health Care Facility secured an additional loan at the Copperfin Credit Union for \$700,000. The Paterson Foundation has committed an additional \$500,000 over the next five years to be applied against the loan.

Option #1 would allow the Citizens' Trust to be utilized for City of Kenora projects as opposed to external projects. The City has \$9 million of its own projects to debenture in the current year. If these debentures and the Health Care Centre debenture were financed through the Citizens' Trust approximately 40% of the Citizens' Trust would be converted to long term investments and would not be available for other avenues Council may wish to pursue. The current Council has not as yet had the opportunity to discuss projects and determine City priorities for the next four years. It is important that Council retain the flexibility of accessing internal financing first for City priorities and determine City needs before committing a significant portion of the Trust.

Financing the Health Care Centre debenture through the Citizens' Trust alone would commit approximately 20% of the funds within the Trust. These funds would not be available in the short term to fund other infrastructure or job creation projects that may be on the horizon. The Lake of the Woods Development Commission has identified numerous economic development priority initiatives that Council will want to consider. The City, too, has identified a number of potential priorities, and in addition continues to face ongoing and significant infrastructure demands that may need to be financed through long term debt. The Health Care Centre remains in negotiations with the Copperfin Credit Union and is actively pursuing retiring the City held debt. This process should continue.

Option #2 is attractive in that the Fund would earn a guaranteed interest rate of 5% or more but this interest rate and the terms of the debenture are only guaranteed for the current term of Council. It is worth noting that future Councils cannot be restricted by the terms as set out by the current Council.

In order to pay off the debenture in 20 years at a rate of 5% the Health Care Centre would have to make payments of approximately \$49,580 per month. Since the markets cannot be predicted it is not known what the current investments will yield over the next 4 years therefore the decision Council has to make in this regard depends on their comfort levels when it comes to such a long term investment and the length of time it will take to recoup a significant amount of funds.

This report was generated based on a follow up from the Education and Orientation session on January 25, 2011. The recommendation included herein originated from a separate discussion which occurred between a Kenora Health Care Centre Board Member, Copperfin Credit Union representatives, City Solicitor Bruce Ormiston and City Administration. It is our understanding that since this discussion, Don Parfitt as a Member of the Kenora Health Care Centre Board has pursued a payout option with the Copperfin Credit Union.

**Budget:** Financing options and related interest revenue would impact the Citizens' Prosperity Trust Fund, and would be impacted by future market changes.

**Communication Plan/Notice By-law Requirements:**

Communication with Kenora Health Care Centre.