SUBJECT: External Loan Guidelines Amendment (FCS06078a) (City Wide)

RECOMMENDATION:

That the revised External Loan Guideline as outlined in Appendix A of Report FCS06078a be approved.

Joseph L. Rinaldo
General Manager
Finance and Corporate Services

EXECUTIVE SUMMARY:

The City owns a number of Facilities and Properties that Outside agencies rent or use free of charge to provide various services to the Citizens of Hamilton. From time to time these groups are requesting that upgrades be performed to the facilities by the City. Due to the shortage of funds, these upgrades may take many years to be completed. As a result the agencies have been requesting interest free loans from the City to complete these upgrades on their own. In the end these upgrades will benefit the City as they are increasing the value of City owned facilities and properties.

The City’s External Loan Guidelines does not cover these types of loans. The attached Appendix A is the revised policy that allows Groups using City Facilities or Property to apply for an interest free loan to carry out upgrades or enhancements. The process will be the same as the current process for External Loans except that the loans will be interest free. However late fees will be charged for payments not made in accordance to the repayment schedule.
BACKGROUND:

Report FCS06078 was approved by Council in August of 2006. In this report Council approved Guidelines for the granting of Loans to External not for profit Agencies.

This report is asking Council to consider an amendment to the External Loan Guidelines that will allow interest free loans to those groups wishing to upgrade or enhance City owned Facilities and properties.

ANALYSIS/RATIONALE:

ALTERNATIVES FOR CONSIDERATION:

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

In keeping with the current method of financing, no source of funds will be required as these loans will appear as receivables on the City’s Balance sheet.

POLICIES AFFECTING PROPOSAL:

Approval of this report will change the existing External Loan Guidelines by adding the following:

PART 8 – LOANS FOR UPGRADES OR ENHANCEMENTS TO CITY OWNED FACILITIES OR PROPERTIES.

a) All requests for these loans be administered through the appropriate operating division. Ie) Facilities, Parks etc.

b) The reports are to be forwarded to appropriate standing committee, as outlined in Part 2 of the Guidelines.

c) All corporate policies relating to maintenance work, construction, insurance requirements etc. must be adhered to and monitored by the appropriate Department.

d) Loan evaluation reports will include recommendations respecting the most appropriate means of project implantation (i.e. by city staff, third party or by the project sponsor or applicant)

e) All Operating costs associated with the improvements should be outlined in the report and specifically approved by Council.

f) All terms of the External Loan Guideline are to be adhered to with the exception of the interest rate guideline (Part 6 Section “a” and “b”).
g) No interest will be charge on eligible loans. (Late payment interest will apply per Guideline)

h) Funds will be forwarded on a % of completion of work basis to be agreed upon between the City and the Agency.

i) Both the City and the applying Agency agree that ownership of all improvements revert to the City immediately upon completion.

**RELEVANT CONSULTATION:**

N/A

**CITY STRATEGIC COMMITMENT:**

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No
Partnerships are promoted.

Environmental Well-Being is enhanced. ☐ Yes ☑ No
N/A

Economic Well-Being is enhanced. ☑ Yes ☐ No
Hamilton's high-quality environmental amenities are maintained and enhanced.

Does the option you are recommending create value across all three bottom lines?
☑ Yes ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
☑ Yes ☐ No
PART 1 - PURPOSE AND OBJECTIVES

To provide financial assistance by means of a capital loan to community-based, not-for-profit organizations who are engaged in programs and activities within the borders of the City of Hamilton.

The guidelines have several objectives including:

- To establish a consistent process with respect to the consideration and evaluation of loan requests
- To ensure that all loan requests are dealt with in a fair, equitable and financially accountable manner
- To ensure that any funds received from the City of Hamilton are administered by a competent, accountable and responsible body
- To provide loan funding to organizations who demonstrate that the project expenditures are in the best interest of the community at large

These guidelines apply to loan requests from incorporated and registered not-for-profit organizations which are not extensions of the City of Hamilton (e.g. HECFI, Hamilton Public Library, Hamilton Police Services). The guidelines do not apply to separate Council approved loan programs
such as, but not exclusive to, the Hamilton Residential Loan Program and Development Charge referral programs.

For the purposes of this document, the use of the term “organization” refers to the entity which is requesting the loan.

PART 2 - LOAN REQUEST PROCESS

Any external organization can request a loan, at any time throughout the year. The proposed external loan request process is as follows:

a) The loan request should be sent to the attention of the City Clerk, where it will be forwarded to the General Manager of Finance and Corporate Services for consideration. At a minimum, the applicant should provide all of the information as included in Part 3 - Responsibilities of the Applicant.

b) Program staff and Finance Staff from the Capital Budgets section of the Budgets and Finance division will evaluate eligibility by comparing the loan request to the Loan Eligibility Criteria as included in Part 4.

c) If the loan request is eligible, staff will evaluate and prepare a report to City Council either recommending or not recommending loan funding. If the loan request is not eligible, staff will prepare a report to Council outlining why the request did not meet the requirements.

d) If approved, City staff will work with the agency to prepare the necessary loan agreements and legal documents for execution by the Mayor and the City Clerk.

PART 3 - RESPONSIBILITIES OF THE APPLICANT

When requesting a loan, the organization must provide the following information:

a) Proof of status as an incorporated and registered not-for-profit/charitable organization.

b) A business case for the capital expenditure which includes the project budget, sources of funding (including alternatives and options) and a list of milestone or completion dates.

c) A multi-year (term of the loan) cash flow, which would demonstrate the ability of the organization to repay the loan. In the case of further
unexpected expenditures, a contingency funding plan should be recognized or discussed.

d) The previous year’s complete and audited (if available) financial statements.

e) The amount of the loan requested, the desired terms of the loan and what the impact would be if the loan was not provided.

f) A description which demonstrates that the capital expenditure will benefit the community at large.

g) Other documents and information as requested by the City of Hamilton.

PART 4 - LOAN ELIGIBILITY CRITERIA

The loan request will be considered to be eligible for funding if:

a) The organization making the loan request is, or is in the process of becoming, an incorporated and registered not-for-profit organization.

b) The organization has a Board of Directors who can assume full responsibility for the administration of the funding.

c) The request is to fund a capital expenditure on a one-time basis. Funds must not be used to offset operating costs, reduce outstanding debt or to fund an operating deficit.

d) The capital expenditure must provide benefits within the boundaries of the City of Hamilton.

e) The organization is in good financial standing with the city. More specifically, there should be no current or recent history of significant arrears owing to the City of Hamilton.

f) The organization demonstrates that it is making efforts to provide equal access to programs and services for individuals of diverse cultures and disabilities, where appropriate and feasible.

g) The organization demonstrates clear boundaries between religious activities and the program which is requesting the funding, if applicable.
PART 5 - LOAN EVALUATION

Once the applicant has provided satisfactory information to the City of Hamilton, staff will evaluate the loan request and draft a report to the appropriate committee of Council for approval.

The report must include the following information:

a) A summary of the business case for the capital expenditure.
b) A summary of the project budget and funding sources.
c) A summary of the cash flow demonstrating the ability to repay the loan.
d) The impact of the capital expenditure on the organization and the community at large.
e) An indication of the impact to the organization if funding if the loan is not provided.
f) Any other pertinent information that may assist Council in reaching a decision.

If funding is recommended, the report will also include:

a) The terms of the loan agreement.
b) A payment schedule.
c) Any other pertinent information regarding the recommendation of the loan.
d) The following recommendation – “That the City Solicitor and the General Manager, Finance and Corporate Services be authorized to draft the loan agreement for execution by the Mayor and City Clerk”.

If funding is not recommended, the report will list the reasons why the request did not meet the criteria.
PART 6 - TERMS OF LOAN AGREEMENT

If funding is approved, the legal loan agreement will include the necessary terms as agreed upon by both parties. The following must be included and/or considered during the development of the loan agreement. The list is not exhaustive and can be added to at any time.

a) The interest rate will be based upon the current serial debenture rate, as provided by the investments section, for the time period that corresponds with the term of the loan. This reflects the equivalent capital cost of the loan. For example, the interest rate for a 10-year loan should be based on the 10-year serial debenture rate.

b) A 0.25% administration fee will be added to the interest rate.

c) The term of the loan must not exceed the useful life of the asset.

d) At a minimum, interest should accrue annually.

e) Terms of draws and a schedule of draws against the loan.

f) Late payments charges will be applied as per the City’s policy on late payments.

g) In the event of non-payment or late payments, the city will follow current protocols on collecting payments on amounts owing.

h) In case of loan default, the loan agreement must ensure that the applicant’s asset or other security is included as collateral against the loan. The value of the asset or security must be of an equivalent value to the loan.

i) The City of Hamilton must be recognized on project marketing and promotional material (e.g. City of Hamilton logo).

j) Any out-of-pocket expenses, such as appraisal costs, incurred for the preparation of the loan agreement, over and above staff costs, will be added to the principal of the loan.

k) The organization must provide full disclosure, at all times, with respect to issues that will or may affect the completion of the project or the organization’s ability to repay the loan.

l) Follow-up procedures will also be included in the terms of the agreement. These include:

   a. The organization must provide a final cost of the project
   b. The organization must provide the following annually:
      i. Annual financial statements (Audited if available)
      ii. Budgets and cash flow projections
      iii. Confirmation of insurance on the asset used as collateral
c. The organization should agree to be available, at the request of the City, to an on-site visit to review the capital expenditure and the applicable financial records

m) Any other terms deemed appropriate by City Council, the City Solicitor or City staff.

PART 7 - OTHER

Other guidelines that should be followed concerning external loans are:

a) The City of Hamilton will not act in the capacity as a loan guarantor for any external organization unless it is required as part of a Council approved City program.

b) Requests for re-financing of approved external loans require a separate report to City Council. Re-financing should only be considered under extraordinary circumstances, not for the sole purposes of taking advantage of fluctuating interest rates.

c) Organizations are permitted to have only one outstanding loan with the City at anytime. The only exception to this guideline are Conservation Authorities, as there are legislated limits on their borrowing as per the Conservation Authorities Act, R.S.O. 1990, Chapter C. 27.

d) Request for loans will be considered pending the availability of adequate funding. Approved loans must not:
   a. Significantly impact City cash flow
   b. Impact City’s service levels

e) Approval of a one-time loan for capital expenditures does not guarantee future funding from the City of Hamilton.

f) Notwithstanding these guidelines, Council has the ultimate authority to approve or deny any loan request at its sole discretion.
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