TO: Mayor and Members  
Committee of the Whole  

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: April 13, 2010

SUBJECT/REPORT NO:  
Canada Mortgage and Housing Corporation Municipal Infrastructure Lending Program  
(FCS10022) (City Wide)

SUBMITTED BY:  
Roberto Rossini  
General Manager  
Finance and Corporate Services

PREPARED BY:  
John Savoia (905) 546-2424 x. 7298

RECOMMENDATION:

(a) That applications be made to the Canada Mortgage and Housing Corporation for low interest loans under the Municipal Infrastructure Lending Program for the local road rehabilitation projects identified in Table 1 of this report, in an amount not to exceed $25.0 million;

(b) That the Municipal Infrastructure Lending Program borrowing of $25.0 million be used for project 4030911016 - Local Roads Rehabilitation as this project meets the program loan eligibility criteria;

(c) That the approved grant funding from the Investing in Ontario Act for 4030911016 - Local Roads Rehabilitation be reallocated to 3540441442 – Hamilton City Hall Renovations, thereby reducing the budgeted debt financing of the City Hall Renovation project by $25.0 million; and
(d) That the Mayor and Treasurer or any other appropriate staff be authorized and directed to execute all necessary documentation between the City of Hamilton and the Canada Mortgage and Housing Corporation under the Municipal Infrastructure Lending Program, in a form satisfactory to the City Solicitor.

EXECUTIVE SUMMARY

As part of the 2009 Federal Government stimulus budget, the Municipal Infrastructure Lending Program (MILP) delivered through the Canada Mortgage and Housing Corporation (CMHC), provides up to $2 billion in direct low-cost loans to municipalities to invest in housing-related municipal infrastructure.

Eligible projects may include:
- Housing-related services such as water, wastewater and solid waste
- Power generation such as electrical, wind, solar and gas
- Local transportation within or into residential areas such as roads, bridges and tunnels
- Residential infrastructure such as sidewalks, lighting, pathways, landscaping and green spaces

Key Dates:
- Construction to start on or after January 27, 2009
- Loans to be advanced by March 31, 2011
- Work to be complete by March 31, 2012

There would be financial penalties if the funds are not disbursed when planned (unless the project does not proceed and a loan agreement is not executed), or if construction is not completed by March 31, 2012. In the event that less than 25% of the cost of the construction portion of the project has not been expended and if the project is not completed by March 31, 2012, CMHC may call the entire loan due and payable. If any part of the project is unfinished by that date, CMHC can call the pro-rata share of the loan that relates to the uncompleted portion of the project. The penalty, which covers CMHC’s borrowing costs for the term of the loan, is estimated to be about $495,000 for every $10 million of loan advance which would be required to be paid back on the basis of a 15 year amortization period.

The MILP offers loans to municipalities currently at an interest cost below the City’s cost of debt, thereby, the City may be able to generate considerable interest savings. Through this program, CMHC is able to pass on their borrowing rate, plus the cost of hedging, to a municipality. For example, CMHC advises that the rate for 15 year term loans it advanced on February 1, 2010, was 3.98% which is approximately 61 basis points less than the City’s estimated cost of borrowing of approximately 4.59% for a similar term. On the proposed loan amount of $25.0 million, the difference in borrowing cost over 15 years, would exceed $1.4 million.
Staff have reviewed capital projects for their eligibility and with respect to the risk of incurring financial penalties as specified under the MILP guidelines. As such, staff have identified a number of road projects undertaken as part of the City’s Neighbourhood Asset Preservation Program that would meet the intent of the MILP to support the funding of local transportation infrastructure within and into residential areas, such as roads, sidewalks, lighting and green space. The advantage of the works, within the identified project, is that all of the road and sidewalk work will be completed by the end of 2010, therefore, eliminating the risk of the significant penalties were the work not completed by the required March 31, 2012, deadline. In order to pursue the MILP applications, the financing strategy for the selected project has to be altered so that it will be debt-financed as per recommendations (b) and (c) to report FCS10022. Road and sidewalk works are being completed under project 4030911016 - Local Roads Rehabilitation that occur in a number of areas within the City as outlined in the following Table 1.

**TABLE 1**

<table>
<thead>
<tr>
<th>Local Roads Rehabilitation Project</th>
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<tbody>
<tr>
<td>Ward 1 - Ansliewood Neighbourhood</td>
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<tr>
<td>Ward 3 - Gibson Neighbourhood</td>
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<tr>
<td>Ward 4 - Parkview Neighbourhood</td>
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<td>Ward 5 - Corman Neighbourhood</td>
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<td>Ward 6 - Sunninghill Neighbourhood</td>
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<td>Ward 7 - Lawfield Neighbourhood</td>
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<td>Ward 7 - Greeningdon Neighbourhood</td>
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<td>Ward 8 - Mohawk Neighbourhood</td>
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<td>Ward 8 - Gilbert Neighbourhood</td>
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<td>Ward 8 - Westcliffe Neighbourhood</td>
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<tr>
<td>Ward 13 - Pleasant Valley Neighbourhood</td>
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</tbody>
</table>

**Alternatives for Consideration – Not Applicable**
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: The cost to the City for the payment of interest and principal will be funded through the City’s Capital Budget. The debenture interest rate will be determined by CMHC when they issue a commitment letter to the City. The 15 year term rate is set at the comparable Government of Canada rate plus approximately 50 basis points, representing an estimated 60 basis point lower cost than comparable City debt at current market rates. It is estimated that loan savings of approximately $1.4 million will be achieved by utilizing the MILP for a $25.0 million loan with a 15 year term.

Staffing: N/A.

Legal: The City will have to apply for and enter into a loan agreement with CMHC to receive the loan funds as per the MILP.

HISTORICAL BACKGROUND (Chronology of events)

As part of Canada’s Economic Action Plan, the Municipal Infrastructure Lending Program (MILP) delivered through Canada Mortgage and Housing Corporation (CMHC) provides up to $2 billion, over two years, in direct low-cost loans to municipalities to invest in housing-related municipal infrastructure. These can include water, wastewater, solid waste and roads projects with a focus on contributing to healthier, safer and more modern residential communities.

The terms of the loan would include:
• Projects may be for new construction, expansion or renewal;
• Construction must start after January 27, 2009;
• Construction must start within three months of CMHC’s commitment letter;
• Construction must be completed by March 31, 2012;
• Loans will be advanced after construction starts in one advance per project by March 31, 2011; and
• Loans would be for a 15 year term, although CMHC advises a longer term can be negotiated.

The loan agreement also calls for penalties if the funds are not disbursed when planned or if construction is not completed by March 31, 2012.

POLICY IMPLICATIONS

N/A.
Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.

Values: Honest, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork

RELEVANT CONSULTATION

Corporate Services Department – Legal Services Division
Public Works Department – Environment and Sustainable Infrastructure Division
Canada Mortgage and Housing Corporation

ANALYSIS / RATIONALE FOR RECOMMENDATION

CMHC has advised that the funds available under the Municipal Infrastructure Lending Program will be issued on a “first-come-first-served” basis.

Through this program, CMHC is able to pass on their borrowing rate, plus the cost of hedging, to a municipality. Borrowing funds from CMHC can save the City considerable financing costs. For example, CMHC advises that the rate for 15 year term loans it advanced on February 1, 2010, was 3.98% which is approximately 61 basis points less than the City’s estimated cost of borrowing of approximately 4.59% for a similar term. On the proposed loan amount of $25.0 million, the difference in borrowing cost over 15 years, would exceed $1.4 million.

CMHC has indicated it would be agreeable to negotiating terms for longer than the 15 years. Under a 20 year amortization period, CMHC’s rate as of February 1, 2010, was posted at 4.28% which is approximately 76 basis points less than the City’s estimated cost of borrowing of approximately 5.04% for a similar term. On the proposed loan amount of $25.0 million, the difference in borrowing cost over 20 years, would exceed $2.5 million. With the lower borrowing costs offered by CMHC, the longer loan term would increase total interest payments, over the life of the loan term, by nearly $4 million over the 20 year amortization period.

Although the actual contract interest rate for a 15 year Government of Canada bond will vary, according to capital market conditions until the loan is issued, staff do not expect that there will be a significant difference to the relative cost of funds as quoted in the above example. Annual principal and interest payments will be made over the amortization period, on the anniversary date when the loan is issued, based on the CMHC borrowing rate plus the cost of hedging on the loan agreement commitment date.

There are potential costs to the City if the funds are not advanced, on a timely basis, (unless the project does not proceed and a loan agreement is not executed), or if the work is not completed when required. CMHC requires borrowers to pay a penalty if they do not complete the work by March 31, 2012. In the event that less than 25% of the cost of the construction portion of the project has not been expended and if the
project is not completed by March 31, 2012, CMHC may call the entire loan due and payable. If any part of the project is unfinished by that date, CMHC can call the pro-rata share of the loan that relates to the uncompleted portion of the project. The penalty, which covers CMHC’s borrowing costs for the term of the loan, is estimated to be about $495,000 for every $10 million of loan advance which would be required to be paid back on the basis of the 15 year rate information.

Table 1 to report FCS10022 outlines a number of residential road projects undertaken as part of the City’s Neighbourhood Asset Preservation Program which would meet the MILP’s timing and program intent criteria. The advantage of the identified project is that all of the road and sidewalk work will be completed by the end of 2010, therefore, eliminating the risk of significant penalties were the work to not be completed by the required March 31, 2012 deadline. In order to pursue the MILP applications, the financing strategy for the selected project has to be altered so that it will be debt-financed as per recommendations (b) and (c) to report FCS10022.

**ALTERNATIVES FOR CONSIDERATION:**
.include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative

N/A.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Financial Sustainability**

- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost-effective manner

**Intergovernmental Relationships**

- Acquire greater share of Provincial and Federal grants (including those that meet specific needs)

**APPENDICES / SCHEDULES**

N/A.