

Meeting Date: October 23, 2023

Submitted to: City of London, Corporate Services Committee

Submitted by: Emily Williams, CEO, Middlesex-London Health Unit

Subject: Request for Redirection of 2022 Surplus Funds

BACKGROUND: MLHU Financial Overview 2022 – 2024: Dramatically Shifting Context Year Over Year

2022 Financial Situation: In 2022, the MLHU was still largely focused on coming out of the COVID-19 pandemic, with staff continuing to be redeployed and regular programs not fully resumed. This resulted in a surplus in the cost-shared base budget of just over \$2 million; noting however that the MLHU submitted a 2022 balanced budget projection (\$0 surplus/deficit) as part of the City of London's 2022 Year-end Operating Budget Monitoring process, due to the timing of that process relative to the audit. The annual audit of the MLHU 2022 financial year faced significant delays due to the change in lead auditor mid-process. As such, the audited financial statements were not approved by the Board of Health (BOH) until July of 2023. The BOH did not meet in August, which explains why the discussion regarding the utilization of the 2022 surplus funds did not occur until the September BOH meeting.

The related motions from the September BOH meeting are as follows:

It was moved by **M. Steele, seconded by S. Menghsha**, *that the Board of Health approve that the municipal portions of 2022 surplus funds be applied as payment on the Middlesex-London Health Unit's variable loan.*

Carried

It was moved by **M. Steele, seconded by M. Smibert**, *that the Board of Health direct staff to engage in required proceedings with the City of London and the County of Middlesex to enable surplus funds to be redirected to the Canadian Imperial Bank of Commerce (CIBC) for payment to the Health Unit's variable loan in the following amounts: City of London: \$611,898 and The County of Middlesex: \$116,552.*

Carried

2023 Financial Situation: In 2023, the MLHU resumed all regular programs, and continued to provide baseline COVID-19 activities. The Health Unit received its funding letter from the Ministry of Health on August 29th. The financial forecast for year end is currently projecting a deficit, requiring holding recruitment of several vacant positions to ensure a balanced budget at year end.

2024 Financial Situation: Planning for 2024 budget is underway, and the MLHU is facing a significant shortfall, despite the Ministry of Health announcing a 1% increase to base funding in 2024, and additional commitments to 1% growth of the provincial portion of the cost-shared base budget for a further two years. Inflationary pressures are 2% for employee salaries (unionized and non-union) and an estimated 3.9% for corporate expenses. The Board of Health approved requesting a 3% increase from both municipalities (City of London and Middlesex County) for the 2024 budget year. Despite the 1% and 3% increases to funding, the MLHU shortfall is between \$2.6 and \$2.8 million, and significant strategic disinvestments will be required, which will impact programs and services.

ANALYSIS:

As noted above, there was a year end surplus for cost-shared base funded programs in 2022 of \$2,016,902 (audited). A breakdown of the surplus according to the cost-sharing methodology (75:25 provincial-municipal, with the 25% further broken down to 84:16 for City of London and County of Middlesex) produces the following amounts: Ministry of Health \$1,512,677; City of London \$423,548; County of Middlesex \$80,676.

One of the current pressures facing the Health Unit are the loan payments for two bank loans associated with the fit-up of the Citi Plaza office location, which have a 20-year term and a 5-year renewal. The MLHU relocated to Citi Plaza in 2020 from its previous two locations at 50 King Street and 200 Queens Avenue, leasing space sufficient to accommodate staff from both locations. At the time of the relocation project, the MLHU optimized use of its reserve funds for the fit-up of the space, with the remaining costs financed with the Canadian Imperial Bank of Commerce (CIBC).

The Health Unit is financing two bank loans:

1. Fixed \$3,050,000. Outstanding \$2,729,454 (*as at July 2023*).
2. Variable \$1,150,000. Outstanding \$1,001,458 (*as at July 2023*).
Variable loan has interest charged at: Prime less 0.75% = 6.45% (*as at September 18, 2023*).

The annual payments for the variable loan include a fixed portion at \$57,500 plus interest. When the loan was taken, prime was 2.45%; the current CIBC prime rate is 7.2%, increasing the overall annual loan payments from \$74,647 to \$122,558 – an additional \$47,911 of interest.

FINANCIAL IMPLICATIONS:

The MLHU is requesting both the City of London and the County of Middlesex permission to use the Municipal portions of the 2022 audited surplus to pay down the variable bank loan, given the uncertain inflationary environment and the significant budget pressures facing the agency in 2024. The City of London portion of \$423,548 and the County of Middlesex portion of \$80,676 combined would reduce the variable bank loan from \$1,001,458 to \$497,234 (as at July 2023) and provide significant additional financial relief to the agency.

RECOMMENDATION:

THAT *the application of the City of London's share of MLHU's 2022 surplus in the amount of \$423,548 to reduce the outstanding amount of MLHU's variable bank loan for the fit-out of the Citi Plaza office space* **BE APPROVED**.

Your consideration of this request is greatly appreciated.



Emily Williams BScN, RN, MBA, CHE
Chief Executive Officer