



TO: Chair and Members of the Community and Protective Services Committee

FROM: Christopher Mackie, Medical Officer of Health / CEO

DATE: 2018 June 18

SUBJECT: Middlesex-London Health Unit Office Space Fit-up Funding

In support of the Middlesex-London Health Unit's proposed relocation, this letter is being submitted to formally request the City of London's consideration for the extension of a repayable loan to the Middlesex-London Health Unit for the fit-up costs associated with the new office space.

Background

Middlesex-London Health Unit (MLHU) entered into a letter of intent with Avison Young (acting on behalf of the landlord) on January 15th, 2018 to lease approximately 68,930 square feet at 355 Wellington Street, London. Pursuant to a decision from the Superior Court of Ontario, MLHU has now entered into a long-term lease and would like to proceed with securing funding. There are capital requirements relating to the fit-up of the new space that will require funding.

Financial Due Diligence

As part of the location procurement process, MLHU conducted a financial analysis of all proposed sites, as well as an examination of lease/build/buy scenarios to determine which site and location scenario offered the greatest comparative economic advantage.

Comparison of sites by estimated fit-up costs and costs to be borne by MLHU showed that 355 Wellington Street had the lowest costs of all the evaluated sites.

In comparing the terms of the letter of intent offered for 355 Wellington and an option to acquire land and build in the downtown core, the lease rates offered are more attractive on a present-value basis by \$11.8 million versus the build option.

Capital Required for Fit-up

To support fit-up costs for this location, MLHU is seeking financing of \$5,200,000 from the City of London. It is anticipated that only a portion of this amount will be needed. MLHU has contacted and received quotes from potential lenders in the marketplace, and is now approaching the City to consider lending funds at the City's preferred borrowing rates.

Key features that MLHU requires include:

- The loan is structured as an open line of credit, and repayment of drawn amounts is not subject to penalty;
- Drawings on the line of credit would be treated as bridge financing to cover cost of fit-up costs;
- The line of credit would be drawn over a period of 12 to 24 months and MLHU would only draw down the line "as needed" to finance expenditures during the fit-up period;
- Under proposed lease terms with the landlord, MLHU would qualify to receive a tenant inducement payment upon completion of fit-up work, approximately 18 to 24 months after entering the lease agreement, which would be used to partially repay the drawn financing;

- Concurrently, MLHU has applied to the provincial Ministry of Health and Long-Term Care for a Community Health Capital Program (CHCP) to cover all residual fit-up costs and costs associated with the relocation – proceeds from this grant would be used to pay out the balance of the facility;
- If the grant request is denied or does not cover all residual debt, MLHU would seek to convert any outstanding debt to a term loan.

Conclusion

The MLHU is seeking financing from the City of London to cover the costs to fit-up proposed leased space in the City of London. Finding a suitable arrangement with the City of London could be advantageous compared to other solutions available from the market.

Should Council be supportive of considering this request for financing, it is respectfully requested that the following resolution be adopted:

“That Civic Administration BE DIRECTED to negotiate terms of financing with the Middlesex-London Health Unit (MLHU) for the fit-up costs of MLHU’s new office space, and that an appropriate agreement outlining the terms of the financing be brought forward for Council’s consideration.”

Respectfully submitted,



Christopher Mackie, MD, MHSc, CCFP, FRCPC
Medical Officer of Health / CEO