PROVINCIAL INITIATIVE TO EXPAND THE MANDATE OF INFRASTRUCTURE ONTARIO’S LOAN PROGRAM TO ALLOW APPLICATIONS FROM ALL ELIGIBLE NONPROFIT ORGANIZATIONS

A BRIEF TO THE PARTNERSHIP PROJECT FROM MEMBERS OF THE ONTARIO SOCIAL ECONOMY ROUNDTABLE (OSER)

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Centre Canadien pour le renouveau communautaire (CCRC)
Canadian Community Economic Development Network (CCEDNET)
Centre for Social Innovation (CSI)
Ontario Co-operative Association (On Co-op)
Ontario Nonprofit Network (ONN)
Toronto Enterprise Fund (TEF)

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Introduction

By initiating the Partnership Project, the Government of Ontario has given a clear indication that it wants to create the mechanisms (legislative and other) to support the non-profit sector in developing new methods and tools to strengthen itself.

Access to debt financing is a critical capability for non-profit organizations. Many in the sector are anxious to have new tools to finance the purchase, maintenance and renewal of buildings and other capital assets. As well, too often, many non-profit organizations operate in sub-standard facilities. The net impact would be stronger organizations with more resources better able to fulfill their missions, operating in safer, more energy efficient and suitable facilities.

In this paper we argue that it would be helpful for Ontario communities, if, all not-for profit organizations, (charities, nonprofits and co-operatives providing public benefit to the people of Ontario) were eligible to apply for loans form Infrastructure Ontario.

Overall Recommendations

The Ontario Social Economy Roundtable (OSER) is a network of independent and connected organizations that have been working with and supporting the social economy sector in Ontario. The Canadian Community Economic Development Network (CCEDNet), Ontario Co-operative Association (On Co-op), Centre for Social Innovation (CSI), Toronto Enterprise Fund (TEF), Ontario Nonprofit Network (ONN) and Centre Canadien pour le Renouveau Communautaire (CCRC) are partnering around a series of briefing papers to the Partnership Project that are related to improving access to capital.

These partners are recommending that the Ontario government utilize existing infrastructure to create an enabling environment in which social enterprise can thrive. The recommendations are to:

1. Clarify and scale-up the role of Community Bonds – RRSP/TFSA eligible debt instruments designed to enable nonprofit financing

2. Expand Infrastructure Ontario’s eligibility criteria to enable nonprofits to access $3.8 billion in financing through an existing infrastructure

3. Create a Social Enterprise / CED Tax Credit
Recommendations about Infrastructure Ontario’s Loan Program

This briefing focuses on the expansion of Infrastructure Ontario’s Loan Program, and recommends:

1. Expand the mandate of Infrastructure Ontario’s Loan Program to allow applications from all qualified non-profit organizations. (Ontario Trillium Foundation criteria)
   a. This can be accomplished at Cabinet through a change to Regulation 220/08 under the Ontario Infrastructure Projects Corporation Act, 2006.

2. Identify and resource key sectoral organizations to act as loan facilitators to:
   a. Provide needed capital project management capacity-building in the areas of governance, financial management and technical training; and
   b. Assist in loan pre-qualification.

Rationale

Expanding the mandate of Infrastructure Ontario’s Loan Program to all allow all charitable, nonprofit and cooperative organizations providing public benefit access will help communities throughout Ontario have access to the capital they need for the facilities used by the public benefit organizations in their area. Expanding the mandate of Infrastructure Ontario’s Loan Program will not increase loan risk, as the Loan Program will continue to assess carefully the credit worthiness of applicants, and only approve those that meet its stringent risk criteria.

Capacity building and loan pre-qualification by key sectoral organization will ensure that organizations that apply to Infrastructure Ontario’s Loan Program are prepared for success in the application process and in the delivery of their capital projects.

Lack of Financing a Critical Issue for the Nonprofit Sector’s Capital Needs

Too often, non-profit organizations operate in sub-standard, unsafe and energy inefficient facilities because financing for capital improvements and projects is impossible to secure. As well, many in the sector are anxious to have new tools to finance the purchasing of buildings and other capital assets and to develop social enterprises. The sector is therefore highly reliant on scarce government grants and fundraising.
Businesses seeking to finance infrastructure projects and capital improvements have a varied set of options that include investment and debt vehicles. Their project budgets typically utilize a combination of these sources:

1. Internal funds
2. Private sector
   a. Commercial banks
   b. Development corporations
   c. Equipment vendors/subsidiary
   d. Finance companies
   e. Owners’ capital (“equity”)
3. Public sector
   a. Government grants/earmarked capital from governmental programs

However, the options narrow dramatically for non-profit organizations. The majority have only these funding sources for their capital projects:

1. Internal funds
2. Private sector
   a. Fundraising
   b. Sponsorships
3. Public sector
   a. Government grants/earmarked capital from governmental programs

Debt financing is notably absent from the list. Private sector participation most commonly takes the form of philanthropy, sponsorship, naming rights or other marketing driven vehicles. Commercial banks, development corporations and finance companies generally have risk assessment criteria and processes that exclude most non-profit organizations, no matter how credit worthy.

**Infrastructure Ontario’s Loan Program**

Infrastructure Ontario’s Loan Program is one existing option that offers the promise of more equitable access to financing for non-profit organizations assessed as credit worthy.

Infrastructure Ontario is a crown corporation whose Loan Program offers low cost, long-term financing solutions to help public sector clients renew infrastructure. The Loan Program is designed to provide efficient access to capital markets financing for those who are otherwise unable to access it. Infrastructure Ontario’s Loan Program allows eligible organizations to spread costs over the life of the asset.
Infrastructure Ontario’s Loan Program is one of the alternative financing approaches that the Government of Ontario has used successfully since 2003 to help municipalities, universities and other public sector partners renew Ontario’s public infrastructure.

The benefits of Infrastructure Ontario’s Loan Program are:

- Affordable rates
- Access to capital market financing without any fees or commissions
- Longer terms designed to match the life of the asset
- No need to refinance over the life of the loan
- May be used for any depreciable capital expenditure
- Access to funds within 6 to 8 weeks, upon receipt of required documentation
- Easy-to-use online application
- Access to dedicated and experienced staff

Since its creation in 2003, the mandate of the Infrastructure Ontario’s Loan Program has regularly expanded to allow new sectors access to its capital financing. Currently the following organizations are eligible to apply for loans:

- Hospices
- Local services boards
- Non-profit long-term care homes
- Municipal corporations
- Municipalities
- Non-profit professional arts training
- Housing providers
- Universities & affiliated colleges

However, the following are just some of the sectors that are not eligible:

- Developmental and child welfare
- Mental health and other community facilities
- Community arts, sports and recreation facilities not operated by municipalities
- Professional visual and performing arts
- Social enterprises such as Centre for Social Innovation
- Daycare centres

As the Loan Program has expanded to allow applications from new sectors, it has customized its risk assessment criteria to encompass the business realities of each new sector. The Loan Program maintains its stringent assessment process, while understanding that the revenue streams for organizations in a new sector may differ from previous ones. For example, as the Loan Program has assessed non-profit professional arts training organizations such as the National Ballet School and the Toronto International Film Festival, it has understood that multi-year pledges to their capital campaigns are receivables for the organizations, subject to a reasonable discount factor.

With almost 500 public sector clients, Infrastructure Ontario has helped finance various types of infrastructure projects – from the construction of roads, bridges, arena complexes, and
long-term care homes to the acquisition and installation of capital assets like fire trucks, smart meters and energy efficient lighting. To date, the Loan Program has committed to the financing of over $3.5 billion in approved loans, of which over $3 billion has been advanced to clients, with financing for amounts as low as $20,000 and as high as millions.

**Loan Facilitation**

**Resourcing Key Sectoral Organizations to Build Capacity and Assist in Loan Pre-qualification**

Many sectors have service organizations that provide the sector as a whole with a range of shared capabilities and services, offered through workshops, online and printed guides and other learning materials, coaching (formal and informal). These organizations also enable peer / shared learning networks to form. As just one example, ArtsBuild Ontario serves this role around facilities needs and issues for Ontario’s arts organizations.

Identifying and resourcing these organizations for sectors that become eligible for Infrastructure Ontario’s Loan Program will assist both the organizations and the Loan Program. Organizations will receive the capacity building they require to better manage their projects and deliver them efficiently, on time and on budget. The Loan Program will receive insight into the extent of demand in the sector and will be able to prequalify organizations in a transparent manner.

**Building Capital Project Management Capacity**

For many organizations, a capital project is likely the largest project the organization will undertake. Capital projects are usually once-in-a-lifetime events that transform an organization. Few people or organizations do more than one.

Helping organizations meet their facilities objectives by providing them with programs and tools to build their capacity for successfully managing capital projects is essential, and contributes to a strengthened sector overall.

Non-profit organizations typically require assistance in the areas of governance, and financial management, and technical training in capital project planning and implementation. The full suite of support needed to build the knowledge and capacity organizations need ranges from group work to highly customized one-on-one services:

- Coordinated approaches and frameworks for decision making and guidance
- Printed / online tools, guides and templates for sharing knowledge and building communities of expertise
- Workshops for more focused learning, enhanced by web and phone conference for advice from experts
• Project advisors / coaches to ‘live’ with an organization
• Project managers to take over aspects / types of projects

**Loan pre-qualification**

Many lenders, including Infrastructure Ontario’s Loan Program, value a prequalification process that allows them to say ‘yes’ to more applications they receive since applications are not submitted until the organization is truly ready to apply. During the pre-qualification period, organizations have the opportunity of assessing their strengths and challenges, and systematically upgrading capabilities.

Key sectoral organizations can assist with this process as a core outcome for a capacity-building program.
Appendix A

Proposed definition of eligible Not-for-profit organizations for Infrastructure Ontario
Organizations would be providing public benefit to the people of Ontario and would be:

- A charitable organization or foundation registered as a charity by the Canada Revenue Agency
- An organization incorporated as a not-for-profit corporation without share capital in Ontario; (includes cooperatives providing public benefit)
- An unincorporated branch or chapter of a registered charity or incorporated not-for-profit organization. The incorporated organization or registered charity must authorize the application and accept responsibility for any approved grant
- A collaborative of two or more organizations that are working together to achieve a common goal. The collaborative must include at least one eligible member. The eligible member normally acts as the lead applicant and accepts responsibility for any approved grant funds.
- Faith-based groups that are registered charities or incorporated not-for-profits are eligible for facilities that serve the broader community and that are not religious activities.
Appendix B

FINANCING OFFERED BY INFRASTRUCUTRE ONTARIO’S LOAN PROGRAM AND SAMPLE RATES

Loan types and rates offered
Infrastructure Ontario’s Loan Program’s online lending rates are updated frequently as they track the cost of borrowing in the capital markets. Rates on debentures are fixed for the entire life of the loan once the debenture is issued. Rates on construction loans float throughout the term of the loan until they are replaced by a debenture.

Serial and Amortizer Debentures

SERIAL DEBENTURES
Serial debentures are designed to pay equal, semiannual principal amounts with interest calculated on the declining balance.

AMORTIZER DEBENTURES
Amortizer debentures are constructed to pay equal, semi-annual total payments with the interest component decreasing and the principal component increasing over the term.

Interest rates on serial and amortizer debenture loans are all-in blended rates (sometimes referred to as Annual Percentage Rate or Internal Rate of Return). In this respect, they differ from serial debentures that some borrowers may have sold in the past through banks or investment dealers; such serial debentures may have had lower interest rates attached to principal that paid out in the early years and higher rates attached to the longer maturity portions of the debenture.

Infrastructure Ontario’s Loan Program rates are based on the same concept, but with a single interest rate determined that equates to the rates across the whole term of the loan.

Sector pricing determines loan rates
As of April 1, 2008, the Loan Program has determined loan pricing based on the borrower’s market sector.

Infrastructure Ontario’s loan pricing recognizes the unique fundamental credit character of each eligible client sector and continues to provide equitable access to affordable financing rates. Pricing is based on the relative long-term credit strengths of each eligible client sector, recognizing the varying degrees of government involvement and the security afforded to Infrastructure Ontario. All eligible clients within each sector share the same affordable rates, and same benefits of the loan program.
Sample sector loan prices, as of October 14, 2010

LENDING RATES: MUNICIPALITIES

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<th>Term</th>
<th>Construction</th>
<th>Serial</th>
<th>Amortizer</th>
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<td>40 Year</td>
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<td>4.43%</td>
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LENDING RATES: NON-PROFIT PROFESSIONAL ARTS TRAINING INSTITUTIONS

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Loan Program Client Profile

The Client
Established in 1959, Canada’s National Ballet School (NBS) is one of the world’s foremost ballet training institutions for aspiring young dancers and teachers. Dedicated to advancing the art of ballet, NBS develops dance professionals in a student-centred environment by incorporating innovation and evolving practices with the finest teaching techniques.

Attracting students from across the country and around the world, NBS is the only ballet academy in North America to provide elite dance training, advanced level academic instruction and student residence all on one site. The School’s progressive curriculum, with emphasis on the physical and emotional well being of the student, has put NBS at the forefront of dance training internationally.

The Project
To ensure continuous evolution of standards and programs with other state-of-the-art facilities, Project Grand Jeté was born. Located in downtown Toronto, the $100 million expansion project brings together new construction and existing heritage building.

“Infrastructure Ontario funding was essential to the completion of our project and for helping Canada’s National Ballet School make the transition into its new campus. We would not hesitate to work with Infrastructure Ontario again.”

Jeff Melanson
Executive Director & Co-CEO

The Result
The ambitious project involved the development of a new state-of-the-art dance training centre, the restoration of two heritage buildings for academic classrooms and administrative offices, and the refurbishment of existing buildings as enhanced and expanded residence facilities.

Students are accepted on the basis of talent alone, with financial assistance available depending on family means. By taking advantage of Infrastructure Ontario’s affordable long-term Loan Program, NBS was able to save valuable funds to assist with students’ financial needs.

For more information on Canada’s National Ballet School, please visit their website at www.nbs-enb.ca.

General Inquiry: 416-212-7289
Information Hotline: 1-800-230-0937
Fax: 416-212-6452
Email: loans@infrastructureontario.ca
Loan Program Client Profile

The Client
Green Phoenix is the redevelopment of Phoenix Place, a non-profit affordable housing apartment building built in 1976 and owned by Parkdale United Church Foundation (PUCF). Established by the Church’s congregation in 1973, the Foundation was formed to address rising housing costs in the changing Parkdale community.

When the building started to show its age, the need for more amenity spaces, larger units, and rising utility costs, the redevelopment was deemed necessary.

The Project
Infrastructure Ontario’s Loan Program expanded eligibility in Parkdale, Toronto, a diverse and multi-cultural to include housing providers at a crucial time for PUCF, and the number of affordable rental units in the area. To ensure the availability of clean, affordable units in the area, The Result
The new development provides many resources for both residents and community members to enjoy. Recognizing the need for additional amenity space for residents, a new laundry facility and improved access to existing spaces was added. A kitchen, food bank, and space for other community programs was also added. There are also plans for community gardens and outdoor common areas.

“We’re very excited to begin the retrofit phase of the Green Phoenix project with Infrastructure Ontario’s help. Having geothermal and solar plant and ventilation systems will make a big difference for everyone’s comfort, and help keep the place affordable for decades to come.”

Rod Layman
Project Coordinator

The Solution
Funding for affordable housing is difficult to obtain and requires finding creative ways to bridge the gap between building costs and what people can afford to pay in rent.

PUCF was able to secure funding through grants and fundraising, but fell short of the project’s $5.5 million project cost. Infrastructure Ontario’s Loan Program expanded eligibility in Parkdale, Toronto, a diverse and multi-cultural to include housing providers at a crucial time for PUCF, and the number of affordable rental units in the area. To ensure the availability of clean, affordable units in the area, The Result
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A life cycle analysis projects Green Phoenix will save $65,000 per year in utility costs. Over the next 50 years the site will save more than $3 million in operational costs and more than $1.5 million compared to the life cycle cost of conventional, non-green building upgrade. Green Phoenix is an environmental showcase that will increase understanding of sustainable building practices, and further the case for more green affordable housing.

For more information on our client, please visit their website at www.greenphoenix.ca.
Appendix C

BUSINESS CASE FOR EXPANDING THE MANDATE OF INFRASTRUCTURE ONTARIO’S LOAN PROGRAM TO INCLUDE ALL ARTS ORGANIZATIONS

Developed for the Ministry of Culture by ArtsBuild Ontario, April 2009