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Mercredi 23 septembre 2015

Standing Committee on Public Accounts

Comité permanent des comptes publics

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Ministry of Economic Development, Employment and Infrastructure

Rapport annuel 2014, vérificatrice générale :

Ministère du Développement économique, de l'Emploi et de l'Infrastructure

Chair: Ernie Hardeman
Clerk: Valerie Quioc Lim

Président : Ernie Hardeman
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Wednesday 23 September 2015

Mercredi 23 septembre 2015

The committee met at 1232 in room 151, following a closed session.

2014 ANNUAL REPORT, AUDITOR GENERAL

MINISTRY OF ECONOMIC DEVELOPMENT, EMPLOYMENT AND INFRASTRUCTURE

Consideration of section 3.06, Infrastructure Ontario's Loan Program.

The Chair (Mr. Ernie Hardeman): I'll call to order the Standing Committee on Public Accounts. We're here this afternoon—

Mr. Steve Clark: Point of order, Chair.

The Chair (Mr. Ernie Hardeman): Let me finish just to tell the world why we're here this afternoon.

Mr. Steve Clark: Oh, okay. Good.

The Chair (Mr. Ernie Hardeman): We're here for consideration of section 3.06, Infrastructure Ontario's Loan Program, of the 2014 annual report of the Auditor General of the province of Ontario. We have with us this afternoon the Ministry of Economic Development, Employment and Infrastructure, the Ministry of Research and Innovation, and Infrastructure Ontario.

With that, you have a point of order?

Mr. Steve Clark: Yes, Chair. I have a point of order. I want to lay a motion on the table for future consideration. I move that the Standing Committee on Public Accounts request that the Auditor General conduct a value-for-money audit of the 2015 Pan Am and Parapan Am Games.

The Chair (Mr. Ernie Hardeman): Thank you very much for the point of order. You can table the motion. It will not be debated until a future meeting because obviously we're here this afternoon, as I mentioned in my opening remarks, to meet and hear delegations. They've come a long way to be heard. We thank you very much for putting that. We will table it and put it on the agenda hopefully at our next meeting. Thank you very much, Mr. Clark.

Mr. Steve Clark: You're welcome, Chair.

The Chair (Mr. Ernie Hardeman): With that, thank you very much for being here. We will ask each person, as you speak, if you could introduce yourself for the Hansard to make sure we get it right. I used to do that and I found out that you still had to do it because I pronounce in such a way sometimes that Hansard couldn't write it down properly. You'll have 20 minutes to make a presentation. Hopefully then we'll have rotations of 20 minutes for the committee to ask any questions related to your presentation. Hopefully by 2:45, we will have completed and have all the knowledge we need from you today.

The floor is yours.

Mr. Giles Gherson: Thank you, Chair. I think I'll begin. I'm Giles Gherson, Deputy Minister of Economic Development, Employment and Infrastructure for the province of Ontario. I'd like to thank the committee, first of all, for inviting us here today, and the Auditor General for her review of Infrastructure Ontario's Loan Program.

IO's Loan Program was originally created in 2003 by the government of Ontario as an innovative financing approach that could provide municipalities with affordable, longer-term loans to renew and build public infrastructure. The program was based on a pooled financing model used successfully in other jurisdictions across North America. For example, British Columbia has the Municipal Finance Authority; Alberta has the Alberta Capital Finance Authority; and Quebec has Financement-Québec.

Under this model, IO bundles a number of smaller loans and then itself borrows, through the Ontario Financing Authority, a larger amount in the capital markets to satisfy that bundle of loans. The program enables the government to better fulfill key public infrastructure objectives at little or no fiscal cost to the province. In general, IO loans are more accessible, less expensive and longer-term.

Prior to the creation of the loan program, only municipalities that were rated could access the capital markets for long-term financing. That includes approximately 15 to 20 of Ontario's 444 municipalities, so only a small fraction were able to access the capital markets on their own. The remaining vast majority of smaller municipalities had to finance long-term assets with short-term commercial bank financing at a higher cost—hence the decision to develop the IO's Loan Program.

Since its creation, the program has been extended beyond municipalities to provide infrastructure lending to the broader public and not-for-profit sectors that benefit the public. This has given these other borrowers access to affordable financing through the province's high credit rating and low cost of capital.

The decision to expand the program to not-for-profit organizations was an important step. It provided these organizations the opportunity to build and improve infrastructure that they need to provide their services that benefit the province as a whole. The government is committed to serving all communities across Ontario. Through IO's Loan Program, organizations providing important services to citizens can be sure that they will be supported as they continue to help strengthen the economy, connect communities and improve the quality of life.

The program benefits all eligible sectors but is particularly helpful for smaller municipalities. They are able to draw on valuable IO expertise by working with an IO client representative throughout the loan application process to ensure that they meet program requirements and will be successful in developing their project. These smaller municipalities receive the same rates as larger municipalities, which often would simply not be the case with conventional bank financing. The loan program, as it now stands, allows municipalities and eligible broader-public-sector and not-for-profit organizations to take out affordable long-term loans to buy, build and renew local public infrastructure.

Of course, potentially eligible borrowers must be able to satisfy the stringent credit-worthiness tests in place at IO to qualify for a loan. If they successfully meet the test, they'll be able to access lower-cost, more flexible financing than they otherwise would.

We believe that this program has made a significant positive difference in the creation of important public infrastructure across the province. I can give you some examples, which would include helping to finance over 80 water/wastewater projects in northern Ontario and providing more than $780 million in financing for 62 social and affordable housing projects in places like Kitchener, Toronto and other centres, with a total value of $1.1 billion. Some $3.3 million was used to build a new fire station in Essex, replacing a 70-year-old station. Loans worth about $40 million helped to build an affordable housing project in Ottawa that also serves as a model of sustainable development. And $900,000 was used to help build a 30-unit residence for people experiencing persistent homelessness in Waterloo. These are all needed community assets.

Since 2003, the loan program has advanced nearly $7 billion to finance projects in communities across the province. More than half the municipalities in Ontario—246 of 444—have made use of IO's Loan Program. Additional broadening of the loan program has added lower-cost financing for aboriginal health access centres, community health and social service hubs, and non-profit sports and recreation organizations to the list of eligible categories. These changes are aimed at furthering the government's priority to improve health care and social services for families.

1240

As with any program, as the loan program evolves and matures, there will always be lessons to be learned and acted on. Infrastructure Ontario regularly reviews and improves the processes it applies in providing these loans. Due diligence and a capacity to work closely with clients are key features of the loans program. During the credit review process for a prospective loan, Infrastructure Ontario performs a range of legal reviews, as well as financial and technical due-diligence analysis. A successful loan application must meet IO's credit policies and guidelines. This minimizes the risk of a loan default and safeguards the integrity of the loan portfolio.

Beyond this initial client engagement and due diligence, IO will work closely with borrowers whenever there is a change of circumstance, to ensure the loans can be repaid and that the client remains on a stable financial footing. This precautionary stance was identified in the auditor's report as the watch list. The watch list is, in fact, an important feature of the program in that it provides for continuing close monitoring following an early warning of any potential challenges in the loan portfolio. It's a proactive, or preventive, management tool, and supports the goal of having every loan repaid. Only a very small number of clients wind up on the watch list, and I understand that borrowers on the watch list are all up to date in terms of their repayments.

I think I should provide updates on the four loans that were mentioned in the Auditor General's report, the first being the loan that was extended to MaRS to enable it to complete the west tower project, which was called phase 2. As a result of the 2008 global financial crisis, the major US institutional real estate developer contracted to build the MaRS west tower halted construction in 2009, leaving a partially completed substructure to ground level, work that by 2010 was at risk of degradation without resuming construction. The complexities involved and the unwillingness of the US developer, post-crisis, to resume its project meant that several years were spent to restart the project, which was ultimately accomplished with the support of a $224-million IO loan.

However, the delays contributed to the attrition of anticipated tenants. The tower resumed construction last year, many years overdue. There was a clear risk that additional support would be needed to complete the fit-up and attract tenants. It was in this context that MaRS experienced difficulty leasing its new building and, without tenant revenue, repaying the loan.

A year later, I am pleased to tell the committee that the financial uncertainty surrounding MaRS phase 2 has been resolved. In December 2014, the government announced its intention to accept the MaRS phase 2 expert panel's advice and provide MaRS with an additional $86-million, fully secured, repayable line of credit. While there were some who criticized the support of such a controversial project, the expert real estate advice was that only by completing the building would MaRS be in a position to attract high-quality tenants and put the building on the path to commercial success. Moreover, the government elected to hold firm to its vision for MaRS as a North American leader in life sciences commercialization, investing in life sciences innovation to help drive greater commercialization here in Ontario.

Fast-forward to today. The MaRS west tower is currently over 70% leased up, and MaRS has secured a strong pipeline of private sector tenants that will bring the building to over 90% leased in the next few months. As well, it is worth noting that U of T has taken a 20% equity stake in the west tower, which further reduces their overall government financial commitment.

Fifteen years ago, the dream for MaRS was simply a bold idea. Today it has turned into an innovation hub that has harnessed the entrepreneurial spirit of some of Ontario's most highly educated researchers. MaRS has grown to a highly sought-after space for start-ups, investors and groundbreaking science, fostering new models of collaboration. MaRS is now North America's largest urban technology park.

With the lease-up of the west tower, MaRS is about to embark on an ambitious next phase of growth. It is set to double its footprint to 1.5 million square feet, and become the home of over 200 organizations and over 6,000 innovators. Earlier this month, the global pharmaceutical giant Johnson and Johnson Innovation announced the launch of JLABS@Toronto, a life sciences incubator which will be housed at the MaRS tower. The first JLABS facility to be located outside the US, JLABS@Toronto will help cement Toronto and Ontario's position at the forefront of the global life sciences innovation revolution.

Other announced and future tenants in the building include Facebook, U of T, Ryerson, the University Health Network, Synaptive Medical, and LEAGUE. The MaRS west tower is poised to take its place as a recognized global leader in leading-edge life sciences research and medicine, including stem cells and regenerative medicine.

I'd now like to mention another loan that the Auditor General noted in her report last year. I'm referring to the Royal Conservatory of Music loan, which was identified also in the Auditor General's report as being on the IO watch list. As you know, the RCM is Canada's largest music and arts education institution and a seminal national cultural organization based in Ontario. In 2007, RCM obtained a loan through Infrastructure Ontario to support the construction of the Telus Centre for Performance and Learning in Toronto. All annual loan payments are up to date. However, RCM has indicated that in the aftermath of the great recession, fundraising has not met expectations.

As a preventive first step, the government is working in partnership with RCM to explore how it can respond to this challenging economic circumstance and identify opportunities to optimize its long-term financial health.

As for the two remaining loans outlined in the report, one is continuing to be monitored while the other is progressing well and is anticipated to come off the watch list in the near future.

The IO loan program continues to evolve as the government supports investments in infrastructure in a broad range of priority areas.

The Auditor General has provided useful advice that we have reviewed closely, and we have implemented her suggestions. I want to say: They're helpful and positive.

As the government's ambitious infrastructure renewal program unfolds, the ministry will continue to work with IO to support the building of infrastructure in Ontario.

I look forward to answering the committee's questions with my colleagues.

Now I'll turn it over to Infrastructure Ontario's president and CEO, Bert Clark, to offer a few opening remarks and offer insight into IO's work and how it is addressing the recommendations made by the auditor.

Mr. Bert Clark: Good afternoon. My name is Bert Clark, and I am the president and CEO of Infrastructure Ontario.

I'd also like to introduce Toni Rossi, divisional president for our real estate and lending programs.

Thank you for the invitation to speak with you today. I also want to thank the Auditor General. We believe the 2014 report recognizes the strength of the loan program and provides useful recommendations for areas of improvement.

IO accepted the recommendations when they were made and has implemented them already. More detail on the actions we've taken to date is included in the chart provided to the committee.

The purpose of our loan program is to provide broader public sector organizations with access to affordable, flexible financing so that they can make investments in important public assets. Our role is not to replace private sector lending or public sector grants. Our role is to make low-risk, low-cost loans to public sector organizations so that they can invest in their public assets.

To date, we've approved $7.8 billion of loans. Of that, $6.8 billion has been advanced to support approximately 1,900 renewal projects.

The loan program touches many small communities across the province.

While the original loan program was limited to municipalities, the categories of eligible borrowers have been expanded by the government over time. It is the role of government to define what categories of public sector borrowers are eligible, and it's the role of IO's board and management to define the credit policies and loan management protocols.

In terms of the current mix of projects, the vast majority of borrowing is still by municipalities and municipal corporations, as well as not-for-profit affordable housing organizations. The funds are used to make investments in public assets like roads, bridges, water treatment plants, long-term-care homes, police stations, fire pumpers, buses, recreation facilities and other important public assets.

Like any lender, we regularly update our credit policies and loan management protocols to reflect lessons learned and best practices. In fact, this kind of exercise has been under way and was completed this summer, and we believe our management approach will enable continued success of the loan program.

I would now ask Toni Rossi, the divisional president, to talk a bit more about our lending processes.

Ms. Toni Rossi: Thank you, Bert, and thanks to the committee for the opportunity to discuss our lending program with you today. My name is Toni Rossi, and I'm the divisional president of the real estate and lending division programs at IO.

The Auditor General's recommendations provided valuable and welcome suggestions about our processes and procedures, and all three of the recommendations have been implemented.

The report was helpful in another sense: by concluding that, overall, the program and processes are working well. That includes the following statements, and I quote from the report on pages 221 to 223:

"We found that the procedures in place were being followed ... and that further enhancements ... were under way...."

"IO's general risk assessment for municipal loans appears appropriate...."

"IO has strengthened its monitoring....

"Loan losses have historically been rare and quite low."

And overall, "Generally, we found that IO's policies and procedures ... were reasonable and sufficient."

What I would like to do is give you more perspective on the due diligence that we use to administer the loan program.

The government, over the years, has determined which sectors are eligible for the program. Some of the eligible sectors are, as has been indicated earlier, municipal infrastructure projects, social and affordable housing, universities, hospices, non-profit arts training, aboriginal health access centres, non-profit sports and recreational organizations.

1250

Our ultimate goal in the program is to ensure that our borrowers are set up to succeed, that they deliver the public infrastructure that's so needed, and also that they are able to repay the loan. To this end, we have enhanced and modernized our loan management processes in order to serve the eligible sectors better. We have benchmarked our practices against other lending institutions outside of government and have updated policies and guidelines where appropriate. Guiding this exercise was IO's low-risk appetite philosophy, which provides a reference point for all lending policies and guidelines and the day-to-day credit authorizations.

Other specific examples of our enhancements to the loan program administration include the following:

—We split the underwriting and the credit risk functions. This provides enhanced governance and added due diligence. It also facilitates the smoother assessment of loan applications.

—We introduced standard risk rating models. This ensures a consistent base assessment of credit risk, and it's measured against IO's objectives to issue low-risk loans.

The policies and guidelines for the loan program are kept up to date. They do include the following recent improvements:

—the standardization of financial ratio calculations for all of the individual sectors that IO lends to;

—the requirement for external validation of pro forma assumptions;

—an expanded definition of roles and responsibilities to ensure that there are no gaps in IO staff accountability;

—the introduction of maximum loan-to-value limits on all non-municipal sector lending;

—the introduction of mandatory third-party real estate appraisals; and

—the expanded standard covenant requirements.

Borrowers wishing to secure an IO loan go through numerous steps that balance the need for efficiency with strong and effective due diligence. This application process starts with a legal review to ensure that the applicant is, in fact, eligible for the loan. Then prospective borrowers submit a loan application that includes project details. At that point, they'll be asked for supplementary information, which would include things like corporate and project financial information, their board member and executive experience summaries, construction budgets where applicable, a project management plan, and other information as required to assess creditworthiness.

All loan applications are structured and reviewed by our commercial underwriting team in accordance with our credit policies and guidelines. They then receive further independent review by our credit risk department. Depending on the size of the loan application and/or the borrower aggregate credit exposure, applications are reviewed and follow our delegations of authority for approval by the CFO, management credit review committee, executive investment risk committee, the credit committee of the board, and then the board as a whole.

Once a loan is approved, we then monitor the loan through the course of its life. The process of annual monitoring allows IO to have insight into its clients and their financial well-being. The intention of this review is to identify changes in our clients' financial situations in order to proactively address any issues or negative trends early. This allows the borrower to make adjustments to its business so that the loan remains in good financial health.

For the rare and exceptional circumstances when a borrower faces challenges, IO has recently implemented what we call the watch list. It is a proactive tracking tool that aids in the management of our loan portfolio. To be clear, the watch list does not indicate that a client has stopped repaying its loan, nor that the borrower will default. Rather, it is a preventative method to ensure that the borrower gets added attention in order for the loan to remain low-risk. The intention is to graduate loans from the watch list when they are back on a firm financial footing. This approach is not unique to IO. Credit unions, banks and other lending institutions around the world take the same prudent approach.

The types of steps that can be taken to assist clients are often very specific to the actual borrower, but some of the measures may include things like the following:

—We would look at a deeper review, leading to some optimization of their revenues and expenses.

—We would look at short-term waivers of covenants to facilitate changes that are being made within their business.

—We would look at restructuring the loan.

IO management works with its borrowers and it informs our board and the Ministry of Economic Development, Employment and Infrastructure of any new and emerging watch-list loans. IO does so in a way that respects the commercial confidentiality of the borrower when they find themselves on the list. With this in mind, it is prudent for me to inform you that IO is currently tracking and working with 10 watch-list clients. The total value of the loans currently on the watch list is significantly lower than at the time the auditor's report was done. IO is committed to working with these clients to create a pathway to firmer financial footing, but keeps the loans in good standing and supports the mutual success of both the lender and the borrower. In the 12-plus years of the loan program, only one client was unable to meet their obligations. To put that into context, this represents less than one tenth of 1% of the $7 billion total amount of IO's loans and one of approximately 1,930 loan projects.

Let me conclude by reiterating the importance of the loan program and our approach to continuous improvement and rigorous due diligence. The great work occurring across sectors and the long-term success of these loans means that communities across Ontario benefit from modern infrastructure. IO loans have a meaningful impact on the residents of communities across the province.

Thank you for your time. Along with the deputy minister and my IO colleagues, I look forward to answering any of your questions.

The Chair (Mr. Ernie Hardeman): Thank you very much for your presentation. We'll start the questioning in 20-minute rotations. Mr. Potts.

Mr. Arthur Potts: Thank you all for your comments today, the introductory and the overview. All of us have a great sense of how important this has been to building infrastructure in Ontario. I know, as all other institutions do, you spend a lot of time in that due diligence assessment process. I wonder if you wouldn't mind taking us through more details about the steps that are followed. Maybe, Mr. Clark, you're in the best position to start this? Or I'll leave it to—

Mr. Bert Clark: I'd actually ask Ms. Rossi—

Mr. Arthur Potts: Take us through a little deeper sense of the due diligence process and whether it's different in the municipal sector and the non-municipal sector.

Ms. Toni Rossi: Certainly.

In 2003, as you know, the program began. We start with eligible borrowers. Many borrowers will come to us and ask whether or not they can receive a loan from IO. We take a look at their eligibility factor first. We take a look at their legal status. If they are an eligible borrower, they work with our client relations team and try to start to get the information that we need to then create a loan application.

So that process and the types of information that we would look for are things like audited financial statements, historical cash flows, historical budgets. We take a look at their current and projected operating budgets. We would often take a look, obviously, at the project itself. We would take a look at the management of the borrower. We understand whether or not there are any environmental issues in the area that they are needing from what the actual project would be. We ask them to walk us through their need and their business model, and then we also look at the legal structure.

They're a little different in the municipal versus the non-municipal in that from a municipal perspective, that truly is more of a low-risk loan for us. The municipalities, on an annual basis, have to submit their financial information record to the Ministry of Municipal Affairs and Housing. They have a tax base, where it's more of a standard cash revenue that we can then access. On the non-municipal, we probably go a little bit deeper and we ask them for even further information about how their company is structured, how their business is set up, what other liabilities they have, and other debts or credits.

I'm hopeful that that has answered your question.

Mr. Arthur Potts: Excellent. Thank you very much.

The Chair (Mr. Ernie Hardeman): Mr. Dong.

Mr. Han Dong: First of all, I liked the presentation that gave us an overview on IO loan approvals and your explanation about the due diligence process.

Just for the record, I'm asking if all loans, before approval, have to go through that standard process.

Ms. Toni Rossi: Yes. For the record, again, we look at the eligibility of the borrower first, then we walk them through the full credit process, and then, for that loan to actually be approved, depending on the size of the loan, it would go through our delegations of authority. Loans that are above $25 million go through the full process and right up to our board.

Mr. Han Dong: That's good. Being the local member, I've been paying a lot of attention to MaRS, because that's what I've been hearing about, both inside and outside of the Legislature. A lot of questions have been surrounding the loan itself provided by Infrastructure Ontario.

I guess my question is to Mr. Clark. Can you give us an update on the loan provided to MaRS by IO?

Mr. Bert Clark: I'm Mr. Clark, but I think Mr. Gherson is going to take that question.

Mr. Giles Gherson: There are essentially two loans that I think you may have referenced. One is a loan from IO to MaRS that was extended to MaRS in 2010, I think it was. Then, subsequently last year, MRI, the Ministry of Research and Innovation, took over that loan from IO and consolidated it with a new credit, and that is the loan that MaRS, in effect, has currently with the government, which is with MRI.

1300

So the IO loan was paid out as we took it over. We did that for a variety of reasons. The main one was that the building was still in the process of being completed and the government had already provided a debt service guarantee to MaRS in the event that it would have some difficulty paying the large loan that it took from IO. Because this was a project that was being built there were no revenues; you had to finish the project, you had to lease it out, and then on that basis you would have revenues.

Since the project, as I explained in my opening remarks, was so delayed for the reasons that I mentioned, this was an unusual set of circumstances, and so to do that we had the loan from IO, we had a debt service guarantee that was being drawn down, and then you still had the need to finish the building—this was last year.

So what happened was that the government struck an expert panel of two people: Michael Nobrega, who was the former head of the OMERS pension system; and Carol Stephenson, who was the dean of the Ivey Business School at Western in Ontario. The idea was for them to give best advice to the government. Because at that point, the government had a number of options: It could walk away, sell this incomplete building—either just sell it and walk away or sell it and try to put covenants on the use of the building, that it would continue to be used for innovation. But those were really the two options—or take it over.

The advice that came from the expert panel—and these are two people who are very savvy in commercial real estate—was that you never sell, if you can avoid it, an incomplete structure. You're never going to see a value from it. So the advice we got was, "Finish the building and make it"—and their view was that there was a significant market there for a completed building of the very specialized kind that we were attempting to build.

So the government took that advice, took out the IO loan—because they also said, "You should try to consolidate the debt for securitization reasons. You don't want three or four different lenders, in a sense, competing with each other for the securitization of the structure." Their best advice was, "You want to complete it, you want a single loan and you want to then work out the securitization arrangements appropriately."

That's what was done. The government took out the IO loan, it bought out the interest of the US developer that had still retained an interest even though the project management had been taken over from them several years earlier because they had kind of walked away—for $65 million. So we bought them out.

Then, there was the lease-up cost. One of these types of buildings—you can't really say you've got an asset until you've got the fit-up done for the tenants. Then you get the tenants and then you can actually get revenue and you're on your way.

Mr. Han Dong: There are more options.

Mr. Giles Gherson: So we basically followed that expert advice. As I say, I think it was—as it turns out, it would appear to have been a risk worth taking, because we're now at 70% lease-up and we expect revenues to start to flow as tenants move in next year and, therefore, the loan to start being paid off next year.

Mr. Han Dong: Good. I listened to your presentation and there was a mention about an $86-million line of credit.

Mr. Giles Gherson: Yes.

Mr. Han Dong: Can you give us an update on how much of that $86 million has been drawn down to date?

Mr. Giles Gherson: As of the end of August, about $12.7 or $12.8 million had been drawn down of that $86-million line of credit, which was for fit-up. As tenants are signed on and MaRS commits to fit-up expenses to ensure that the space is fit for the tenant, that gets drawn down.

Mr. Han Dong: Another thing I hear quite often is people walking by and making a comment like, "It's a beautifully constructed building and it's been empty for a long time."

What's the occupancy rate right now? I want to point out that last year the minister said something like, "This building will be filled up fairly soon." I think that was in December. Can you give us an update on what's going on right now?

Mr. Giles Gherson: The current occupancy is about 35%, with a 70% lease-up, so the remaining 35%, the tenants that have now signed up, will be moving in in the course of the next six months or so. Then we are expecting a couple of announcements, I think, in the coming months that will take the lease-up to 90%. Again, there will be a time lag between when they sign the lease and when they actually enter the building. So 35%—people are actually in there.

The next 35% are moving in over the next three or four months, depending on what has to be done. For example, JLABS, which was quite a catch, is moving into one of the floors of the MaRS west tower. This is a very sophisticated incubator with very sophisticated equipment and very specific needs, so the fit-up for JLABS—which was, as I say, a tremendous coup for Toronto, to get the first JLABS outside the United States; there are three that are currently in the US—will take a while. They'll have a fit-up that will be done to their specifications, and then they will probably move in mid-next year.

So what's important for us is securing those tenants, and that is being done exactly on the schedule that the minister announced last year.

Mr. Han Dong: That's good.

You mentioned 90%. Can you just elaborate on that?

Mr. Giles Gherson: There are some prospective tenants who we believe are on the cusp of signing, but there are some issues that are still being worked out. They are currently in very close negotiations with MaRS, so we have every confidence that we will be able to announce something in the next couple of months that will bring the leased building to 90%.

Mr. Han Dong: Thank you for the update. Now I have some answers for my constituents.

The Chair (Mr. Ernie Hardeman): Mr. Fraser, you have about nine minutes.

Mr. John Fraser: Thank you very much for being here today.

I want to shift gears to another issue that was raised in the AG's report. The Royal Conservatory of Music was identified as being on the watch list. Can you give us a status update—either Mr. Clark or Ms. Rossi—as to where that loan is and whether they're current or not? Do you have any information in that regard?

Ms. Toni Rossi: Certainly. Perhaps I'll start and just say that the RCM loan is actually current to date, but it is still on our watch list, and because of that, we're working with that particular borrower.

Perhaps I can just ask Giles to comment a little bit on where we're at with that borrower, as the government is working with us on it.

Mr. Giles Gherson: There's not a whole lot to add, because, as Toni says, there is no issue right now, in the sense that RCM is fully current in its loan repayments.

One of the things the government has been looking at—this is not my ministry; this is the Ministry of Tourism, Culture and Sport, which oversees a wide number of cultural institutions. I think there has been an issue since the great recession. The environment has changed somewhat in terms of fundraising and the capacity and the ease with which you can get money from donations and fundraising activities. So the environment has changed, and I think it's incumbent on government to take note of that and to work, really, with cultural institutions to see how to best optimize their financial status going forward. That step is being taken currently with RCM as a preventive measure, to understand, over the next decade or so, how this very important organization will flourish. Obviously, the loan is an aspect of that, but it's only one aspect of that.

1310

Mr. John Fraser: Still on the Royal Conservatory of Music, it is a bit of an anomaly because it was a bit outside of what we normally would have lent money to. I can understand the decision to do that. Given that changed environment that you're talking about in terms of similar institutions that depend on that type of revenue stream, has anything changed in terms of how that's viewed, going forward? Anybody can answer this question. Are there more stringent rules in place, different rules, different types of assessment?

Ms. Toni Rossi: Perhaps I'll start. From an IO perspective, as the lender, one of the key things that we look at is the creditworthiness. When cash flows are dependent on fundraising and donations, it becomes a bit of a higher-risk loan. That certainly is one of the areas, over the years, that our credit policies have addressed. We take a look at those types of borrowers with the policy and procedure of making sure that they succeed in the long term, and donations only as sustainable cash flows are not the way to sustain a loan. We also ensure, though, that they have some other type of asset that could be secured against. But I would suggest that that type of loan, if it had gone through the process today, would have had a different outcome.

Mr. John Fraser: Thank you very much, Ms. Rossi. Along the same lines, just shifting over to the not-for-profit sector in terms of how that's evolved over a period of time, for instance, I know that—well, first of all, IO loans are generally lower than a bank loan for that not-for-profit sector. How much, ballpark?

Ms. Toni Rossi: It's about 100 basis points, or 1% less. It's a combination of the interest rate, for sure, but also the term. So for borrowers, it's really important for them to have a longer term; for that type of borrower, having a longer term on their repayment plan is helpful.

Mr. John Fraser: And what has changed: what do you mean by a longer term?

Ms. Toni Rossi: Most banks or capital markets or institutions would, in those types of loans, have a five- to 10-year term and they would have a higher-risk loan and a higher interest. The IO loan tends to have a 30-year term or a longer amortization period, and therefore the borrower can have that comfort and knowledge of the amounts that are due.

So for us, nothing has changed. We have, in fact, allowed that sector to be able to provide fantastic services to the communities that need them. That was a sector that was, I would say—it could neither get monies from the capital markets nor the banks and it had a hard time providing the needed services. An IO loan allows that to happen.

Mr. John Fraser: Actually, in my riding of Ottawa South, I have two long-term-care facilities, one that was a redevelopment, that would not have otherwise happened. Another was the building of long-term or supportive housing.

But I also know, just into the next question, that the due diligence that went into that, because I had some interaction with the leadership of both of those organizations, I thought was fairly—because there were some complications around land and the ownership of land and some easements just in relation to covenants. Can you say a little bit about how that lending for the not-for-profit sector has evolved over time in terms of measuring risk and trying to get it to work?

Ms. Toni Rossi: Of course. From a due diligence perspective, we have really taken a look at that sector—and not just that sector but all of the sectors that we have—and put credit policies in place that will allow and keep our low-risk appetite. So we start, frankly, with a very low-risk philosophy.

One of the key things that occurred over the last year or so is stabilizing that low-risk appetite statement. Everything flows from the low-risk appetite statement. We want the borrower to succeed. We want to ensure that they're able to provide the services, and we also want to ensure that they are able to pay back their loans. In so doing, we've created very good structure on the credit policies themselves. They have to have a certain loan-to-value. They have to have a certain debt service coverage. That allows us and the borrower to know that they will be able to succeed in the long term.

So I think one of the key things, from a lending perspective, is we've tightened all of our credit policies and put them in through a very transparent and due-diligent process. Having said that, I think it's still very important that that sector understands that, is an eligible borrower and will be able to provide the services to the communities that they need.

Mr. John Fraser: Thank you very much.

The Chair (Mr. Ernie Hardeman): You've got just less than a minute left.

Mr. Han Dong: Just coming quickly back to the RCM, how big was the loan, if you have a number there, and why was this loan provided? I just want to bring it down to the local level. Why was this loan provided to RCM at the time?

Ms. Toni Rossi: Similar to what we do with all of our borrowers, we looked to see if they were eligible. They were an eligible component from government. They went through the same process and diligence. We looked at the project that they were going to be facilitating—it was a construction project that they were working through—and we worked through their loan application like we would anybody else. It went through our process and it went through our committee reviews and it went through the diligence of going right to our board.

I believe you also asked the—

Mr. Han Dong: The number. If you have it, fine; if not, I'll get it later.

The Chair (Mr. Ernie Hardeman): Okay. With that, we'll go to the official opposition. Mr. McNaughton.

Mr. Monte McNaughton: Thank you very much. I'm a new critic to infrastructure, and I just wondered, I guess just for my interest, if you could just explain what has happened with the loan program since 2003—a quick overview of how it works and some of the changes.

Ms. Toni Rossi: Certainly. Starting in 2003, the loan program initially began with lending to municipalities. Over time, and with varying government objectives and policies and needs, we've expanded that program to include a number of different eligible borrowers.

What we have done is passed around a deck. What I might do, if you will, is have you turn to page 8. I think this graphic on page 8 certainly provides a very good chronology of the various eligible borrowers that have come on to our loan program over time, and the different organizations that have been involved in administering the loan program over time.

It started in 2003 with OMEIFA when it was established, then in 2004 it became OSIFA—again, most of that time period was for the municipal loans. In our history and actually the next 25 years of the entire operation of that program, about 80% today is between municipal loans and municipal corporations and those low-risk covenant loans.

In 2004, as you notice, the government extended it beyond municipalities to municipal social housing and long-term care. In 2005, we continued to expand it, into the culture, tourism and recreation area; 2006 is when IO merged—I'm starting to get into the structure of how the organizations that were administering the loans then developed through—with OSIFA.

In 2006 it expanded further again to municipal corporations, non-profit long-term-care homes and hospices. The loan program then expanded again in 2008 to include things like non-profit arts training institutes and local services boards. Then it allowed for social, affordable and supportive housing providers as well.

The last probably large thing that occurred was in 2011. IO, Infrastructure Ontario, then merged with ORC, the Ontario Realty Corp., and it continued on as that organization to administer it. Then, finally, to date, we've expanded it one more time, in 2011, to include community health and social services hubs, aboriginal health centres and non-profit sports and recreation organizations.

Over time, this program has, in fact, allowed the varying key critical services within our communities to be able to provide the infrastructure that is needed.

Mr. Monte McNaughton: Thank you very much. Obviously, reflecting upon the Auditor General's report, there's a lot of talk about transparency and accountability, especially around the MaRS issue. What has been put in place to ensure that there is more transparency and more accountability in IO?

1320

Ms. Toni Rossi: I would start by saying that IO's values are ones of transparency and due diligence. In our company, we have a common saying: that we're very proud of what we do and we do it well, but we're never satisfied. In that never-satisfied continuous-improvement spirit, back in 2012, we went out and asked a third-party consultant to take a look at our processes, to come in deep. They had various recommendations, and we provided that to the Auditor General when they were in and taking a look at the program.

What has come out of that, of course, is just good strengthening of policies themselves by sector. Because the original loan program started with municipalities and because municipalities were a fairly stable cash flow and low-risk—and then we added sectors over the years—it was important to start to take a look at those sectors as an industry themselves.

Mr. Monte McNaughton: So what would specifics—

Ms. Toni Rossi: A sector-specific would be our affordable housing and social housing: How is that particular sector being looked at when the credit application comes in? Does it have the right securities behind it? Will it be able to have the right cash flows in the long term? How are we going to ensure that that borrower will be able to pay? We put those policies in place.

The other thing that we have done: As in any institution, technology plays a key component of it. We had a loan system that monitored, and we put our information in it. We've upgraded that system to actually take a look and ensure that any covenants that were maybe nonstandard were being monitored and tracked. We've put checklists in place to keep those loans understood.

On an annual basis, one of the key things that has occurred from a monitoring perspective that I think has allowed our proactive ability to look at the health of an organization is that we put in an annual review. We now monitor all of our non-municipal loans through that annual review. We take a look at their audited statements; we see whether or not they've actually been able to meet the new credit policy and creditworthiness.

I'm hopeful that I've answered the question. Those are a couple of the items—

Mr. Monte McNaughton: More on the transparency side, too: What have you done so the public can feel comfortable in what you're doing, and we don't see some of the issues we've seen recently?

Ms. Toni Rossi: I think that one the key things—if you take a look at our website, it's very transparent in the sectors that we lend to, the information that is needed from them, the interest that we put through and the application. But more so, when applications come in, they go through our underwriting team. They will walk through what I've already spoken about, which is the diligence of collecting all that information. They'll put them through a scorecard; they'll put them through our credit application process. Our credit review team will take a look at those applications again, with a further lens. Depending on the size, from a transparency perspective, it gets right through to our board.

On a monthly basis, we monitor any loans that we see that might not be meeting that financial criterion that we need through that annual review. We let our board know; we let MEDEI know. From a transparency piece, I think the organization goes to a lot of lengths to ensure the success of the borrower and the success of the project by keeping great monitoring and great diligence on it—and telling people. We walk through our committees and walk through our board.

Mr. Monte McNaughton: What percentage are you saying now of MaRS is leased? Is it 70%? Is that the number now?

Mr. Giles Gherson: Yes, 70%.

Mr. Monte McNaughton: Have you done a long-term study showing how and when Ontario will recover its funds?

Mr. Giles Gherson: We have a schedule that we anticipate being met, which is that MaRS will start repaying its loan next year, as leased tenants go into the building and start paying rent. There will be a revenue flow. Next year will be an important year. Midway through the year is where we anticipate that we will start to see revenue start to flow.

Beyond what we have now—

Mr. Monte McNaughton: Sorry; what type of revenue? Can you give us an idea of dollar amount?

Mr. Giles Gherson: Well—

Interjections.

Mr. Giles Gherson: To be honest, I can get you that. We don't have that right now, but it should be easy to get.

The schedule that we negotiated with MaRS was that in 2019, the building would be 60% commercially refinanced.

Mr. Monte McNaughton: That's 60%.

Mr. Giles Gherson: Yes, 60%. The remaining 40% would be paid back in the succeeding 16 years.

Mr. Monte McNaughton: So 40% would be paid back over 16 years.

Mr. Giles Gherson: Sixteen years, to 2035.

Mr. Monte McNaughton: Can you tell us what the ministry would be spending on interest fees on MaRS, annual interest charges? Do you know that number?

Mr. Giles Gherson: We're not paying any interest charges as such. MaRS will pay us for all of our costs. The loan that MRI has extended to MaRS encompasses all costs. All of that—

Mr. Monte McNaughton: So do you know what that dollar amount would be?

Mr. Giles Gherson: The total dollar amount was announced last year as $379 million.

Mr. Monte McNaughton: Just one final question before my colleague Ms. MacLeod asks some questions.

I noticed in the remarks regarding the lending program, I think it is, the one that Ms. Rossi discussed, one of the paragraphs says, "With this in mind, it is prudent to inform you that IO is currently tracking and working with 10 watch-list clients. The total value of the loans currently on the watch list is significantly lower than at the time the auditor's report was done." Would you be able to let the committee know who those 10 clients are?

Ms. Toni Rossi: When we're working with our borrowers, one of the key things—we normally don't like to disclose publicly clients that are on our watch list, because we're working with them and through them.

I can say, though, that the significant reduction was the MaRS loan. I can also say that the average loan amount is in and around $8 million that most of our loan clients have, and so even though there are 10 that I commented on right now, the watch list is really a fluid document. It's a snapshot in time. At the time that the Auditor General was in, it was four. Prior to that, it was a little larger. We had moved many off and now it's 10.

I think the prudency and the proactive approach that we've put into that watch list has ensured and allows that we keep that low-risk tolerance there. We want our clients to succeed. At the end of the day, it's very important that their infrastructure projects get done and it's very important that they deliver the services. So the watch list, to us, is an internal, proactive tool.

Mr. Monte McNaughton: Are you saying that, say, for the 10 watch-list clients, the total of the loans would be about $80 million, approximately?

Ms. Toni Rossi: Yes. The total current on our watch list is in and around $190 million. On average, most of the loans are about $8 million. Of course, we know that one loan that's on there with RCM is larger than that, so that is the bulk of that watch-list amount.

Mr. Monte McNaughton: Thank you.

Ms. Lisa MacLeod: Thanks very much. Just to continue on with respect to the watch list, as Mr. McNaughton was talking about, the list that we have before us is what was outstanding as of March 31, 2014, and there were two older loans to not-for-profits which combined for $75 million. Can you indicate to us today whether or not those two—I would expect that they are not paid off, but are you starting to receive any revenue?

Ms. Toni Rossi: Yes. Of the other two that were on, one we expect to be off the watch list—which means that they are on financial footing—by December.

Our process from a watch-list perspective is to monitor them over a 12-month period. We certainly don't just leave any borrower—because we've taken a look at them on an annual review, we want, then, the next year's annual financials and we'll monitor. So we're very pleased that one will be coming off of that, and I can comment that, over the past, that has been a common theme in that our watch list is a proactive tool. It's a snapshot in time. We work with the borrower through that monitoring process, and really the goal is to graduate them off the watch list.

Ms. Lisa MacLeod: In terms of your high-risk loans, do you notice, in terms of those that are on the watch list, I guess—because you can be a high-risk loan and not be on the watch list, I suppose. Is that possible?

1330

Ms. Toni Rossi: Our overall philosophy is a low-risk appetite. Just from a statement perspective, our low-risk appetite statement is that in protecting the province's capital, IO has a low tolerance for credit risk and loan losses when providing infrastructure financing to eligible borrowers. So we really do use that as our guiding mantra for our borrowers.

Ms. Lisa MacLeod: When I look at this deck that you referred to earlier, and you look at page 8, for example—Infrastructure Ontario: I was actually on the committee eight, nine, a zillion years ago for your first appearance at this committee. The more things change, the more they stay the same, because here I am; back to the future. So things have obviously changed quite a bit since you were incorporated in 2005. It was 2006 or 2007 when Infrastructure Ontario was here when I was previously on the committee.

You've expanded now to community health and social services hubs, aboriginal health centres, and then this is, I guess, where you're getting into not-for-profit sports and recreation organizations. Do you find that some of the more newly added groups since 2011 have a higher risk to be on the watch list, given that they're not a ministerial—they don't have that steady stream of funding from a government?

Ms. Toni Rossi: What I will say is that the government does provide the eligible borrower list to us, but each one of those borrowers still goes through a process. There are a number of prospective borrowers that have come to us that actually have not received IO's loans. So back to—

Ms. Lisa MacLeod: So it's not a guarantee.

Ms. Toni Rossi: It's not a guarantee.

Ms. Lisa MacLeod: I think that's really important for people to recognize.

Ms. Toni Rossi: It is absolutely not a guarantee that every borrower that comes through is granted a loan. It is not a guarantee because we go through that whole process of ensuring that they are creditworthy. I will say it again: I'm very proud of the loan program, and our goal is to ensure that that borrower succeeds, because if they don't succeed, then something has gone wrong. We've put into place all of the checks and balances and the varying diligence that is needed from a debt service ratio. We've done a very, very large amount of work with third parties as well to ensure that our processes keep us at as low risk as possible.

Ms. Lisa MacLeod: May I go back to MaRS for just a second? I don't want to belabour it, but I just want some clarification. They're high risk at the moment. Obviously the auditor has looked into this—

Mr. Giles Gherson: They're not.

Ms. Lisa MacLeod: They're not high risk at the moment?

Ms. Toni Rossi: They're not on our list.

Mr. Giles Gherson: There actually is no IO loan currently to MaRS. The government took over that loan last year.

Ms. Lisa MacLeod: So if the government took over the loan—which was highly publicized, so forgive me on that one—with respect to that loan—you did say you were getting revenue back in, probably in December, right?

Mr. Giles Gherson: The revenues are currently flowing in the sense that 35% of the building has tenants who are currently in the building, occupying their space and paying rent. But the next 35%, which takes you up to—we're leased up to 75% now. The remaining are moving in over the next six months.

Ms. Lisa MacLeod: So the $379 million, which you said the interest fees are a part of: Do the interest rates go up from you to MaRS over a period of time? You're not receiving that money at the moment, but when it starts to flow—were they given a penalty, in other words?

Mr. Giles Gherson: No, there's no penalty. We lent them money at a certain rate, which was a pretty good rate, because it was essentially the government borrowing rate, although I think there was a—

Mr. Bill Mantel: Plus a mark-up.

Mr. Giles Gherson: Plus a mark-up, so it actually wasn't maybe as great a deal as I'm saying.

So that package was the sum total: "There's what's available to you, the $379 million." Everything has to come out of that. We took over the IO loan, which was $224 million, so that's baked into that. We bought out ARE, which was the builder, for $65 million. Then there was the last part we talked about, which was the $85 million for lease-up.

Ms. Lisa MacLeod: I think my colleague has a quick question to actually adjoin to that.

Mr. Giles Gherson: Sure.

Mr. Monte McNaughton: Just a quick question, because I know we're almost at the end. I just wanted to ask: There have been media reports that have surfaced recently about—is it Mr. Georgiou?—involving a fraud case at York University. Can the members of the board clarify what information they had about the involvement in this fraud case? Is there any reason that the dismissal of this employee was covered up by then-CEO David Livingston?

The Chair (Mr. Ernie Hardeman): I think that maybe that's not in the auditor's report. If the member would get to the auditor's report now.

Mr. Monte McNaughton: Well, I think this is about Infrastructure Ontario. I think this is important for the committee to hear about what the board knew about this potential employee there in the fraud case.

Mr. Han Dong: Wrong committee.

Mr. John Fraser: Mr. Chair, a point of order—

The Chair (Mr. Ernie Hardeman): The member will get back to the auditor's report.

Mr. Monte McNaughton: No more questions. Thank you.

The Chair (Mr. Ernie Hardeman): Did you have a point of order?

Mr. John Fraser: The point of order is just that, clearly, the Chair has ruled, and let's move on.

The Chair (Mr. Ernie Hardeman): Did you have other questions?

Mr. Monte McNaughton: No more questions.

The Chair (Mr. Ernie Hardeman): To the third party.

Mr. Taras Natyshak: Thank you very much, members, for being here today, and thanks to our Auditor General for her work on this file and for her presentation this morning—albeit, it was quite brief, and this is some really complex stuff here. I might go all over the map, and some of my questions might be a little bit redundant in terms of what you've already heard.

From what I read and what I heard from our Auditor General this morning, the program is, by all accounts, quite successful in terms of the metrics of how much you're extending out there to municipalities and those qualified borrowers, and the repayment schedules, the fact that you really have very, very low insolvencies—measures of bankruptcies or people not paying you back.

What is the trend line in terms of municipal take-up for the program? Do you see it expanding? Are they learning more about this program? Do they want more access to it? Are you extending yourselves more to them? What are you doing to promote yourselves to municipalities that are, of course, in the position of needing more money, given the huge infrastructure deficit that we have?

Ms. Toni Rossi: I'd be pleased to answer that. Actually, we spent a lot of time with our municipalities. We actually service more than half of them in the communities across Ontario right now. There are 239 that are current and repeat clients. We have a number of our municipalities that have been with us right from 2003, in fact, and we have been providing all kinds of infrastructure needs to that community.

On what we do to promote, there are many conferences and municipal trade shows—AMO is one that comes to mind—that our team would go to, where they would ensure that municipalities know about the program. Certainly, our client relations folks are out within the regions, and they talk to the municipalities all the time. Our website is a great tool for us; it has a lot of information on how to access the program.

Your other question on the uptick—I would say, since 2003, we continually expand. There are more and more municipalities that are utilizing the program, as evidenced in that we've got over half of Ontario municipalities as part of our client list.

Mr. Taras Natyshak: So is it the largest-growing component of your borrowers? We've got a good little pie chart here, if I can find it. It looks as though they make up 40%. Am I correct in that?

Ms. Toni Rossi: The municipalities themselves are closer to 70%. If I add in things like the municipal service boards and other municipal corporations, it gets closer to 80%.

Mr. Taras Natyshak: Okay. Are they still continuously growing? There we are: 64.4%. They're growing. Are you feeling more demand on the other side, the not-for-profit side? What do you see growing there?

Ms. Toni Rossi: Our municipal book continues to grow, and we continue to provide most of our loans to the municipalities. I would say, yes, that the other sectors are also coming through as potential borrowers. Not all of the other sectors' borrowers get a loan. The trend for municipalities is that—because it is such a low risk—they tend to be able to access the loan program and receive a loan through that process and diligence because that has been in place for a lot longer, they are a much lower risk and we do have a tax-based revenue stream.

Mr. Taras Natyshak: Do you have a cap on the program?

Ms. Toni Rossi: By sector, we do. We have not yet hit any of those caps.

1340

Mr. Taras Natyshak: How much more room would there be, for instance, for municipalities?

Ms. Toni Rossi: What I might do is—I don't know that exact number right now and I want to get you the absolute correct information. I'm happy to bring that back.

Mr. Taras Natyshak: On an annualized basis, what is it? How much are you lending?

Ms. Toni Rossi: Our target annually is anywhere between $450 million to $700 million—again, most of that to the municipalities. So I would say about $500 million, $600 million goes to municipalities.

Mr. Taras Natyshak: At 1% interest on average, what you're receiving, are you making money after your costs to operate the program?

Ms. Toni Rossi: Our intent is not to be making money.

Mr. Taras Natyshak: Does it?

Ms. Toni Rossi: Our intent is to ensure that the needed programs are put in play and that municipalities and our borrowers are able to put their infrastructure in place. Our intent is to cover our costs always, and it is critical that we do.

Mr. Taras Natyshak: Has the program made any money, regardless of your mandate?

Ms. Toni Rossi: Over the years, the program has made dollars, but let's not forget that there need to be provisions, and the Auditor General was very good in her report in talking about how IO ensures that we provision for any loan. For any loan that might have a potential loss, we need to ensure that we are able to absorb that loss.

Mr. Taras Natyshak: The recommendations that the Auditor General made—it seems as though you've been quite swift in implementing them, and kudos to you. It seems as though they're a buttress to your already prudent stewardship. But I would want to know, do these affect your—you borrow money from private markets, from capital markets, right? That's what happens?

Ms. Toni Rossi: Yes.

Mr. Taras Natyshak: At preferred rates? You're borrowing from banks or you're borrowing from the province of Ontario, who is in turn borrowing from banks?

Ms. Toni Rossi: Through the OFA. We work with the OFA.

Mr. Taras Natyshak: Okay. So these recommendations that have been implemented, do they affect your credit rating or your solvency in the eyes of the province?

Ms. Toni Rossi: In the eyes of the province?

Mr. Taras Natyshak: Yes. Do they improve your standing, I guess, is my question. The things that you've put into place would make you a more secure vehicle for receiving money and then, in turn, lending it out—or is it just something that is standardized that you've done just because you feel as though it's best practice?

Ms. Toni Rossi: I would suggest that the processes and credit procedures we've put in place are bringing us closer to best practices. It's another standard due diligence. We were very confident and comfortable with what the Auditor General had to say, back to our culture of continuous improvement prior to. We already had gone through a number of the areas that we felt were important to enhance, and we'll continue to do that.

Mr. Taras Natyshak: In the continuation of doing that, how many are left of the Auditor General's recommendations? How many are left outstanding, what are they and what are the challenges to you implementing them?

Ms. Toni Rossi: None are left. We've taken all three of her recommendations, welcomed them. I think what we provided was not only our management response, but also the areas that we've completed through. I'm happy to walk you through the chart that was provided, but all of the recommendations were, in fact, completed and implemented and operationalized. Again, we'll continuously improve them over the years, but we were very pleased to be able to have the ability to put them into place.

Mr. Taras Natyshak: To the watch list: You mentioned that there are currently 10 that are on the watch list, 10 organizations. Were there any similarities that you found between those organizations, the way that their loans were structured or their organizations, their exposure themselves? Are you finding anything there that may give you cause for concern to again extend future loans to similar-type organizations?

Ms. Toni Rossi: I would say a big part of what came out of not only our Auditor General's recommendations has helped strengthen the structuring of our future loans. So absolutely, through the continuous improvement process, and when you do an initial loan, early days, things will change, environments change; the borrower's financial statement and financial commitments change. I would say that with our credit policies that have been put in place, the trending that we have seen, we will be able to have our watch list come down.

One of the key things that I think is important is, because we do annual reviews and because we've taken a look and gone to that proactive measure, we're going to start seeing a number of organizations that will come on and then come off. It's a really good health check for us to work with them throughout their life.

Mr. Taras Natyshak: Of the eligible borrowing sectors—there are 10. Are there any more that you know that are proposed or in the pipeline that the government may ask of you to extend terms to? And are you comfortable with the 10 under the umbrella of the Ontario loans program? Do you think it's maybe a little bit too much exposure, or would you like to see it condensed into the ones that offer you that minimal risk?

Mr. Giles Gherson: It would be better for me to answer that, because the 10 eligible categories were all mandated by government, so that's a matter of government policy, as I think was identified over the course of years. Toni went through the list from 2003, when the program started, right through to 2011, when the aboriginal health loan extension was mandated. You had the list of essentially 10 categories that were set up. That's a matter of government policy.

I think it would be difficult to speculate as to whether, at this point, the government has any other broad categories in mind. Certainly, I can't say that there are any that are necessarily on the cusp of being mandated, although I think it's fair to say that government does from time to time give consideration to possibilities. So I wouldn't rule it out, but the list that you see before you is the list that the government has, through its policy process, decided that it wanted to see IO loans extended for.

Mr. Taras Natyshak: I'm kind of saddened to hear that the Royal Conservatory of Music is experiencing some hardship. I went through the Royal Conservatory of Music. It's a wonderful institution, really. Were they also in receipt of private sector loans at the same time? Did they apply? Or is that ever the case? Is that one of the criteria, that they have to be solely under the stewardship of an IO loan and not—

Mr. Giles Gherson: Can you have two types of credit at the same time?

Mr. Taras Natyshak: Yes.

Mr. Giles Gherson: Commercial credit and IO?

Mr. Taras Natyshak: Yes. Is there anything like that?

Ms. Toni Rossi: Again, the eligible borrower has their own financial budgets and statements, and they can have other debts and debt service that they have to satisfy.

Mr. Taras Natyshak: In the case of a default on that loan, is IO at the same level of repayment that a private sector institution would be? Do they have to repay you at the same rate? There's no preference given to private sector loan money?

Ms. Toni Rossi: I'll get that actual fact for that one. But I will say, in our credit policies, one of the key things that we ensure as one of the items that we take a look at when we go through the due diligence is where we are on the list of repayment. In our credit policies, we always like to be first and, in some cases, second.

Mr. Taras Natyshak: What is IO's exposure to MaRS right now at this moment?

Mr. Giles Gherson: Zero.

Mr. Taras Natyshak: It's a little bit confusing, that transfer that happened through the ministry. I've heard you reference that you will be receiving money. Who are you receiving money from? If they've already paid off that loan, do—

Mr. Giles Gherson: No, they haven't. Let me explain it. It is confusing; it is complicated. Basically, what happened was that IO had extended a loan to MaRS. The project was burdened by delays that I don't believe were really of their own making, but was really a product of the deep financial crisis—and in the US, the real estate crisis—of 2008 to 2010. The contractor that had been chosen, which is actually one that has been used around the world for these specialized types of buildings, was heavily exposed in the US during the crisis and essentially opted to cease construction when the substructure had been completed. This was a challenged project after the project had been stopped.

A loan was extended by IO. There were all kinds of issues around the contractor and what their role would be, how they would continue, and if they would continue. There was a desire to see them continue in some fashion. They are specialists in this type of construction. This is not just some office building; it's got labs built in. It's a very specialized building.

1350

Once all those negotiations had taken place, time was passing, and construction didn't really resume until 2013, I believe—early 2013, or was it 2012? It was in that realm, much delayed. Through the course of this, the IO loan—it was never foreseen that it would take this long to complete the building, because the assumption was: Get the building built, line up the tenants, they start paying rent, they pay their loan back.

Because of the uncertainty around the resumption of construction and therefore the buildup of the tenant list, then moving all of that, a debt service guarantee was extended, for IO's comfort, to IO by the province. By 2014, I think it was, this debt service guarantee was starting to be extended to IO, because they essentially didn't have the cash flow—MaRS didn't have the cash flow to pay their loan.

At a certain point, like this time last year, the question was: What do we do? The building is completed, but nothing has been done about fit-up costs, which is important, because you've basically got a shell—more than a shell, but not much more than a shell; it's not like a regular commercial tower. Who's going to pay for the fit-up? If MaRS doesn't pay for the fit-up, how is it going to attract tenants? The tenant list that had previously been put together, years earlier—many of them had wafted away. They had other things. They had other places to go. So the question was: How do we stabilize this?

The government, to be honest, was uncertain at this time last year as to really what its best course of action should be. Should it be to simply cut loose and say, "We're done with this. We gave it our best shot. We had huge ambitions for MaRS, in terms of a life sciences incubation centre and all the rest of it. We've got two towers. Let's leave it at that, and let's walk away." The government felt that that would not be optimal, because the government policy is that we are positioning Toronto as a Boston: We are the number two life sciences centre in North America, so—

Mr. Taras Natyshak: I'm going to try to get a couple more questions in here.

Mr. Giles Gherson: Sure.

Mr. Taras Natyshak: You're speaking, in retrospect, from your involvement in MaRS—

Mr. Giles Gherson: I've only been here a year, so my involvement is—

Mr. Taras Natyshak: So, as of right now, not only IO's financial exposure to MaRS is gone, other than the payments you'll be receiving from the ministry of innovation—

Mr. Giles Gherson: MRI, which I am the deputy minister of, extended a loan to MaRS. MaRS will be starting to repay its loan to us next year. They will refinance 60% of that loan in 2019.

Mr. Taras Natyshak: Initially, the terms of the loan from IO to MaRS were based on an 80% occupancy rate. You're projecting 75% within the next couple months—

Mr. Giles Gherson: Ninety.

Mr. Taras Natyshak: I've heard a bunch of different numbers thrown around today, so I don't know.

Mr. Giles Gherson: We are at 70% now, and we're projecting 90%.

Mr. Taras Natyshak: You're at 70% now. Is 70% enough to cover the interest payments on the loan from MRI? Does it get you at least to that threshold?

Mr. Giles Gherson: I think 70% is pretty close, in the sense that they will have the cash flow to start repaying their debt to the government on the schedule we have—

Mr. Taras Natyshak: But that has to happen within a couple of months.

Mr. Giles Gherson: —but what we really want is to commercially refinance 60% of that debt in 2019. For that to happen, we need more than 70%. That's why we're fairly confident, as we look toward 90%—there's now actually quite a long list of private sector tenants who would like to come in. We actually don't have room for the list of tenants who would like to come in.

Mr. Taras Natyshak: How much is that fit-up worth? What's the cost associated with the fit-up?

Mr. Giles Gherson: Well, the budget we put aside was $85 million.

Mr. Taras Natyshak: That's on top of the initial loan?

Mr. Giles Gherson: That was on top of the $65 million to buy out ARE, and that was on top of the $225-million IO loan.

Mr. Taras Natyshak: I heard—and I think I even asked a question of the minister—that there was a large portion of that building that has been dedicated to a Zen garden or a Ping-Pong table. Is that a part of the fit-up costs?

Mr. Giles Gherson: No, that's a table you can bring in or take away at your will.

What's the square footage of that building?

Mr. Bill Mantel: It's 760,000.

Mr. Giles Gherson: So there are 760,000 square feet, of which I think probably four square feet might be the—

Mr. Taras Natyshak: For a Ping-Pong table? A Ping-Pong table is a little bit bigger than that.

Mr. Giles Gherson: Okay, maybe six.

Mr. Taras Natyshak: If you're going to have a good game, I imagine.

Mr. Giles Gherson: It's mini Ping-Pong. No, it's a table that was put in there—

Mr. Taras Natyshak: But are you confident overall, again, that the fit-up that's happening right now—that the management of that fit-up is actually going to entice people—

Mr. Giles Gherson: The tenants.

Mr. Taras Natyshak: The tenants to come in?

Mr. Giles Gherson: We have 70% signed up. We have another 20% on the verge of being signed up. Even if those prospective tenants walked away, our problem now is that there are more private sector tenants that are innovative companies that would like to be in there than we have space for.

Mr. Taras Natyshak: That's an exciting problem.

Mr. Giles Gherson: It's an exciting problem. My story here today is that that problem of last year has been turned around.

Mr. Taras Natyshak: I truly hope so.

Mr. Giles Gherson: And it has taken a lot of work on a lot of people's part.

Mr. Taras Natyshak: I'll cede my time. Thanks, Chair.

The Chair (Mr. Ernie Hardeman): Okay. Thank you very much.

The next round will be 15 minutes per caucus. We'll start with Mr. Rinaldi.

Mr. Lou Rinaldi: Again, thank you for being here today. I don't want to rehash a lot of what we heard. I know you were pretty thorough.

I'll just go back, with a little bit of my municipal background: When OSIFA came to life, according to your chart, in 2004, I was with infrastructure at that time. I know that the communities in the riding I represented—how much they appreciated to have that source—to have a bank, I guess, for a lack of a better word—for their infrastructure projects. One of the things that we heard over and over again—and we still hear it today—is that for different infrastructure programs that the government has always required some type of partnership from the municipality, even if the federal government comes on board. That was their challenge, especially with small municipalities. They really have limited tax space and not a very long plan.

With that in mind, I wonder if you could just give us some sense of, or walk through one or two projects that were a success on your part. For me, I'm the sort of person that likes to see, feel and touch; that gives me a bit more reality of really what's happening on the ground from your behalf.

Ms. Toni Rossi: I'd be pleased to take that one. In fact, I may direct you back to the deck that we did, because for me nothing speaks louder than photographs. We have thousands of projects that we can talk to, but we've provided a few in our deck. If I have you refer to page 19—and this gives you a sense of the breadth and the types of infrastructure projects that are being done within municipalities and within communities across Ontario. My ongoing favourite is municipal infrastructure in general, but we've got lovely fire trucks and fire stations that are being rebuilt in the county of Brant. We had the clean water and sewage treatment system, and we've got a great picture of that. We've got a great picture in the town of Innisfil, providing, if you'll notice, varying sized loans so that they can do things like—they did their Cookstown library; they did their town hall; there are lots of roads and bridges.

I know specifically you were talking about municipalities. I'm happy to talk through more of them, but the next few pages also give a breadth of the other types of loans that we have done: Nipissing University and Trent University and the work that they are doing with their forensic research centre; Parkdale United Church, from a housing perspective; and the needs and certainly what the communities are actually benefiting from these loans. The YWCA on Elm Street in Toronto: This was a 300-unit affordable housing project that works with women with mental illness and with aboriginal women and with women over 50. From a female perspective, this one kind of touches me personally.

The last page, on 22, if you take a look at our Blue Water Rest Home, which was in Zurich, Ontario, an $8.7-million loan; there's a great picture there also of Chester Village, which was a redevelopment in Toronto.

But we've got many, many loans all across the municipalities that we are very proud of and very happy that those communities are being serviced with the needs that they have.

Mr. Lou Rinaldi: Great. Thanks very much.

The Chair (Mr. Ernie Hardeman): Ms. Malhi.

Ms. Harinder Malhi: Thank you for your presentation. I just wanted to ask a little bit about the checks and balances that IO has in place to ensure that clients repay their loans in a timely manner. Can you walk me through how you ensure that this takes place?

1400

Ms. Toni Rossi: Sure. Every good loan starts with the right preparation, and every good loan starts with the ability to assess the creditworthiness of that borrower. Check and balance number one is making sure that we have all of the information from them that we need to be able to assess their creditworthiness and their ability to repay that loan over a longer term.

Our credit application would be the first start. Our underwriters work with our eligible borrowers, understanding their business, understanding what the project is. We'll look at the legal entity itself, we'll look at the cost and we'll look at their ability to service that debt.

Our credit risk department does a bit more of a diligent review. We've got scorecards in place where, once we get through the credit application, there is a whole process that ensures that the loan-to-value is the right amount and ensures that the debt-service coverage ratio is appropriate and correct for the sector. That comes through in a recommendation to our credit risk review committee.

If it's below a $2-million threshold, our CFO has the ability to approve it, if it's a municipal loan. All non-municipal loans go through our credit review committee. If it's over $25 million, it goes right through to the board. So there's another check from delegations of authority.

I would say broadly that a third and very important check is the annual review process. On an annual basis, again from a municipality perspective, the Ministry of Municipal Affairs and Housing requires that the municipality submit their financial information report on an annual basis. We use that. We then put it back through our scorecard and checklist.

The non-municipal borrowers go through the same process. Annually, we ask for their financial statements. That is what allows us to be proactive and know whether or not there's something that has gone differently in their business.

I would say that there are varying checks and balances, and it starts with client relations all the way through to the board and then, frankly, all the way through to even third-party consultants coming in and checking. We ask them to come in and check what our processes are, benchmarking against the industry. We were very pleased when the Auditor General came in and went through—that helped us a lot, as well, to confirm areas that we were doing well in and to strengthen areas that we needed to continuously improve.

Ms. Harinder Malhi: Thank you.

Ms. Toni Rossi: You're welcome.

Mr. Lou Rinaldi: Chair?

The Chair (Mr. Ernie Hardeman): Yes.

Mr. Lou Rinaldi: If I may, I just want to follow up. I wasn't paying attention to my notes before. I guess this is for the deputy: Can you give us a clarification of this, because I obviously missed the point on the Ping-Pong table issue. I'm not a good Ping-Pong player.

Mr. Giles Gherson: I've been corrected. The Ping-Pong table is probably about 32 square feet. So I misspoke. The point really was that there is temporary space on the ground floor. It's there while awaiting tenants to move in. There are a number of commercial enterprises that are ready to move in; they've signed leases. While waiting for that, they put a Ping-Pong table in there. I am not sure how long it's going to be there for; it's a temporary thing.

Mr. Lou Rinaldi: Thank you.

The Chair (Mr. Ernie Hardeman): Mr. Dong.

Mr. Han Dong: How much time do I have?

The Chair (Mr. Ernie Hardeman): You have about seven minutes.

Mr. Han Dong: Okay. Since I have seven minutes—just out of curiosity, do you have a list of high-profile tenants for MaRS right now? I would like to learn a few, if that's possible.

Mr. Giles Gherson: Sure. I think that one of the highest-profile tenants is JLABS@Toronto. JLABS is an incubator for life sciences and medtech start-ups. It's a highly successful incubator model. The company is actually Janssen, which is the largest pharmaceutical company in the world, owned by Johnson and Johnson. They launched JLABS in San Francisco—or it might have been San Diego, I think, actually—about seven or eight years ago. They have two sites in San Francisco, and now, one in Houston and one in Boston.

It has been a highly successful—I'm just going to call it an open platform, because what happens is that companies come in, and it's not as if they now become sucked in to the JLABs system—JLABS is there essentially to see what's doing, and they may very well end up taking an interest in some of the companies that go through, but really, it's to get a handle on what's going on. They then provide those companies, for a fee, with very intensive mentoring, the introduction to networks of potential customers, VC funding. They're connected into Boston and, as I say, into New York, into Silicon Valley, those VC communities.

They'll have, for example, lectures almost every day by experts that they will bring through. It's a hugely rich environment for start-up companies that often have great science behind them but not necessarily marketing skills, financial skills and so forth, and, of course what they really need: customers.

So this is a very intensive incubation. I think a lot of people would argue that it was a bit of the missing mortar to the bricks that we've had in MaRS, because here you've got—we don't have in Canada too many global-scale pharmaceutical companies, so the virtue of having a Janssen come into MaRS is that this is a company that is deeply, deeply steeped in turning science into marketable products. That's a skill set that is hard to read in a book or to learn at a lecture. Having a company like that there to help mentor these start-ups, we believe, will be hugely valuable to what we're building as a life sciences and medical devices ecosystem in the MaRS complex. So that's one that we were really hoping to get.

The other thing that I think is going to be very exciting is that I believe the MaRS west tower will be the first site in the world to be manufacturing stem cells. This is critical to regenerative medicine, and Toronto at the moment has been cited by many authorities as being in the so-called pole position in regenerative medicine. California is spending a fortune on regenerative medicine. Pennsylvania is spending a lot. New York is spending a lot. The UK is spending a lot. They would all, I think, agree that Toronto is the leading location now for the furtherance of regenerative medicine, and the epicentre of that will be the MaRS west tower. It will be a global centre.

Other than that, we have a company called Synaptive, which is a very successful Toronto company which makes medical diagnostic equipment designed and manufactured here in Ontario, with a world market, and a fast-growing world market. I think they now have 160 employees; they had, a year ago, about 45 employees. They're only a couple of years old. They're growing very, very rapidly in this very specialized space.

League is moving in. League is a new company founded by the former creator of the Kobo. It is a kind of personal health care software company that seems to have great promise.

Facebook medical is in there, which is another very exciting—because they're going to be in the medical information business.

Mr. Han Dong: I just want to stop you there, because you've given us a little bit of a taste of what types of companies you were able to attract into the MaRS building. I hope there's a mechanism that in the future we can adjust the lease rate to reflect the demand we have. I think it's going to be very successful.

Mr. Giles Gherson: If I can just say, it's not so much the lease rate as—this time last year, the building was deemed to be worth around $160 million, $180 million, because it wasn't finished and it had no tenants. Today, it's probably worth north of $400 million—

Mr. Han Dong: Wow.

Mr. Giles Gherson: And this is a high-growth market. One of the bets that the government was making was the ability to get this building up and running and to get it filled with the kinds of exciting tenants that are coming in there. Also, these are tenants, generally speaking—because we've got some big institutional tenants there too, so they have significant creditworthiness—that we will be able to raise the value of that asset. Not just in terms of its contribution to the life sciences hub that we're building here, but also in commercial terms.

Mr. Han Dong: And also the jobs it creates.

My second question is about the not-for-profit. It sounds to me like IO's Loan Program is a very important tool for the not-for-profit sector when it comes to access to capital. I don't know if IO, going forward, will scale back on its capital accessibility to not for profit. Has that been the plan, or is this confidential to discuss?

1410

Mr. Giles Gherson: Certainly, on the policy plan—I'll let IO speak to it. Obviously, creditworthiness, as Toni said, is an extremely important feature of the IO loan program. The quality of applicant is extremely important. The government respects this completely and has great faith and confidence in IO by virtue of the fact that it has a low-risk appetite. So nobody is saying to change any of that.

Mr. Han Dong: Before you pass it on—because I just want to stress my—

The Chair (Mr. Ernie Hardeman): Your time is up, Mr. Dong. Thank you very much. That concludes that, and maybe it'll fit in with the next question. Mr. McNaughton?

Mr. Monte McNaughton: Great. I think I only have a couple of questions. You were talking a bit about the loan process. I wonder if you could just explain again maybe in a bit more detail just how loans are approved. You mentioned something about the CEO having authority to approve loans up to a certain amount, and then if it's $25 million or more, the board becomes involved. Can you just explain how loans are approved?

Ms. Toni Rossi: Certainly. I'll start back at the beginning. It starts with an eligible borrower. It starts with that eligible borrower going through our underwriting process. So we collect all of the information—the financials and everything that I had already mentioned, but it's prudent to mention them again because it's important; the success of that borrower is important.

Once our client relations team have assessed that borrower and their underwriters have then taken all that information and put it through the credit application itself—and we've done a fairly extensive job on ensuring that those application forms and the templates that are there are solid, that they actually have the ratios that—I won't say spit out, but certainly once something gets put into that application form it does spit out, for underwriters, the ability to see whether the loan to value is the right loan to value and whether the debt service ratio is going to be able to be covered. If it doesn't, then at that step our underwriters will go back to the borrower and work with them to see how we can structure the loan in such a way.

At that stage, it'll go to our credit risk department. They do another scrub and do things like, "Do we have enough room in that sector?" or, "Are they going to be creditworthy for the long term?"—a very similar process. Then it kicks into our delegations of authority. I think that's very important because our organization, as an agency, is set up with true transparency and we are set up with a board that is responsible for ensuring the success of these loans.

So with the delegations of authority, the way that works is, if it is a municipal loan—anything that is below $2 million—having gone through, again, that first front end and having gone through the underwriters and the credit risk review, our CFO has that authority to be able to approve any municipal loan that is below $2 million.

Any other loan goes through that full delegation. So it will go to a credit and risk review committee, which is comprised of a number of different individuals in our company and the OFA. Beyond that, it goes to the credit risk committee of the board. Then, beyond that, it goes to our full board for final approval. Anything over $25 million goes through that process. Anything that is over $2 million that's municipal or non-municipal goes through, up to the credit review committee of the board.

Mr. Monte McNaughton: Interesting, thanks. Regarding the Auditor General's report, where are you, as far as implementing the recommendations?

Ms. Toni Rossi: Again, we're back to: We're very proud but obviously never satisfied. We're very proud to be able to say that all three of her recommendations are complete and we are always in the process of implementing them in such a way that they will continue to continuously improve and operationalize them.

One of her recommendations was to monitor the municipal loans and look at that annual process. We've put that in play. Another recommendation was to put in place the third-party review that we'd had. We've done that.

I can talk a little bit about that, because it's glossed over, but certainly when we went to third-party review—it's a best practice to do that; we went back in 2012. What we got out of it, I would say, was bucketed into five or six key areas that are consistent with most lending sectors. They're things like risk governance and oversight. I just explained delegations of authority, and I think we already had that well in place, but we tightened it and went from a $50-million loan approval at the board down to $25 million, so that was an enhancement there.

We look at things like our risk management tools. When I talk about tools, we've created separate scorecards based on the individual borrower, their eligibility and their sector to reflect that different sectors have different risks. We've taken a look at our policies. We talk a lot about our policies now, and we've updated them. We consistently update them, but we absolutely did it through sector again, so we have very specific sector guideline policies and an overall policy that fits with our risk appetite.

We took a look at things like the standardization of procedures. This was a really good one for monitoring all the covenants. Our ability to monitor those covenants—most third-party reviewers always talk about technology, so we actually upgraded our system back in 2014. It went live on September 4, 2014. It was a memorable day. Lots of people were cheering when it went live and worked. We now have reports that are generated through our system, and we are constantly upgrading that.

I would say, finally, just the documentation itself. Over the years, as the program has expanded, different legal documents, the financial agreements, the varying covenants—we've taken a look at all the documents that are part of a loan process and ensured that they had in them the strength that we would need.

So a lot of work has gone on over the last couple of years, and I'm pleased to say that we were able to complete all three of her recommendations.

Mr. Monte McNaughton: I just have one final question—I apologize if I missed this at the beginning because I was a few minutes late. What is the total value of the loans that IO has out now?

Ms. Toni Rossi: Our current loan book is $4.9 billion, against an approved book of $7 billion.

The Chair (Mr. Ernie Hardeman): The third party: Mr. Natyshak.

Mr. Taras Natyshak: Back to the MaRS loan: The value of the transfer from IO—I'm referring to it as a transfer because that's kind of what it was, right?

Mr. Giles Gherson: It was partly a transfer, but there was a new line of credit, effectively, on top of the transfer of the IO loan to MRI, because as I said, when the transfer was done—that was $224 million—

Mr. Taras Natyshak: How much again?

Mr. Giles Gherson: It was $224 million. That was the value of the IO loan that was transferred to MRI.

Then, to complete this structure, we had to buy out the US contractor, ARE, for $65 million. And then we had the fit-up costs to contend with. That was $85 million.

Mr. Taras Natyshak: So $285 million plus $85 million.

Mr. Giles Gherson: Correct. No—

Mr. Bill Mantel: It's $379 million.

Mr. Giles Gherson: It's $379 million.

Mr. Taras Natyshak: So $379 million total.

Mr. Giles Gherson: Yes.

Mr. Taras Natyshak: You've implemented a lot of really stringent procedures, monitoring policies and aspects of oversight. That was subsequent to the loan to MaRS.

Mr. Giles Gherson: Yes. We've just gone through the significant and stringent credit monitoring procedures of IO. We of course, as a government ministry, are not IO, but what we did was put in place a structure that's quite similar.

Mr. Taras Natyshak: When you say "we," you're saying—

Mr. Giles Gherson: The Ministry of Research and Innovation.

1420

Mr. Taras Natyshak: Okay. Keep going.

Mr. Giles Gherson: I think we said that in order to do this, to sort of get the advice—the government, at this time last year, was not sure what it was going to do. So the Minister of Research and Innovation and the Minister of Economic Development, Employment and Infrastructure—I'm the deputy of both ministries—secured the advice of an expert panel that was—

Mr. Taras Natyshak: The two people you referred to—

Mr. Giles Gherson: Yes.

Mr. Taras Natyshak: —and they gave you options in terms of what to do with MaRS.

Mr. Giles Gherson: Then what we did was bring in Peter Sharpe, really as an adviser—almost a supervisor—to review every tenant, every prospective lease to ensure that the prospective tenant had the right creditworthiness, all the kinds of things we've talked—

Mr. Taras Natyshak: On behalf of MRI.

Mr. Giles Gherson: On behalf of MRI. That's Peter Sharpe, former CEO of Cadillac Fairview, a pretty well-known guy.

Mr. Taras Natyshak: Is he still retained by MRI to continue that type of process?

Mr. Giles Gherson: He's still retained, yes. And let me say that we had a third-party cost monitor as well.

Mr. Taras Natyshak: Okay. So the changes that IO has done, in terms of their structure for lending, are there any similar changes—well, here's actually an important question: Has MRI ever extended any loan, terms of loans or loan agreements to any other organization in history?

Mr. Giles Gherson: Yes.

Mr. Taras Natyshak: Anything as big as $379 million?

Mr. Giles Gherson: No.

Mr. Taras Natyshak: What's the largest amount they've ever extended?

Mr. Giles Gherson: I don't know.

Mr. Taras Natyshak: So I'm quite comfortable now—I mean there's a lot of reassurance built into the structure of the Ontario loan program—very nice. Are you comfortable that MRI has similar types of checks and balances and mechanisms in their structure?

Mr. Giles Gherson: It's a single loan. We're not involved in a large portfolio. It's a very large one—

Mr. Taras Natyshak: But it's pretty damned huge.

Mr. Giles Gherson: Sure it is, but that's why we brought in Peter Sharpe. I don't think the former CEO of Cadillac Fairview is any slouch when it comes to reviewing the financials of prospective tenants, and the third-party cost monitor was brought in as well to review the creditworthiness of prospective tenants to ensure that the lease costs are absolutely what they should be and not larger than they should be.

Mr. Taras Natyshak: So you're confident that those mechanisms are as stringent on the MRI side as they are now on the IO side?

Mr. Giles Gherson: I am. I'll be looking forward to revenues flowing, because then I'll be really sure.

Mr. Taras Natyshak: Sure.

Mr. Giles Gherson: But I think, in terms of what we have in place and the fact that we do have 70% lease-up at the moment, which I think a lot of people were pretty surprised to hear. Go back to this time last year. If we had said, "This time next year, we'll have 70% of that building leased up, and pretty close to 90%," I think people would have been pretty surprised—and these are high-quality tenants.

Mr. Taras Natyshak: Look, I want it to succeed. We need it to succeed in this province, in terms of research and development and innovation and marketization—

Mr. Giles Gherson: It's the future.

Mr. Taras Natyshak: It's not the future. Our species relies on it. We need to cure diseases. We in Toronto, where Banting and Best first synthesized insulin, need to further that. We need to cure type 1 diabetes. We can do that, we need to do that, and we've failed, frankly, at doing that in terms of being global pioneers. So if this building does that, then any value or any circumstances that happened in the past will be long forgotten. But it is, of course, on this government's shoulders to make sure that it gets us to that point. Again, I want to see it succeed. There are starts and stops along the way, but if you are telling us, as a committee and as members, that you're confident that it's on a solid footing at this point and that you see it able to proceed within the vision of the mandate of the ministry, then let's see. Let's get it out there—

Mr. Giles Gherson: I'm as confident as I can be. So I would invite you to have a tour this time next year—

Mr. Taras Natyshak: Are you inviting me to a Ping-Pong game?

Mr. Giles Gherson: Unfortunately, if we're going to have a Ping-Pong match, we should do it very quickly, because I think the space is getting filled.

Mr. Taras Natyshak: I hope so.

Those are all my questions, Chair. I'll cede my time. I'm done, Chair.

The Chair (Mr. Ernie Hardeman): You're done? That concludes our session this afternoon. We thank you very much for your participation and for being here.

Mr. Giles Gherson: Thank you very much.

The Chair (Mr. Ernie Hardeman): We are all better informed for it. Thank you very much for your time.

With that, we will continue this session. As people leave, we'll have a closed session for the Auditor General to speak.

The committee continued in closed session at 1425.

CONTENTS

Wednesday 23 September 2015

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chair / Président
Mr. Ernie Hardeman (Oxford PC)

Vice-Chair / Vice-Présidente
Ms. Lisa MacLeod (Nepean–Carleton PC)

Mr. Han Dong (Trinity–Spadina L)
Mr. John Fraser (Ottawa South L)
Mr. Ernie Hardeman (Oxford PC)
Mr. Percy Hatfield (Windsor–Tecumseh ND)
Ms. Lisa MacLeod (Nepean–Carleton PC)
Ms. Harinder Malhi (Brampton–Springdale L)
Mrs. Julia Munro (York–Simcoe PC)
Mr. Arthur Potts (Beaches–East York L)
Mr. Lou Rinaldi (Northumberland–Quinte West L)

Substitutions / Membres remplaçants
Mr. Steve Clark (Leeds–Grenville PC)
M[me] France Gélinas (Nickel Belt ND)
Mr. Taras Natyshak (Essex ND)
Mr. Bill Walker (Bruce–Grey–Owen Sound PC)
Ms. Soo Wong (Scarborough–Agincourt L)

Also taking part / Autres participants et participantes
Ms. Lisa MacLeod (Nepean–Carleton PC)
Mr. Monte McNaughton (Lambton–Kent–Middlesex PC)
Ms. Bonnie Lysyk, Auditor General

Clerk / Greffière
Ms. Valerie Quioc Lim

Staff / Personnel
Mr. Ben Elling, research officer,
Research Services