

# Prince George Metis Housing Society

## Expiry of an Operating Agreement

Prince George Metis Housing Society manages mostly single detached housing throughout the City of Prince George for tenants of Aboriginal ancestry. They manage approximately 90 properties with 159 units. The subject of this profile is Phase 2, a development consisting of 19 single detached units, for which the operating agreement expired in 2011. The Society experienced some difficulties in the past, however it has since secured a new Board of Directors and Executive Director.

### Operating agreement details

The typical agreement under Post-1986 Section 95 of the *National Housing Act* is associated with a mortgage of 35 years. Under this program, the tenants pay rent based on their income (Rent Geared to Income, or RGI). For Aboriginal tenants, the rent is generally set at 25% of gross household income. The subsidies usually cover the difference between income and economic rents. For Prince

George Metis Housing Society’s Phase 2, the subsidy provided through the operating agreement took the form of a capital grant, ongoing subsidies to cover the mortgage payment, building maintenance and other shelter-related costs, and a predetermined, flat subsidy amount for a number of units.

This agreement began when the Society purchased the 19 houses (built between 1960 and 1975) in 1985. At the time the agreement was put into place, both the term of the mortgage and the agreement were reduced from 35 years to 25 years. However, it appears that the Society was unprepared for the consequences of this action and it has led to financial difficulties. With an additional 10 years, it is possible these could have been avoided with better planning and incremental changes.

### Comparison of pre-expiry and post-expiry situations

Examining the pre- and post-expiry tenants, financial status and portfolio considerations reveals important differences.

While the tenant target group remains the same, the mix of rents in Phase 2 has shifted from 100% rent geared to income to only 20% RGI and an additional 25% are low-end of market rent. More than half of the Phase 2 units are now rented at market rates.

<p><b>Project details</b></p> <p><b>Name:</b> Phase 2 <b>Location:</b> Prince George, BC <b>Building Type:</b> 19 single-detached houses <b>Landowner:</b> Prince George Metis Housing Society <b>Housing Program:</b> Post-1986 Section 95 <b>Operating Agreement Start:</b> 1985-86 <b>Operating Agreement End:</b> 2011</p>
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Table 1: Tenant considerations pre- and post-expiry

Tenant Considerations	Before Expiry	After Expiry
Tenant type	Aboriginal families and singles with children	Aboriginal families and singles with children in deep core need, and Low End Market (LEM) rent, non - Aboriginal families who can afford to pay Market rents
Rent calculation	100% RGI	20% RGI, 25% LEM rent and 55% market rent

The Phase 2 project had an operating deficit until July 2011. The annual replacement reserve allocation has increased, but the balance was clawed back by the funder at the end of expiry. A capital plan has been put in place, but there is no capital reserve investment strategy. Mortgage expenses on Phase 2 have been eliminated.

Table 2: Financial status pre- and post-expiry

Financial Status of Phase 2	Before Expiry	After Expiry
Financial viability	Operating breakeven	Operating deficit
Annual replacement reserve allocation per unit	\$180	\$200
Replacement reserve balance	(\$24,249) in June 2009	\$0 (due to claw back by funder)
Capital plan in place	No	Yes
Capital reserve investment strategy	No strategy	
Mortgage expenses	Lower than subsidies	No mortgage expenses

On a portfolio basis, the Society has fewer properties under its management owing to the sale of 8 houses/units. However, PGMHS now owns title to 29 properties from the Phase 1 and 2 expiries. Subsidies have ended for 37 houses in total (Phase 1 and 2).

Table 3: Portfolio details pre- and post-expiry

Portfolio considerations	Before Expiry	After Expiry
Number of properties	98	90
Number of units	167	159
Type of units	Subsidized single-detached houses, five row housing developments, and four apartment buildings	With some projects under redevelopment, unit type is changing
Properties owned outright	0	29

### Planning for expiry

The Society had previous experience with expiry when its Phase 1 project expired the previous year. However, it appears that no planning process had taken place before either agreement expired.<sup>1</sup> The Society is now taking a number of steps to plan for future expiry. PGMHS is currently working with the Aboriginal Housing Management Association (AHMA), Community Futures, and a private consultant on a strategic plan for future expiry dates for its other phases. This strategy is first aimed at stabilizing the existing assets and the organization as a whole with a governance plan. A second phase will include the operational plan.

The Society has renegotiated the agreement covering their Phase 3 projects with BC Housing in order to have a further 10 years to plan for expiry and to stabilize existing assets. The Society now uses property management software to facilitate the tracking and processing of the portfolio, which is also valuable when preparing for expiry.

In discussion with other agencies that are being impacted by subsidy expiry, the PGMHS Executive Director was told that there are really only three options available to the Society:

1. Reduce operating costs;
2. Increase revenue through higher rents; and
3. Sell assets.

The Society has simultaneously implemented all three steps.

### *Ensuring financial viability*

One of the first actions taken following expiry was to sell eight houses, which meant that the Society was no longer insolvent. The action has proven insufficient in stabilizing the portfolio, as both Phase 1 and Phase 2 continue to operate in a deficit position.

When the units were subsidized, the tenants were assigned to the units using income criteria. Now that the subsidies have concluded, the rental revenue is not sufficient to meet operating expenses. As a result, the Society targets its RGI units to people who are in greatest need, including those who are

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<sup>1</sup> The current Executive Director assumed that position in 2011.

unemployed, on fixed income like elders or who are in poor health. Other rents have been raised to low end of market rent or market rent.

In order to keep the rents as affordable as possible for as many people as possible, the Society has looked at its portfolio as a community asset, to determine how to maximize opportunities. Two examples illustrate this:

- The Society identified a 5-bedroom house, ideally located near the hospital, the medical center and the new cancer clinic to potentially raise revenue while responding to a long-time need in the community. The house is currently under renovation and will serve as rental accommodation for people needing temporary accommodation while undergoing medical treatment. Renovations were a condition to rent the 5 bedrooms on a commercial basis; however investment in the renovation will raise the value of the property. Community Futures Development Corporation is assisting the Society in developing a business plan for Phase 1 and 2 of this project.
- The Society is also looking at the possibility of developing basement suites within the Phase 2 units. This will allow the Society to increase revenues for those properties.

#### *Explore energy efficiency initiatives to reduce costs*

In order to reduce costs through energy efficiency, the Society accessed BC Hydro's Energy Conservation Assistance Program (ECAP) funding. BC Hydro and FortisBC provided the Society with historical consumption data for the whole portfolio to help identify opportunities for cost savings.

PGMHS is also partnering with local organizations on a training program for 12 youths. With Fortis BC they are learning about energy audits, energy efficiency and how to reduce greenhouse gas emissions while reducing the operating costs for the whole portfolio.

#### *Planning for renovation or capital replacement*

There was significant deferred maintenance in the houses when the agreements expired. Moreover, as some tenants began to be charged a market rent, the houses needed to meet certain standards. To address these issues, the new administration developed a 5-year capital plan to better anticipate the cost of upcoming repairs and replacements. The plan is based on historical costs the Society had when maintaining and replacing building components and the Executive Director's own experience in managing and developing housing.

#### *Involving staff and tenants*

When BC Housing provided onsite support to the Society two years ago, they provided assistance in notifying the tenants to explain the situation and what to expect upon expiry. As rent increases were anticipated for some units, tenants were offered the choice to move to another subsidized space within the Society's portfolio. This proved to be a challenge, as some tenants did not fully understand the rationale for rent increases.

A historical lack of communication between the Society's administrators and tenants hampered the Society's ability to manage the financial challenges associated with the loss of subsidies. The current

management is addressing this. They are concerned about maintaining tenant communication, but also recognize that they have a responsibility toward the community as a whole.

Expiry can also create uncertainties for staff and it was important through the expiry process to ensure that staff were kept informed and invited to provide ideas and contribute to solutions. The new administration is now in the process of developing new property management procedures, so that the Board, staff, community members, and tenants have a clear understanding of the situation.

## Challenges, opportunities and lessons

### *Challenges*

The organization has sought to create stability after a period of difficulty. Poor tenant relationship in the past contributed to significant obstacles for the Society as a new administration began to address the expiry of operating agreements on highly subsidized properties. In addition to insurance and property taxes, maintenance costs are a big issue for the Society. And when required, the loss of revenue that occurs during renovation is a challenge to overcome.

### *Opportunities*

Expiry has created opportunities to be innovative, to reach out, and to build new relationships and partnerships within the community.

“Being asset rich can be used as leverage and as a way of building relationships and partnerships with other people who have cash, whether it would be the private sector or the public sector, First Nations communities, the whole spectrum of community in fact.”

For a 5-bedroom home project, the Society is building partnerships with several organizations including Carrier Sekani Family Services, Prince George Native Friendship Centre, Central Interior Native Health Society, potentially Northern Health, and a number of First Nations rural communities. PGMHS provided the land and the building and contributed \$49,000 in capital as well. This project was only possible because there was no longer an operating agreement governing activities.

PGMHS has also been in discussions with Habitat for Humanity and with the Alberta Urban Native Housing Association, which developed a program whereby individuals can contribute toward the purchase of the house by building up equity of their own and using sweat equity as part of their down payment.

PGMHS is exploring the feasibility of being the mortgage holder for those individuals who pre-qualify. If five houses from the Society’s portfolio were used in this manner there would be two benefits:

1. It would reduce the costs for the Society since the property taxes, insurance costs and maintenance would be the responsibility of the homeowner on those properties. The property would remain under the control of the Society.
2. It would bring new cash flow to help create a revolving loan fund, with additional funds being contributed from donors and the money drawn from the sale of the houses.

### *Lessons learned*

**Be open and prepared** to involve all stakeholders in any planning or change process and to be aware of the ramifications: not only financially but also economically, socially, politically and culturally. The interviewee describes the situation: “First of all we’ve talked about a waiting list of 4,000 people and then, at the same time, selling affordable housing units didn’t go too well with the community.”

**Plan.** Developing a plan at least three to four years in advance will allow societies to anticipate the changes rather than reacting post-expiry. In order to better involve the community and the Board, it is important to ensure that decisions are not made too quickly and that there is plenty of lead time to consult with stakeholders.

**Collaborate and act.** Much can be achieved with the support of the Board and the community, but it is important that this is linked with action. It is not enough to research, dialogue and plan.

**Seek partnerships.** There are many societies throughout BC with significant assets but little cash. Pursue opportunities to collectively negotiate financial institutions to leverage capital dollars in order to assist societies like PGMHS. In addition, Aboriginal organizations can look to Aboriginal Housing Management Association or other resources.<sup>2</sup>

**Promote organizational capacity.** It is also important to ensure that the organization has the capacity to make the necessary changes.

### **Future considerations**

PGMHS is moving forward in discussions with the City and with other non-profit housing providers to propose new developments for singles, elders or people with disabilities. There are many single people on the waiting list for affordable housing and the Society’s current portfolio of primarily single-family homes does not meet their needs. The Society would like to diversify its portfolio beyond the few apartment buildings and barrier-free housing units they already own. The Society would also like to create affordable housing opportunities for the hardest to house, but needs financial assistance to make this a reality.

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<sup>2</sup> The Aboriginal Housing Management Association (AHMA) oversees off-reserve Aboriginal Housing throughout BC. The respondent also noted the First Nations Leadership Council, the Metis Nation British Columbia and their Relationship Accord signed in May 2006 with the provincial government.