TAKE ACTION TO PREPARE FOR POST-SUBSIDY

"Societies nearing mortgage expiry with well funded reserves, well maintained buildings, a mix of tenants, and streamlined operating costs will be in the best shape to handle post-subsidy operations." AHMA CEO **Andrew Leach**

How to Prepare for Post-Subsidy

Your subsidy covers the mortgage payments and costs–non-manageable, manageable and administration. When the mortgage expires, you will no longer receive any money from government. You won't have mortgage payments, but still need to cover the bills. Consequently, you need to offer a mix of market and affordable housing, rather than all low income, to cover costs. The upside is that your society gets ownership and control of your off-reserve Aboriginal housing units.

Here are five steps you should take to prepare before your subsidy ends:

1 Create a post-subsidy budget:

- Forecast the revenues you need to cover the property taxes, insurance, salaries, administrative expenses, replacement reserve provision, etc.
- Determine how much rent you must collect to bring in this amount of revenue and, therefore, what changes you need to make in the tenant mix. Let's say you need to bring in $20,000 a month to cover costs. How many units need to charge market or near market rents, and how many can charge a lower rent?
  - Play with the numbers. For example, 10 rentals at $1,200/month bring in the same amount as 12 rentals at $1,000/month, or 15 rentals at $800.
  - Identify tenants who can apply for other subsidies, i.e., the Rental Assistance Program (RAP) and Shelter Aid for Elderly Renters (SAFER). Offer to help tenants fill out the paperwork.
  - Establish new rental rates and forecast annual rate increases, if needed.
- Assess where you can lower expenses. Societies already facing the end of subsidy have had to cut costs 10-30%, which is in more line with what free market property managers spend. Typically, salaries and administration are your two biggest manageable expenses and, therefore, need a closer look. Can you reduce staffing costs by combining workloads or cutting a position? Benchmark your operations against the private and non-profit sectors to find potential savings in management areas.
- If you're still not balancing the books after analyzing revenues and expenses, consider liquidating units as part of a strategy to generate revenue and expand your portfolio, not just to increase cash flow. For example, one society has 20 scattered three-bedroom homes nearing expiry in a booming community. Some houses have just one or two tenants paying $400/month in rent. Selling two homes could pay for an eight-plex that generates double or triple the rent, increases total rental units, and lowers maintenance costs.

***New tenant mix** > One society increased its rent for two homes to near market rates, which allowed it to rent a third unit to a single mother at a subsidized rate.*

2 Advise tenants of the new rent:

- Ensure all your tenancy agreements say the rental rate is subject to subsidy being available. Under the Residential Tenancy Act (RTA), this wording allows you to increase rents when your mortgage expires.
- The RTA also requires you to give at least three months notice of a rent increase. But giving tenants as much notice as possible allows them more time to prepare for the change.
- Here's an example of a letter one member society sent to its tenants:

> *The unit you are currently renting will no longer be available for subsidy. I am therefore providing you with a year's notice to either move into another unit when one becomes available, or to pay the market rent. If a unit is not available and you do not wish to pay the market rent, we will accept your notice to vacate the premises no later than August 1st.*
>
> *In the event you choose to move into another subsidized unit and one comes available, the society will cover the costs of moving expenses.*
>
> *The new rental amount will be $750/month. The utilities will remain your responsibility.*

3 Inspect each unit/building and create a maintenance plan:

- Build your replacement reserve in the years leading up to mortgage expiry
- Complete all repairs and replacements before subsidy expires
- Stagger the work plan over the course of at least a year
- Rebuild the reserve by the time new maintenance issues are likely to arise

4 Establish new administrative systems for post-subsidy operations:

- Set up a new bank/credit union account and arrange cheques/VISA
- Direct your financial institution and insurance company to ensure properties are put in the society's name when the mortgage expires, and ensure the change is made at the Land Title Office
- Set up separate bookkeeping
- Set up a new replacement reserve account
- Have all properties appraised

5 Review and revise your constitution, if necessary, to give you the freedom to tap into your equity:

- Ensure the constitution's purpose gives you the ability to deliver affordable and market units; acquire and use real/personal property; and buy, own, hold, lease, mortgage and sell property
- Change the wording of your policies and procedures, if current policy says tenants will pay a specific percentage of income, to avoid challenges and allow affordable and market units
- Ensure policies require transparent, accountable financial management and governance of society assets post-subsidy

We will raise market rents, while keeping rents low for the most vulnerable tenants. We're also interested in piloting Aboriginal home ownership." **Sheila Hanshaw**, Dawson Creek Native Housing Society, post-subsidy April 2010