

Expiry of Operating Agreements

20th Annual Non-Profit Housing Conference

November 21, 2012



Session Outline

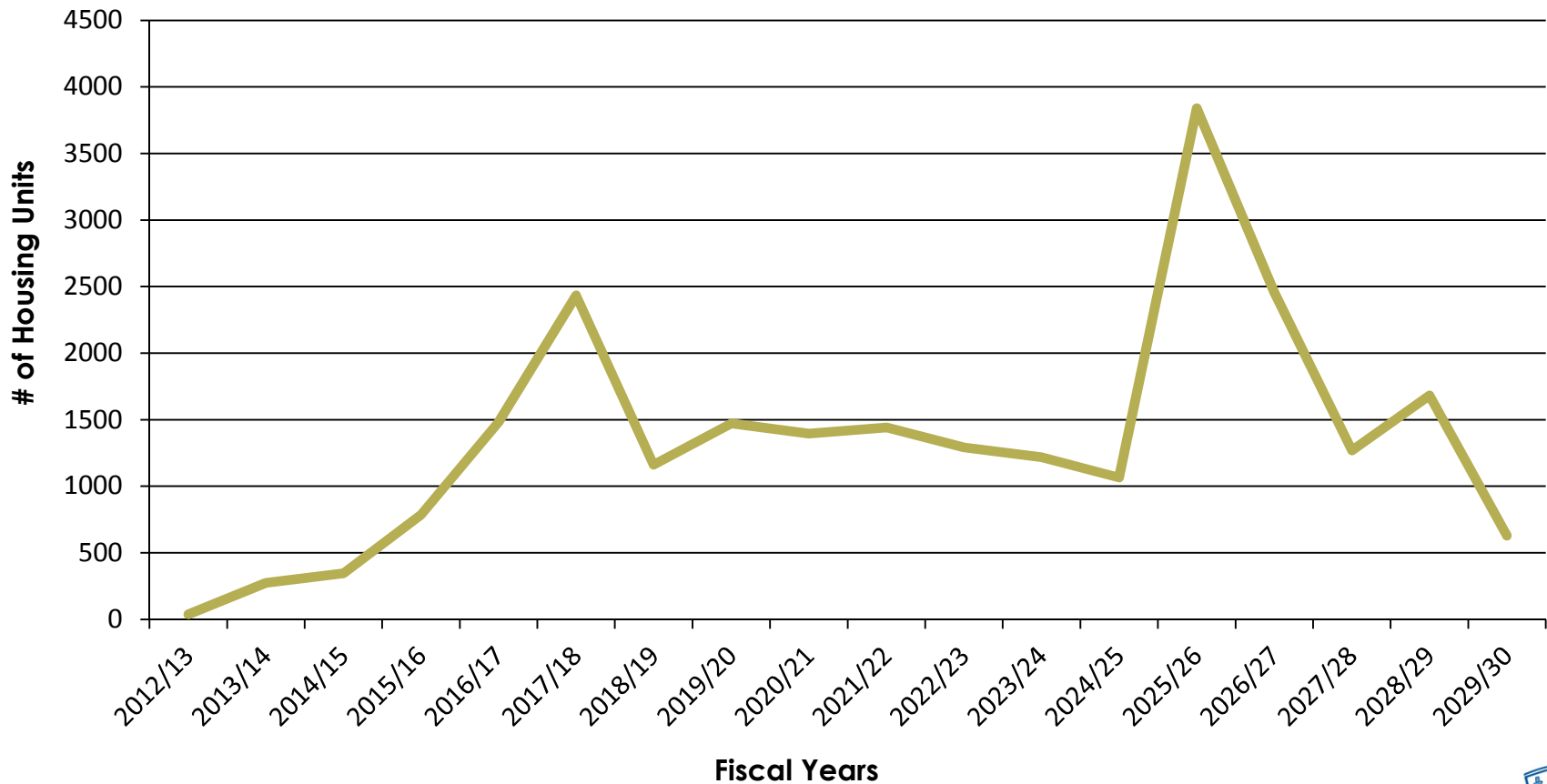
1. BCNPHA/BC Housing Joint Workplan
2. Expiring units across BC
3. Profiles of non-profits post-expiry
4. Interviews
5. Simplified assessment tool for NPs

BCNPHA/BC Housing Joint Workplan

- Partners came together in 2011
- Three phases of work plan:
 - Phase 1: Gathering data, exploring challenges and opportunities
 - Phase 2: Analysis
 - Phase 3: Developing strategies

Expiring Units Across BC

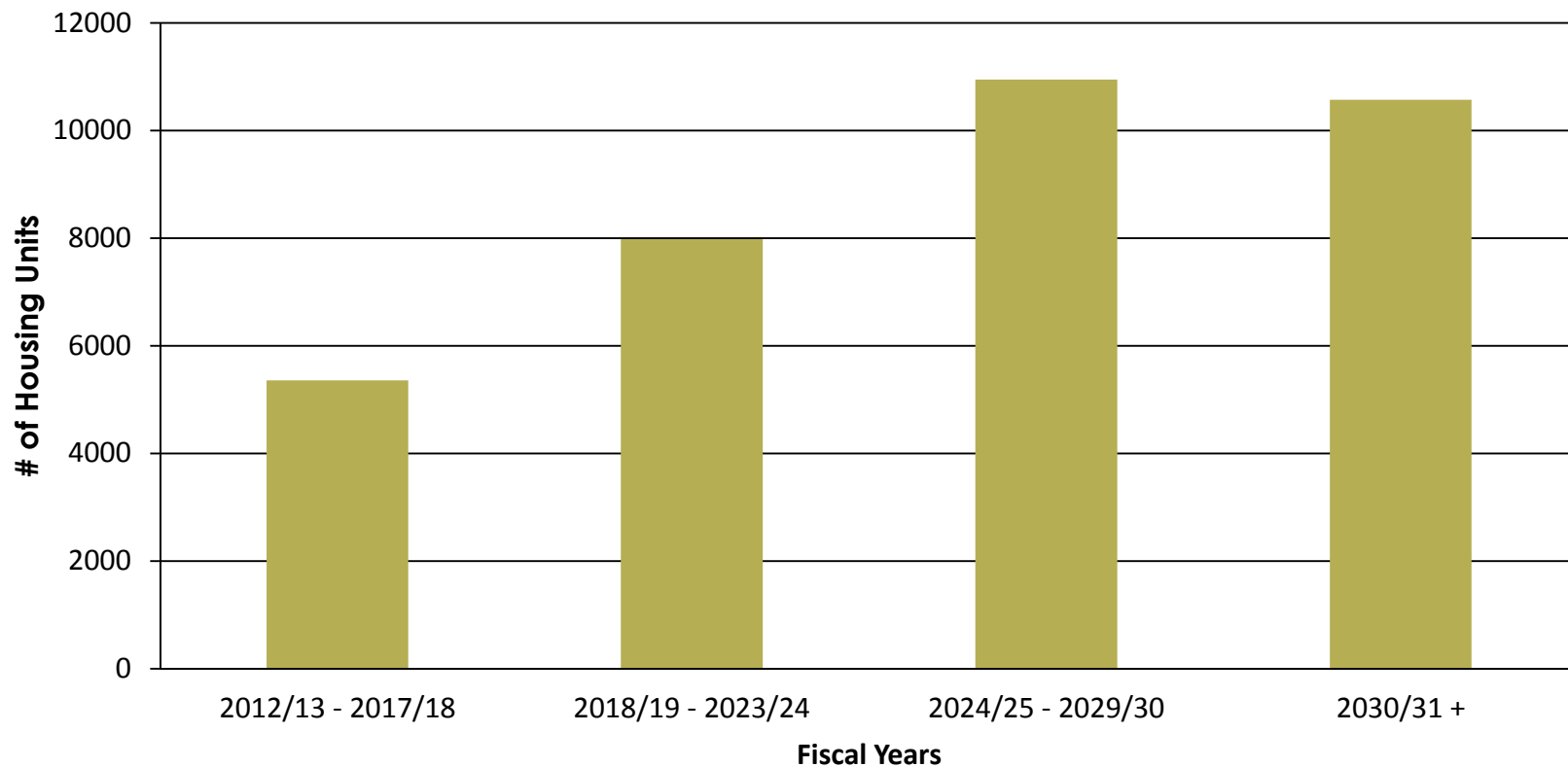
Number of Housing Units with Operating Agreements Expiring
Between Fiscal Years 2012/13 and 2029/30 by Year



Source: BC Housing, September 30, 2012

Expiring Units Across BC

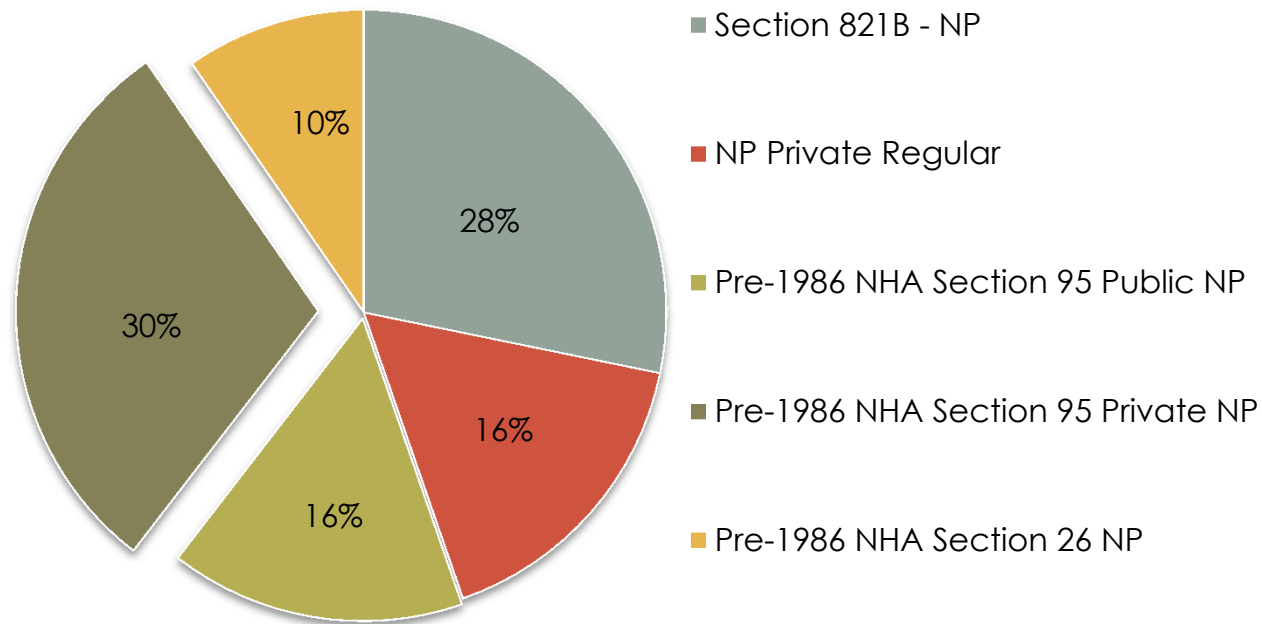
**Number of Housing Units with Operating Agreements Expiring
Between Fiscal Years 2012/13 and 2029/30 by Five Year Period**



Source: BC Housing, September 30, 2012

Expiring Units Across BC

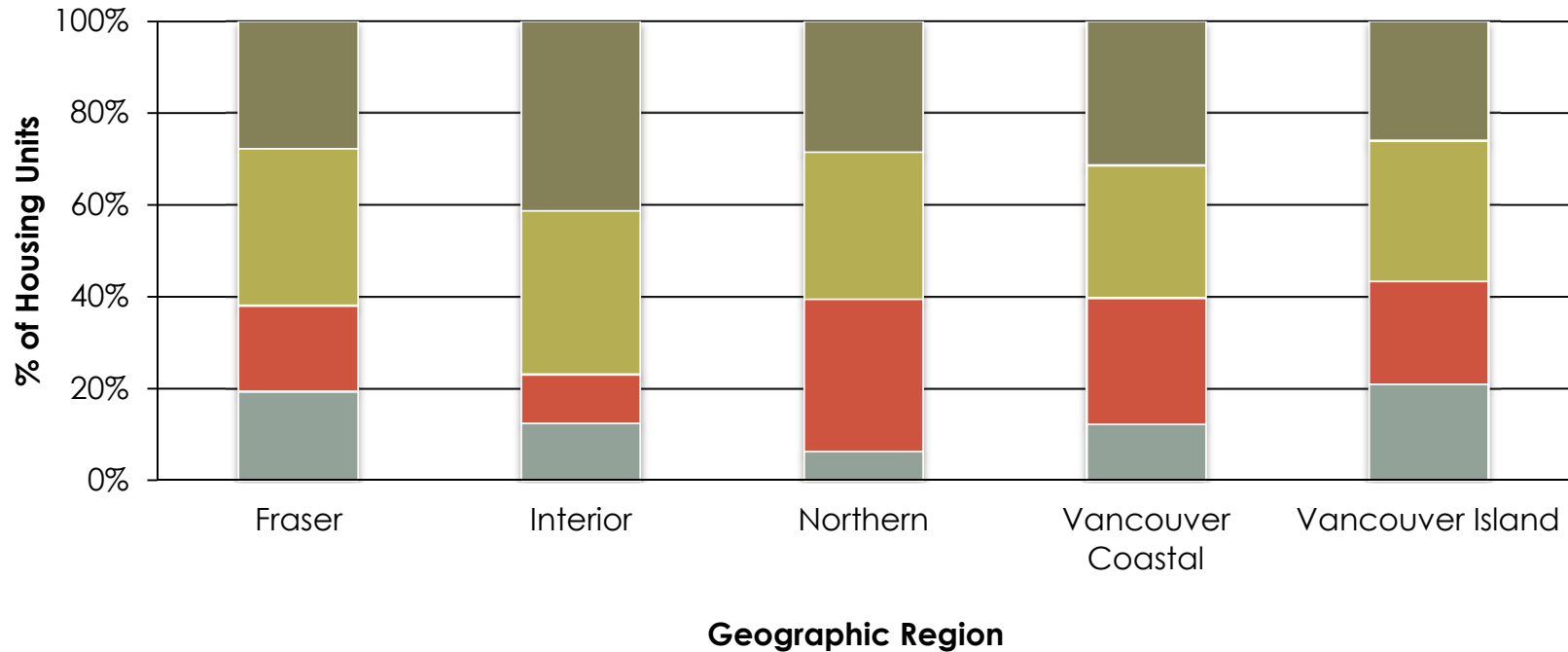
**Percentage of Housing Units with Operating Agreements Expiring
Between Fiscal Years 2012/13 and 2029/30
Among Five Funding Programs with Most Units Expiring**



Source: BC Housing, September 30, 2012

Expiring Units Across BC

Percentage of Housing Units with Operating Agreements Expiring for Geographic Regions between Fiscal Years 2012/13 and 2029/30

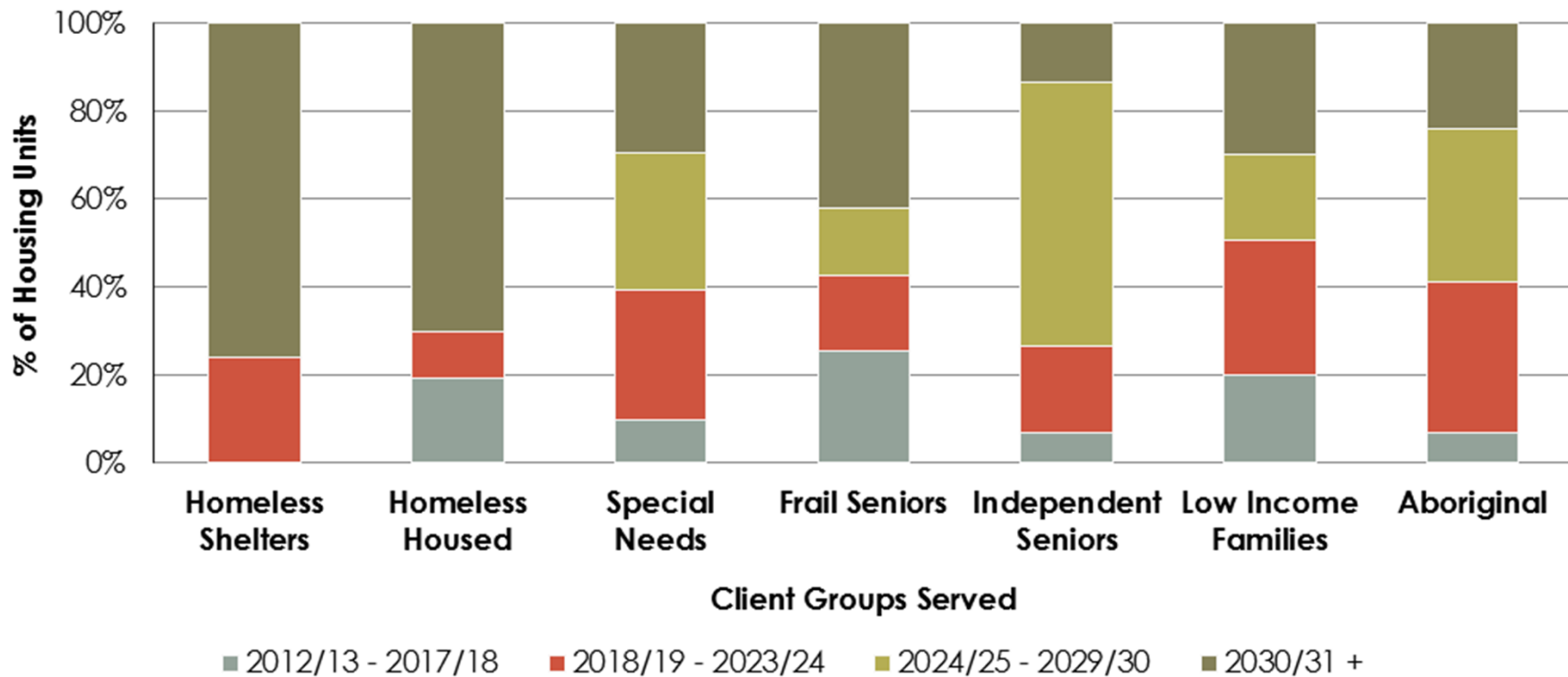


■ 2012/13 - 2017/18 ■ 2018/19 - 2023/24 ■ 2024/25 - 2029/30 ■ 2030/31 +

Source: BC Housing, September 30, 2012

Expiring Units by Client Group

Proportion of Housing Units with Operating Agreements Expiring
by Client Groups Served and Fiscal Years 2012/13 to 2029/30



Profiles of Non-Profits Post Expiry

- 5 societies ranging in size, region and program type
- We sought to learn:
 - How non-profits planned for expiry
 - What actions they took to address expiry
 - What have been the outcomes post-expiry
 - Lessons learned from their experiences
- 4 profiles available at www.bcnpha.ca

Preparedness Interviews

- Purpose: gauge awareness and preparedness of sector
- 33 in-depth interviews conducted in summer 2012
- Range of regions, program types and portfolio sizes

Overall Preparedness and Timeframes

Overall Preparedness:

- 64% very or somewhat prepared for expiry
- 36% unprepared for expiry
- Nearly half of small providers unprepared for expiry

Planning Timeframe:

- Somewhat or very prepared: planning 5+ years in advance
- Not prepared: very little or no planning

Planning Actions

Infrastructure Actions	Financial and Strategic Planning Actions
Building assessments	Cash flow planning
Upgrades and capital repairs	Capital cost planning
Redevelopment planning	Building up replacement reserves
	Organizational strategic planning
	Adjusting rents
	Identifying opportunities for cross-subsidy
	Planning with BC Housing, other funders
	Board education

Knowledge Gaps

- Expiry's impact on legal status of property
- Expiry's impact on operating budget
- Operating agreement renewal/extension options
- Financial position related to BC Housing and mortgage financing
- Lack of clarity on resources available and strategies to ensure viability

Organizational Capacity

- Small providers more likely to feel financially unstable, less likely to have resources for consultants
- Planning in small, unprepared organizations more likely to be Board driven
- NPPM turnover more challenging for small providers
- Mid- and large societies indicated financial viability
- Concern about replacement reserves universal

Key Challenges

- Common across portfolio sizes
- Maintenance and capital repairs on aging buildings
- Replacement reserve funding
- Maintaining current rent structure not an option in all cases
- Turnover among NPPMs

Key Opportunities

- Prepared societies more likely to identify opportunities than unprepared
- Redevelopment and densification potential
- Rent mixing in buildings to allow for stable, sustainable income
- Could potentially increase the security of affordable housing in communities

Roles of Partners

BC Housing	BCNPHA
Small providers identified increased role	Identified by all providers
Capital planning and investments	Capacity development
Increase flexibility in mortgage payout	Educational and preparedness tools
Increase PDF funding to hire consultants	Advocacy role re: capital investments
Minimizing turnover among NPPMs and ensuring adequate training	Convening community partners
Convening community partners	

Lessons

- Importance of long-term planning
 - Replacement reserves and capital planning
 - Long-term strategic planning
 - Board and staff succession planning

Simplified Assessment Tool

- Developed by Steve Pomeroy
 - For BCNPHA and five national/provincial partners
- Helps NPs examine impact of expiring agreement
- Two types of assessment:
 - Is the project viable?
 - Is the capital reserve adequate?
- Companion document provides options to explore based on outcomes of assessment

Using the Tool

- Input basic data from recent fiscal statements
- Uses default inflation factors
- Tool forecasts revenues and operating expenses
- Generates 4 possible outcomes:
 - One generates positive results
 - Three require remedial steps

Addressing Unviability or Weak Viability (Cells 3 & 4)

- Actions focus on increasing revenues
 - Adjust market rents
 - Adjust RGI mix (at turnover)
 - Shift RGI to market
 - Abandon RGI rents for low break-even rents

Addressing Insufficient Reserves (Cells 2&4)

- First assess why this is happening
- Explore revenue generation scenarios
- Other potential options:
 - Borrow against surplus
 - Add capital improvement levy to rents
 - Seek approval to increase pre-expiry contributions
 - Seek approval to re-amortize and borrow pre-expiry
 - Seek renewal of funding support

Questions?

Positive Outcome (Cell 1)

- Positive cash flow and sufficient reserves
- Things to consider:
 - NOI solidly positive or marginally positive
 - New tenant selection affects forecast rent revenues
 - Unanticipated increases in operating expenses
 - Building maintenance and upgrades deferred
 - Develop a capital plan
 - Surpluses used to develop affordable housing
 - Repeat this exercise annually