2015 ONPHA Conference & Trade Show

BEYOND THE BLUEPRINT
2015 ONPHA CONFERENCE & TRADE SHOW

Session #306:

Surviving and Thriving in the Post-EOA era

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Session topics

- What EOA is and why it matters
- Projected impacts
- Options to mitigate/manage
- Sector examples
- Planning for EOA
- Key themes

WHAT EOA IS AND WHY IT MATTERS

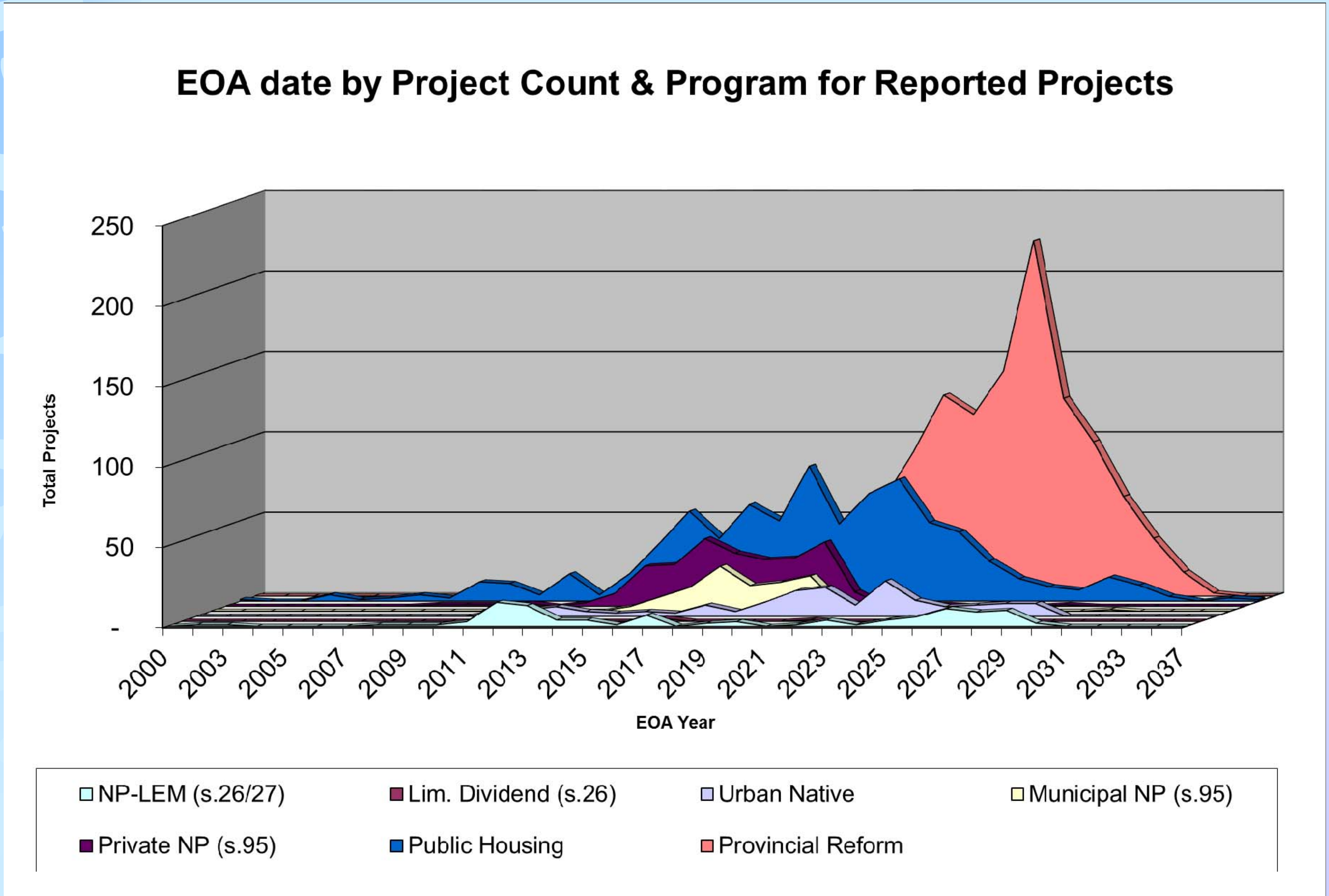
What is EOA?

Expiry of
Operating
Agreements

For projects/units within prescribed programs, the date at which:

- federal subsidy terminates
- debentures/mortgages mature
- legacy project operating agreements expire
- rent supplement funding ends (legacy commercial + NP only)

EOA is an important transition point in funding and administration of prescribed projects



Source: "*Social Housing End Dates in Ontario: Assessing Impacts and Promoting Good Practices*", Re/fact Consulting for HSC and OMKN

Program Categories

Public Housing program

- Former OHC stock, now LHC
- Federal/SM cost-sharing
- Non-defined funding obligation
- Debentures

Federal programs

- Includes LD, PNP, Urban Native
- Funding per operating agreement, federal-based
- Insured mortgages or assistance

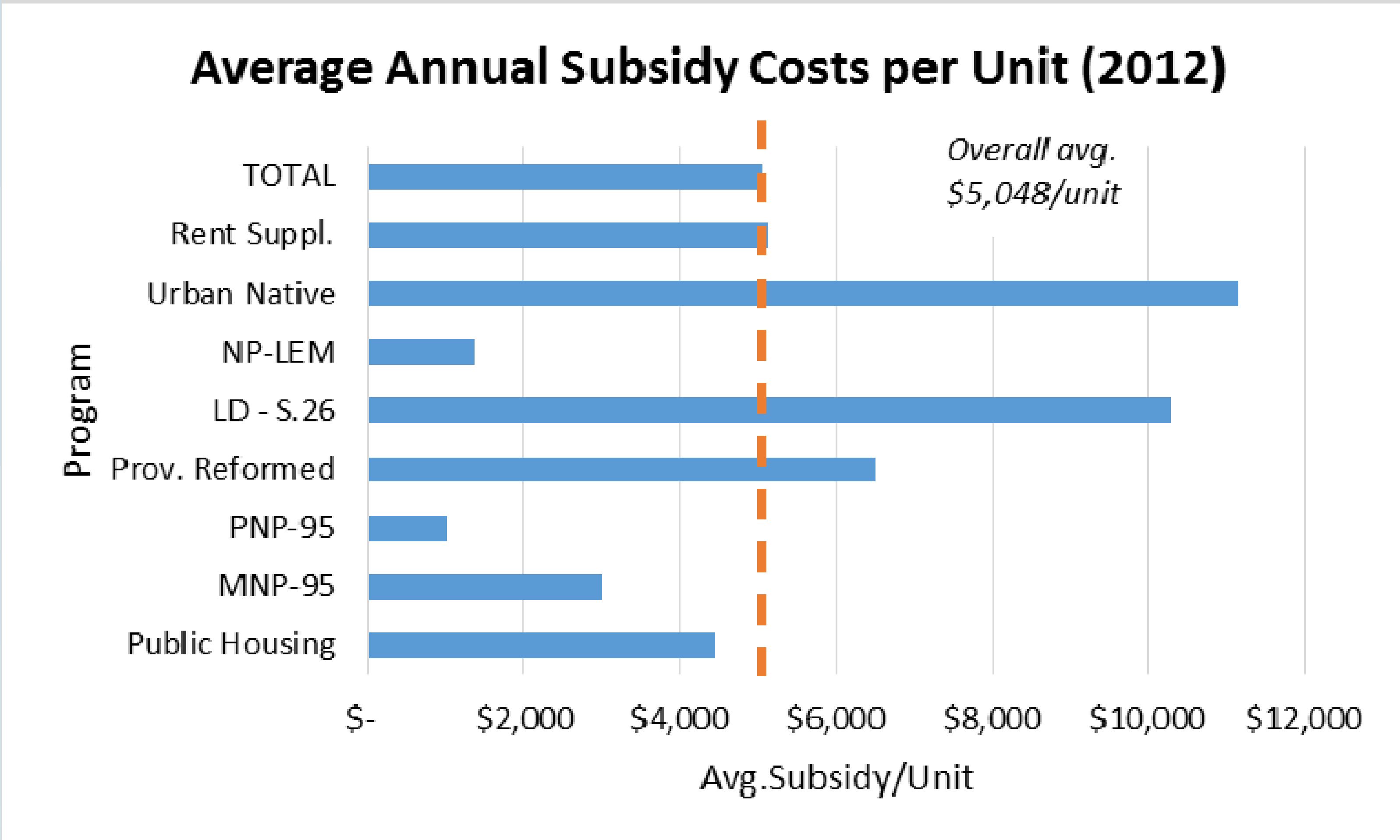
Prov. Reformed programs

- Includes reformed non-profit and coop programs
- Prescribed funding formula, some federal cost-sharing
- Insured mortgages

Rent Supplement programs

- Former commercial + NP
- Subsidy-based funding only
- Various funding formulae, some federal/SM cost-sharing

Subsidies are not created equal



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A Changing Operating Environment

BEFORE SHRA:

- OHC-LHA structure
- Project operating agreements (POA's)
- Rent Supplement landlord agreements

AFTER SHRA:

- Terminated POA's (Prov. Reformed)
- Shareholder and/or Operating agreements (LHC's)
- Federal projects agreements remain
- SM/DSSAB service agreements

POST-EOA:

- Terminated POA's (Federal)
- LHC's - ?
- Other NP providers - ?
- Other (i.e. Rent Supplement) - ?
- Federals - ?

Legislative obligations

Why EOA matters

- Legislative obligations
- Funding changes
- Operating Changes
- Capital implications

Different perspectives for SM's vs. Providers because of differing implications and responsibilities

Why EOA matters

Legislative obligations

- Need to maintain service levels
- Continued affordability
- Maintain project in good order
- Changes in subsidy entitlement
- Shift in accountability structures

Funding Changes

- Stepdown of federal dollars for cost-shared programs
- Debt payments decrease with maturing mortgages/ debentures

BUT….

- Truncation or change in subsidy payable to provider

Why EOA matters

Operating changes

- Some obligations terminate at EOA = new flexibility
- More SM discretion in funding and delivery of programs
- SM funding may <u>or</u> may not continue
- Provider relationship with SM is critical

Capital implications

- Aging buildings face substantial repairs/ replacements
- Reserves to address capital needs are limited
- Subsidy changes can result in less funding available for capital
- Protecting built-up equity is key to sustainability

Why EOA matters

The bigger picture

- Substantial value of public investment
- The magnitude of accumulating unfunded liability
- Increasing SM costs > tax base pressures
- Changing needs of residents/communities
- Limited new rental development, especially affordable
- Provider sustainability > affordable rental supply

WHAT'S THE IMPACT OF EOA?

Service Manager impacts

- Dual impact of federal funding withdrawal – pre-EOA and post-EOA
- Legislative funding obligations beyond EOA
- Obligation to maintain service level standards (SLS) beyond EOA
- Escalating costs and declining federal funding = higher subsidy costs over time
- Undefined accountability structure with providers post-EOA

SM impacts influence relationships with providers

Obligation to fund differs post-EOA

Insert legal disclaimer here………..

Public Housing

- ‘sufficient’ funding + SLS

Provincial Reformed

- prescribed funding formula + SLS

Rent Supplement

- RGI rules << -- >> SLS

Federal programs

- No funding obliged but may be beneficial for SLS

Legislative interpretations, esp. around counting for SLS

What is the impact of EOA?

Past research

- Project viability post-EOA tends to vary by program stream
- Higher RGI ratio = lower viability
- Capital requirements a looming threat due to unfunded liability
- Accumulated equity in older stock

Assessing Project Viability

Operational dimension

- Net Operating Income (NOI) as a measure of viability
- Excludes mortgage and subsidy for testing purposes

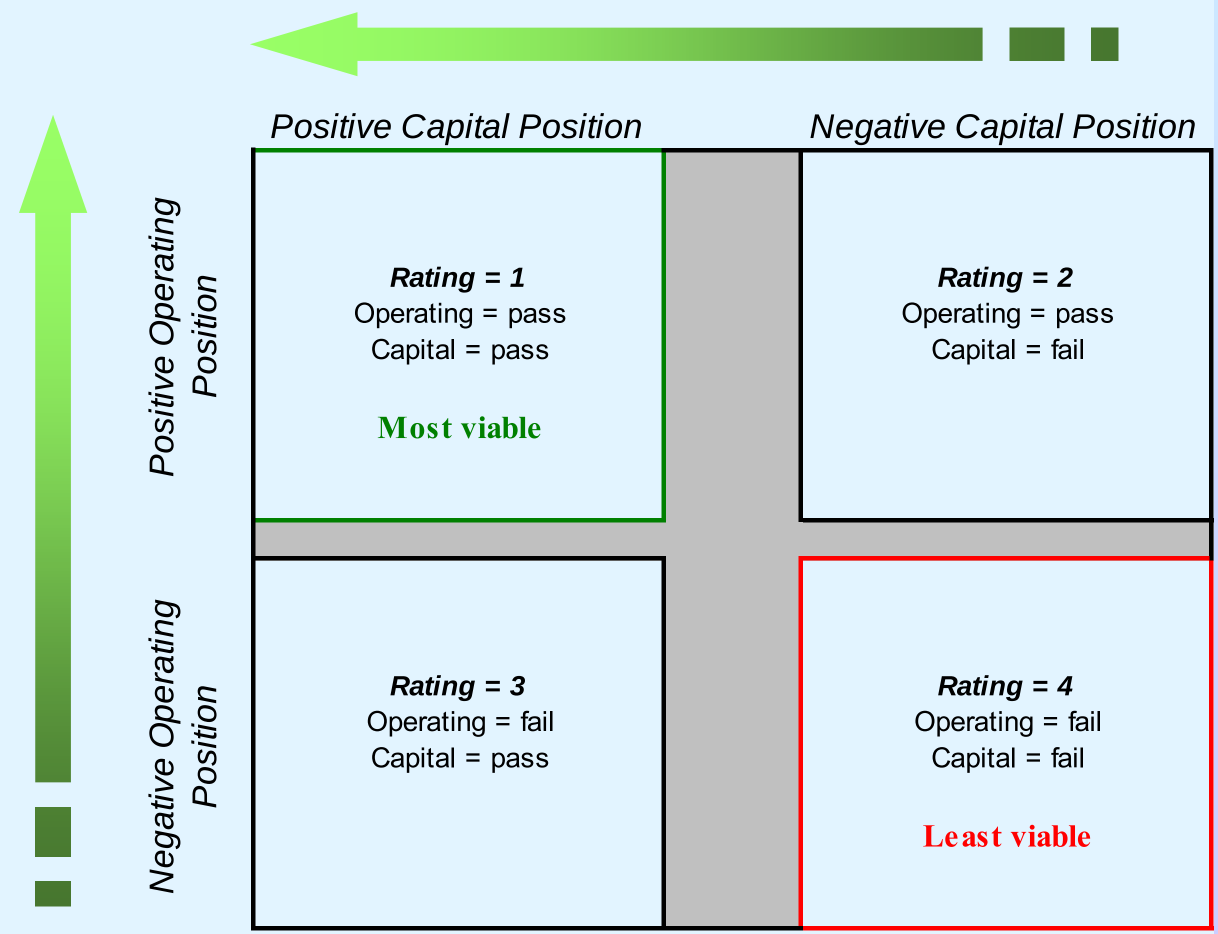
Capital dimension

- Reserve fund balance as a measure of viability
- Assumes capital needs are address as you go

Positive cash flow + Asset in good shape = A good start

Assessing Project Viability

Project Viability Testing Grid



** Figure based on matrix in prior research by Pomeroy, Connelly et al*

Maintaining Viability

- Providers need to maintain operations in order to remain solvent as an organization
- Serving residents in need remains a part of your corporate obligations (e.g. letters patent)
- Changes in program funding at EOA will create financial pressures & challenges
- Legislative obligations (other then HSA) apply to you as a landlord

Sustaining the Asset

- Maintaining the project has a direct effect on marketability/curb appeal
- On-going requirement to address lifecycle costs on top of regular maintenance
- Funding capital repairs is costly and is a challenge in the face of modest/depleted reserves
- Useful life – when does it no longer make sense to keep investing in the property?

Other Implications…

<u>Non-profit status</u>

- Changes in subsidy assistance can influence non-profit or charitable status with CRA
- This can have tax and program eligibility implications ($’s)
- GAAP and RTA exemptions can also be tied to maintaining N-P status

<u>HST status</u>

- Preferred rebate rates enjoyed by providers depend on:
  - Level of subsidization to residents
  - Level of support from government
- Loss of preferred status can mean reduced rebates, increased operating costs

So is the glass half-full….
…..or half empty?

RISKS

- Maintaining on-going financial viability
- Sustaining affordability
- Managing capital shortfalls

OPPORTUNITIES

- New operational flexibilities
- More autonomy to make decisions
- Ability to leverage equity from the asset

MITIGATING OPTIONS

Mitigating options

General concepts from perspective of both SM and providers

- Increase operating revenues
- Decrease operating costs, finding efficiencies
- Raise working capital, leveraging of existing assets

What providers have been or are doing

Fiscal fitness

- Getting the financial house in order - improving the balance sheet
- Establishing policies/ practices to maintain a healthy financial position
- Using monitoring and forecasting tools to inform financial decision-making

Shared services & mergers

- Bulk purchasing of goods/services to get scale pricing
- Shared property management models
- Integration of orgs. to reduce administrative overhead

What providers have been or are doing

Re-financing

- Capture rate savings through mortgage renewals in low-rate environment
- Blend & extend mortgages to raise capital for repairs
- Internal financing from part of portfolio that is generating a surplus

Re-development

- Replacement of existing stock in poor repair
- Intensification of existing stock by adding units/changing size mix
- Divesting of assets with re-allocation of proceeds (e.g. scattered units)

Mitigating your risks

1. Managing costs, revenues and cash flow

Minimize costs

- Bulk purchasing/ tendering
- Preventive maintenance program
- Lifecycle energy retrofit program

Maximize revenues

- Reduce arrears
- Utilizing current market rents
- Re-visit RGI tenant mix
- Alternate rent structure*

Mitigating your risks

2. Seeking operational efficiencies

Organizational structure

- Review staffing and resource allocations
- Use of alternate management structures

Energy efficiency measures

- Curbing consumption to reduce operating costs
- User pays for add-ins (a/c, parking plug-ins, etc.)

Mitigating your risks

3. Strategic use of reserves/resources

- Funding capital repairs with short payback
- Prioritize energy savings
- Seek energy grants for capital works
- Maximize return on investment for capital reserves
- Maximize SHRRP and related repair program funding

Mitigating your risks

4. Sustainability planning

- Governance review
- Corporate succession plan for Board & staff
- Up to date management policies & practices
- Building condition assessment
- Strategic asset plan for your portfolio
- Transition plan for post-EOA period

RESPONDING TO EOA AROUND ONTARIO

Examples from around Ontario

Reinvesting equity

- Victoria Park Homes – Hamilton

Re-financing for capital repairs

- Ottawa Community Housing – Ottawa

Leveraging through repairs

- Nipissing LHC – North Bay

Intensification/Redevelopment

- Regent Park, TCHC - Toronto

Examples from around Ontario

Building EOA capacity

- Centretown Citizens (CCOC)– Ottawa
- Region of York + City of Toronto

Funding Stepdown and EOA Strategy

- City of Kingston

Community Revitalization Plan

- Peterborough Housing Corp.

Other Examples

Beyond Ontario

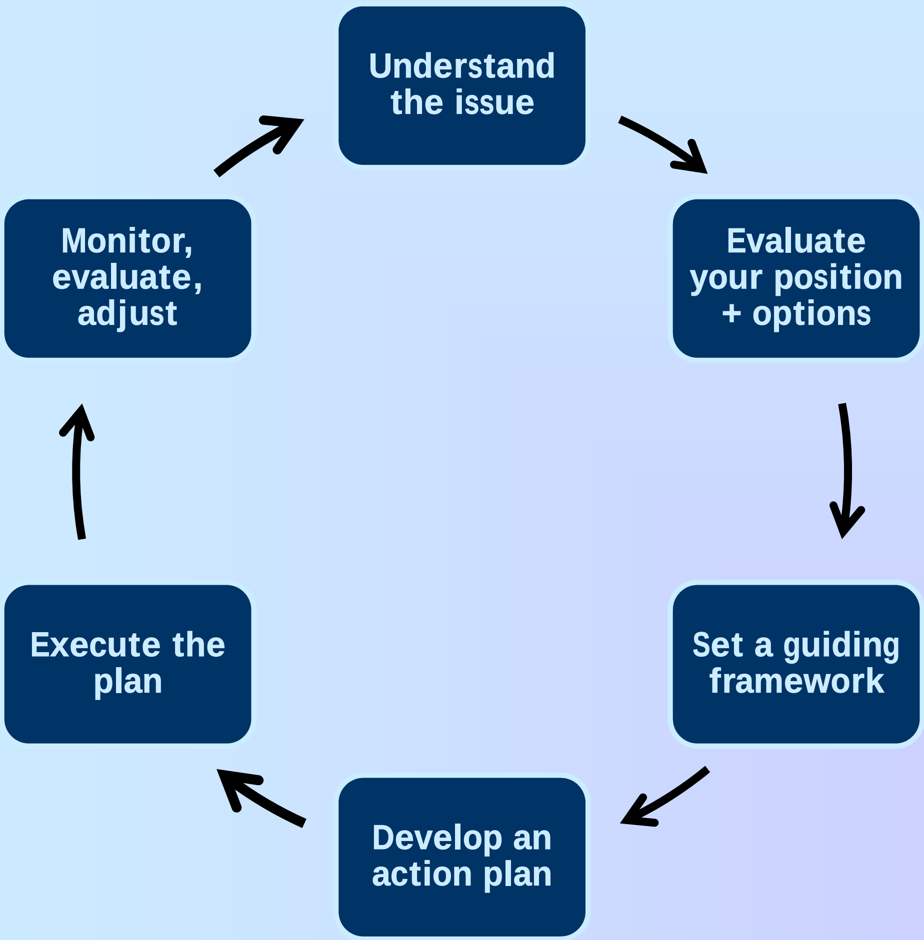
- *EOA Planning Guide for Housing Societies* – BC Housing/BCNPHA

Research in-progress

- *Business Transformation; Promising Practices* - Housing Partnership Canada, release pending
- *Case Studies for Social Housing at EOA* –CMHC, anticipated release, Spring 2016

PLANNING FOR EOA

Planning for SM's + Providers



Planning considerations

- Organizational capacity
- Working resources
- Potential partners
- Non-Profit/charitable status
- Tax status
- Legal requirements
- Tenant impacts

Available Tools and Resources

- Background studies and materials
  - HSC Share web site
  - ONPHA, CHF, CHRA
  - MMAH, CMHC
- Getting help
  - Sector assistance
  - Consulting resources
- Assessment tools
  - ONPHA, CHF, CHR
- Financial resources
  - Infra. Ontario
  - CMHC (underwriting)
  - Conventional lenders
  - Emerging – alternate funding, social impact bonds

Moving Forward – First Steps

1. Improve your organizational awareness of EOA issues/implications
2. Seek out available resources/tools/technical expertise
3. Develop basic plan to address portfolio needs – sooner rather than later
4. Collaborate on solutions together with other providers/partners
5. Work with your SM to plan forward for a smoother transition

Perspectives

Providers

- taking care of business
- being open to new entrepreneurial ideas

Service Managers

- managing costs
- maintaining local supply
- maximizing leveraged opportunities

Sector-wide

- Securing legislative clarity, flexibility
- assistance with capital shortfall

Closing Thoughts

- Changes post-EOA are not wholesale, certain obligations remain
- The opportunities and challenges you face really depend on your situation
- SM’s have obligations, providers have sustainability needs - partnerships and mutual cooperation are key
- Plan ahead - don’t be DOA at EOA

Questions?

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