# Executive Summary

**Based on HSC's EOA Planning Guide for Ontario's Former Federal Housing Programs**

| Name: | Provincial Reformed Mixed Mandate Long-Term Capital Needs |
| --- | --- |

## Housing Provider Overview

**This is a fictitious single project housing provider under the Provincial Reformed program with a mixed mandate. For illustrative purposes.**

## Operating Viability Post EOA ☑

Under the current Provincial Reformed funding formula, there will be no subsidy payable after the final EOA date due to the mortgage exceeding the total subsidy. An alternative funding arrangement will need to be negotiated as the SM needs to continue its relationship with the HP to meet Service Level Standards.

## Capital Funding Adequacy Post EOA ☒

The housing provider is projected to need an additional $56,000 annually for the next 30 years to maintain their current assets in a "Good-Fair" state of repair. If only the base level capital reserve contribution was made, the HP project would be in "Poor" condition in 30 years. On the 'Post EOA Subsidy Scenarios' tab, several different scenarios are illustrated which could significantly reduce the annual capital shortfall. Additionally, refinancing and continuing to use the PR funding formula could eliminate the annual capital shortfall as well.

## Review of Other Factors ⓘ

The housing provider's preference is to maintain the same tenant mix and mandate post EOA. The housing provider also has excess land that it should complete a site assessment on in order to assess options. The HP has good capacity for it's size to research the important considerations and evaluate post-EOA options.

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## Explore and Assess Options

To address the housing provider's long-term strategic, operating, and capital needs, the following post EOA options should be considered:

- a) New or extended operating agreement with the Service Manager;
- c) Intensification of units with the housing provider's excess land;
- d) Apply for Grants and donations;
- e) Consider refinancing options;
- g) Consider shared services to increase capacity and establish efficiencies; and
- h) Consider energy efficiency and conservation initiatives.

# Step 1 Financial Overview

Based on HSC's EOA Planning Guide for Ontario's Former Federal Housing Programs

**Name:** **Provincial Reformed Mixed Mandate Long-Term Capital Needs**

## Key Info

| | | | | |
|---|---|---|---|---|
| EOA/EOM/DM: | **2023** | | Location: | **Urban** |
| Program: | **Provincial Reformed** | | Mandate: | **Mixed** |
| Accumulated Operating surplus/(deficit): | | **$65,000** | Building: | **Apartments** |
| Capital Reserve Fund Balance: | | **$250,000** | | |
| Facility Replacement Cost: | | **$10,000,000** | Year Built: | **1988** |

Affordability mix:

| | |
|---|---|
| # of RGI units (30% of income) | **25** |
| # of Market units | **30** |
| Total Units | **55** |

| Unit types: | | |
|---|---|---|
| | **1 bdrm apt** | **33** |
| | **2 bdrm apt** | **22** |

Market Rent Analysis:

* Fall 2015 City Zone.
** 2015 market rents.

| | Market Rents** | CMHC Avg Rents* |
|---|---|---|
| 1 bdrm apt | **800** | **999** |
| 2 bdrm apt | **985** | **1,199** |

*~81% depth of affordability*

## Operating Viability

| | | **2015** | **Year Under Review** |
|---|---|---|---|
| Rental and non-rental: | | $ 370,000 | |
| RGI Subsidy | 80,000 | | |
| Operating/Mortgage Subsidy | (45,000) | | |
| Property Tax Subsidy | 50,000 | | |
| Total Subsidies | | 85,000 | |
| Total Revenues | | 455,000 | |
| Operating expenses: | | $ 295,000 | |
| Mortgage payments | | 100,000 | |
| Capital reserve contribution | | 35,000 | |
| Total Operating Costs | | 430,000 | |
| **Net income before EOA (year)** | | **$ 25,000** | |

*This financial information is an average of 3 years of audited financial results.*

HP project is projected to be sustainable pre-EOA and will be required to contribute excess surplus to capital reserve through surplus sharing.

| | | |
|---|---|---|
| **Savings (loss) to the Provider** | **$ 15,000** | Mortgage less Subsidies |
| **Net Income without subsidy (year)** | **$ 40,000** | NI before EOA + EOA Savings (loss) |

This HP's project would be viable with current RGI mix and Market rents post EOA without an on-going subsidy. However, there is a SM obligation to continue to fund them. Additionally, if the current funding formula continues, it will calculate a negative subsidy because the mortgage payments are greater than the total subsidy amount (see Post EOA Subsidy Scenarios tab, Status Quo w/o mortgage).

## Capital Funding Shortfall with Base Funding

| | | |
|---|---|---|
| Balance in Capital Reserve (CR) fund | $285,000 | as of 2015 + CR Contribution |
| Current Projected Capital Repair Backlog | (1,000,000) | |
| **Base Year Capital Shortfall** | (715,000) | 7.15% Base Year FCI |
| | + | |
| Base CR contributions 2016 to EOA | 280,000 | # of years x CR contribution |
| Projected Capital Needs 2016 to EOA | (500,000) | |
| **EOA Capital Shortfall** | (935,000) | 9.35% EOA FCI |
| | + | |
| Base CR contributions EOA to 30 years | 735,000 | # of years x CR contribution |
| Projected Capital Needs EOA to 30 years | (2,000,000) | |
| **30 Year Capital Shortfall** | $ (2,200,000) | 22.00% 30 Year FCI |

Housing provider is projected to be in fair condition at EOA with current base capital reserve contributions. Housing provider is projected to be in poor condition in 30 years if only the base level of capital reserve contributions are made.

## Additional Annual Capital Funding Needed

***See Post EOA Subsidy Scenarios tab for the effect of transferring operating surpluses to offset capital needs.***

***EOA/EOM/DM: 2023***

**This project needs the following additional annual capital funding to EOA:**

$ 54,375 per year To be maintained in a "Good-Fair" Condition

Until EOA (2023), the HP project won't be maintained in a "Good-Fair" condition, but will still be in "Fair" condition. The HP has also consistently generated operating surpluses and has been required to transfer 50% of the SM's share of the surplus into the capital reserve account. This will could reduce the EOA Capital Shortfall by ~$80k.

**This project needs the following additional annual capital funding for 30 years:**

$ 56,667 per year To be maintained in a "Good-Fair" Condition

On the "Post EOA Subsidy Scenarios" tab, surplus sharing under different continued subsidy options are evaluated. If 50% of the post EOA operating surplus were contributed to the capital reserve fund, the annual shortfall could be reduced to $44k by continuing funding formula. Additionally, there would be no projected backlog if a $80k rent supplement subsidy was provided. Refinancing is also a viable alternative that could eliminate the annual capital shortfall with a subsidy commitment equal to the current amount of subsidy.

* Very Good state of repair is defined as no capital backlog.

* Good-Fair state of repair is defined as a capital backlog of: $500,000

# Step 2 Important Considerations

**Based on HSC's EOA Planning Guide for Ontario's Former Federal Housing Programs**

**and End of Operating Agreements: Legal Issues (Federal Operating Agreements)**

**Name: Provincial Reformed Mixed Mandate Long-Term Capital Needs**

| Important Considerations | Comments |
| --- | --- |
| Service Manager Obligation Post EOA<br>Does the downloaded funding program dictate a SM obligation to ensure program compliance, maintain service level standards, flow municipal subsidy post mortgage pay-off? Is there Federal Funding post EOA to provide? | Provincial reformed funding program does not sunset and SM has obligation to maintain RGI service level standards. SM wants to continue relationship. |
| Early pay-off of mortgage and EOA<br>Does the HP have a desire to payoff their mortgage early and/or end their operating agreement early? What conditions would have to be met to obtain ministerial consent? | HP not interested. |
| Operational Review or Other Concerns<br>Are there any issues or concerns that have been identified in an Operational Review (Site Visit). Is it a Project In Difficulty (PID)? | No significant issues observed. |
| Organizational/Governance Capacity<br>Does the HP have the organizational and governance capacity to deal with the increased pressures to review and evaluate complex and resource intensive alternatives & options?<br>Click here to access an org capacity assessment tool. | HP uses a management company which provides good organizational capacity and supports good governance. The HP is supported by a strong capable Board who are involved in the day-to-day running of the HP. |
| Change Management<br>Does the HP have the capacity to adapt to change in a post-EOA environment? | The HP currently has good capacity to implement a change management methodology post EOA. |

| Important Considerations | Comments |
|---|---|
| Fed/Prov Capital Funding Programs<br>Has the HP received any capital funding from Provincial programs that require ongoing affordability past EOA? | The HP received SHRRP and have an affordability requirement that expires before EOA. |

Legal Definitions and Implications

| | |
|---|---|
| **Mandate and Tenant Mix**<br>Does the HP want to change the objects (purpose) listed in the incorporation documents? Does the HP want to change the mandate that expires with operating agreement? | No, HP wants to continue mixed mandate. |
| **Corporation Classification for Tax Purposes**<br>Does the HP want to retain or apply for charitable status under the Income Tax Act? | Add to HP Workplan. |
| **Compliance with Bylaws**<br>Has the HP considered all options and alternatives against the Corporation's bylaws? | Add to HP Workplan. |
| **Restrictions on Rent Increases & Tenant Mix**<br>Is the HP aware of the possible restrictions to increasing rents and changing tenant mix from the RTA and HSA? | Add to HP Workplan. |
| **Implications of Diversifying Revenue Streams**<br>Rules and restrictions from generating new revenue streams through business activities or commercial use space. | Add to HP Workplan. |
| **HST Issues**<br>Has the effect been considered for the HP's eligibility for municipal status and/or non-profit status for HST rebate claims. Does HST need to be charged on new services? | Add to HP Workplan. |

| Important Considerations | Comments |
| --- | --- |
| Legal Definitions and Implications (continued) | |
| **Shared Service Agreements**<br>Have key questions being asked regarding contractual and personnel considerations? | Add to HP Workplan. |
| **Merger/Amalgamation**<br>Have key legal questions being considered before looking at this option? | Add to HP Workplan. |
| **Financing**<br>Would refinancing require Service Manager consent? Are there any other legal encumbrances preventing the HP from refinancing? | Add to HP Workplan. |
| **Redevelopment**<br>Has the housing provider considered: consent of Ministry, effect to existing tenants, or zoning? | Add to HP Workplan. |
| **Other Property Considerations**<br>Has the HP considered the legal implications of the subdivision of land, potential contamination, encroachments, floor or hazard mitigation, etc.? | Add to HP Workplan. |
| **Sale of Portfolio Assets**<br>Has the housing provider looked at potential restrictions, contractual issues, tenant issues, and tax issues related to the sale of assets? | Add to HP Workplan. |

| Important Considerations | Comments |
|---|---|
| Social Sustainability<br>Do the current units meet community needs and demands for: location, design suitability and social suitability? | There is demand for units larger than 2 bedrooms in the community. |
| Projects on Leased Land<br>Is the HP on leased land? When does it expire and what are the options for renewal? | N/A |
| Site Assessment<br>What is the site and building potential, zoning bylaw, and confirm covenants on land title. | Add to HP Workplan. |
| Tenant Concerns<br>Does the HP have a plan to consult and engage tenants about post EOA plans? | Add to HP Workplan. |
| Fund-Raising<br>Has the HP considered any fund-raising opportunities? | Add to HP Workplan. |
| Other | |

# Step 3 Explore and Assess Options

**Based on HSC's EOA Planning Guide for Ontario's Former Federal Housing Programs**

**Name: Provincial Reformed Mixed Mandate Long-Term Capital Needs**

## 1. Strategic Direction

| | Option? | Comments |
|---|---|---|
| New or Extended Operating Framework<br>To maintain an agreed upon service level: continue existing agreement or create a new framework with a new form of funding. | Yes | HP wants to work with SM to continue relationship. |
| Waitlist Access<br>If this housing provider was to self fund part or all of their RGI units, would they still access the centralized waiting list to access new tenants. | Yes | HP wants to continue accessing centralized waiting list provided funding is continued. |
| Diversify Portfolio<br>Expanding services offered such as: support services, non-rental revenues, or social enterprise? | No | |
| Intensify Building, Land, or Both<br>Viable option to do additions to current building, new building on existing land, or subdividing and sale of land? Is there a demonstrated need for this type of housing? | Yes | Surplus land (parking lot) is available for intensification. |
| Redevelop Site<br>Is the current property in a poor state of repair that rebuilding and redeveloping the site should be considered? | No | Building suits community needs. |

## 2. Increase Revenue

| | Option? | Comments |
|---|---|---|
| Operating/Capital Subsidy<br>Does the HP need an increased or new operating/capital subsidy to operate? Does the HP need an revised or new funding formula? | Yes | Current funding formula will calculate a negative subsidy post-EOA. HP needs continued subsidy to meet capital needs. |

| | Option? | Comments |
|---|---|---|
| Adjust Rent Mix<br>Does the HP want to change the mandated target number of RGI units? 100% RGI HPs want a higher market mix. | No | |
| Increase Market-Rate Rents<br>Does the HP need to consider rent guidelines increases or higher increases on turnover to generate additional revenues? | Maybe | Market rents have been historically increased at close to rent control guideline. |
| RGI Tenants<br>Can HP increase or decrease the depth of RGI/affordable rents? Is this a reasonable option? | Maybe | Dependent on post-EOA agreement with the SM. |
| Arrears Management<br>Does the housing provider need to implement a stronger arrears policy to control high arrears (greater than 5% of the receivables)? | No | No arrears issues. |
| Vacancy Loss<br>Does the housing provider need to implement stronger policies to limit RGI and market vacancy losses? | No | |
| Pursue Strategic Partnerships<br>Looking at partnerships to assist in increasing incomes of RGI tenants? Looking at partnerships to reduce costs or increase revenues from outside business opportunities? | No | |

## 3. Increase Capital

| | | |
|---|---|---|
| Grants and Donations<br>Does the HP have the capacity to apply for grants? | Yes | |
| Refinancing<br>Does the HP require it to refinance to fund long-term capital needs? | Yes | Refinancing under existing funding formula could provide sufficient funds to meet long-term capital needs. |

| | Option? | Comments |
|---|---|---|
| Land or asset sale<br>Disposition of scattered projects, surplus land, or sale for strategic opportunities. | No | |

## 4. Find Operational Efficiencies

| | Option? | Comments |
|---|---|---|
| Shared services, space, or both<br>Cost savings by "scaling-up" operations may include: bulk purchasing/procurement, shared administrative or maintenance services, and sector collaboration. | Yes | HP should be open to shared service opportunities. |
| Energy Efficiency and Conservation<br>Conducting energy audits, utilizing rebates and funding programs from local utilities, tenant engagement on energy conservation, and pursing opportunities with a reasonable payback. | Yes | HP should be open to energy efficiency and conservation opportunities. |

## 5. Transfer Assets

| | Option? | Comments |
|---|---|---|
| Being Acquired<br>Transferring assets to another non-profit organization to provide an enhanced: governance structure, service to tenants/members, asset management service, financial stability, and/or access to capital. | Maybe | HP is open to strategic opportunities. |
| Acquiring Assets<br>Assuming the assets of another non-profit housing provider to: building organizational capacity, increasing borrowing capacity and attractiveness, providing stability to sector, and obtaining assets for future redevelopment opportunities. | No | HP is not currently interested in acquiring other non-profits. |

# Post EOA Subsidy Scenarios

**Name: Provincial Reformed Mixed Mandate Long-Term Capital Needs**

**Subsidy Paid Before EOA $85,000**

**Single Subsidy Scenarios**

| | Status Quo w/o Mortgage | RGI/RS Subsidy | Property Tax Subsidy | No Subsidy | Custom |
|---|---|---|---|---|---|
| **Net Income without subsidy (year)** | $ 40,000 | $ 40,000 | $ 40,000 | $ 40,000 | $ 40,000 |
| Subsidies: | | | | | |
| Rent Supplement | - | - | | | |
| Federal Operating Subsidy | | | | | |
| RGI Subsidy | 80,000 | 80,000 | | | |
| Operating Subsidy | (145,000) | | | | |
| Property Tax Subsidy | 50,000 | | 50,000 | | |
| Other Subsidy | - | - | - | - | - |
| Custom Subsidy | - | - | - | - | 50,000 |
| Total Subsidy | (15,000) | 80,000 | 50,000 | - | 50,000 |
| **Net income with subsidy option** | $ 25,000 | $ 120,000 | $ 90,000 | $ 40,000 | $ 90,000 |
| | Possible Option | Possible Option | Possible Option | Possible Option | Possible Option |

**Select Surplus Transfer 50%**

**Transfer of Operating Surplus to Offset Annual Capital Needs Deficit**

| | | | | | |
|---|---|---|---|---|---|
| Transfer of Operating Surplus | $ 12,500 | $ 60,000 | $ 45,000 | $ 20,000 | $ 45,000 |
| Transfer of Capital Subsidy | | | | | |
| Annual Capital Funding Need to maintain "Good-Fair" Condition | $ (56,667) | $ (56,667) | $ (56,667) | $ (56,667) | $ (56,667) |
| Capital Needs Shortfall/(Surplus) post Operating Surplus Transfer | $ (44,167) | $ 3,333 | $ (11,667) | $ (36,667) | $ (11,667) |
| | Good option | Good option | Good option | Good option | Good option |

# Post EOA Refinancing Subsidy Scenarios

**Name: Provincial Reformed Mixed Mandate Long-Term Capital Needs**

| | |
|---|---|
| **Subsidy Paid Before EOA** | **$85,000** |
| **Pre-EOA Annual Mortgage Payment** | **$100,000** |

| | Status Quo w/o Mortgage | Status Quo Refinancing Option #1 | Status Quo Refinancing Option #2 | Status Quo Refinancing Option #3 |
|---|---|---|---|---|
| Loan Amount: | | $1,350,000 | $1,000,000 | $1,750,000 |
| Interest Rate (%): | | 2.50% | 2.50% | 3.00% |
| Number of Years: | | 20 | 10 | 25 |
| **Monthly mortgage amount** | | **$7,154** | **$9,427** | **$8,299** |
| **Annual mortgage amount** | **N/A** | **$85,844** | **$113,124** | **$99,584** |
| **Net Income without subsidy (year)** | $ 40,000 | $ 40,000 | $ 40,000 | $ 40,000 |
| Subsidies: | | | | |
| RGI Subsidy | 80,000 | 80,000 | 80,000 | 80,000 |
| Operating Subsidy | (145,000) | (59,156) | (31,876) | (45,416) |
| Property Tax Subsidy | 50,000 | 50,000 | 50,000 | 50,000 |
| Total Subsidy | (15,000) | 70,844 | 98,124 | 84,584 |
| **Less: New Mortgage Payments** | | (85,844) | (113,124) | (99,584) |
| **Net income with subsidy option** | $ 25,000 | $ 25,000 | $ 25,000 | $ 25,000 |
| | Possible Option | Possible Option | Possible Option | Possible Option |

| | |
|---|---|
| **Select Surplus Transfer** | **50%** |

**Transfer of Operating Surplus to Offset Capital Shortfall**

| | | | | |
|---|---|---|---|---|
| 30 Year Capital Shortfall | $ (2,200,000) | $ (2,200,000) | $ (2,200,000) | $ (2,200,000) |
| Less: Acceptable backlog | 500,000 | 500,000 | 500,000 | 500,000 |
| Less: Refinancing proceeds | - | 1,350,000 | 1,000,000 | 1,750,000 |
| Reduced Capital Shortfall/(Surplus) | $ (1,700,000) | $ (350,000) | $ (700,000) | $ 50,000 |
| Annual Capital Funding Need to maintain "Good-Fair" Condition | $ (56,667) | $ (11,667) | $ (23,333) | $ 1,667 |
| Transfer of Operating Surplus | $ 12,500 | $ 12,500 | $ 12,500 | $ 12,500 |
| Capital Needs Shortfall/(Surplus) post Operating Surplus Transfer | $ (44,167) | $ 833 | $ (10,833) | $ 14,167 |
| | | Good Option | Good Option | Good Option |

**Comments**

Refinancing appears to be a viable alternative. By continuing the funding formula, significant capital funds can be obtained with a total subsidy less than the pre-EOA amount. However, if only rent supplements were flowed, the net long-term result wouuld be similar in that there would be no capital needs shortfall.