Executive Summary

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

Name: **Section 95 Municipal Non-Profit - Seniors Mandate**

Housing Provider Overview

This is a fictitious single project housing provider under a Section 95 Municipal Non-Profit operating agreement with a seniors mandate. For illustrative purposes.

Operating Viability Post EOA ☑

Housing provider would be viable with current RGI mix and Low-End-of-Market rents post EOA without an on-going subsidy. Housing provider has begun reducing the number of income tested units, budgeting for a total of 10 in 2017. Maintaining stability in their operations will be key for this housing provider.

Capital Funding Adequacy Post EOA ☒

The housing provider is projected to need an additional $66,000 annually for the next 30 years to maintain their current assets in a Good-Fair state of repair. If only the base capital reserve contributions were applied, the housing provider's project would be in critical condition in 30 years. The post-EOA capital shortfall would be reduced through the transfer of post-EOA surplus sharing, which could reduce the annual capital shortfall to $36,000. If rent supplements replaced the income-tested units and generated $30,000 in subsidy, the capital shortfall could be reduced to $13,500 after surplus sharing.

Review of Other Factors

The housing provider's preference is to maintain a similar tenant mix and Seniors mandate post EOA. The housing provider would also like to be further engaged in providing support services for their tenants to enable them to age in place. The housing provider is beginning to be engaged in trying to develop excess land into further accessible affordable housing units. While the housing provider has done development plans, they do not have the capacity to undertake additional work and to implement a change management approach in a post EOA environment. Developing additional capacity would be critical for any post EOA plans.

Explore and Assess Options

The HP should consider the following options in a post-EOA environment to increase the transfer from operations to capital reserves:

a) Adjusting their RGI Mix which they've already begun to do;
b) Discussions with the SM about a rent supplement agreement;
c) Consider energy efficiency and conservation initiatives;
d) New or extended operating agreement with the Service Manager;
e) Diversify portfolio/income by increasing support services offered to senior tenants;
f) Intensification of units with the housing provider's excess land;
g) Apply for Grants and donations; and
h) Consider shared services to increase capacity and establish efficiencies.

Step 1 Financial Overview

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Key Info

EOA/EOM/DM:	**2019**		Location:	**Suburban**
Program:	**Section 95 Municipal Non-Profit**		Mandate:	**Seniors**
Accumulated Operating surplus/(deficit):		**($25,000)**	Building:	**Apartment**
Capital Reserve Fund Balance:		**$75,000**		
Facility Replacement Cost:		**$7,000,000**	Year Built:	**1984**

Affordability mix:

# of RGI units (25% of income)		**12**	**(10-18 target)**
# of Market units		**33**	
	Total Units	**45**	
Unit types:	**1 bdrm apt**	**30**	
	2 bdrm apt	**15**	

Market Rent Analysis:

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

	Market Rents**	CMHC Avg Rents*
1 bdrm apt	**711**	**911**
2 bdrm apt	**888**	**1,211**

~78% depth of affordability

Operating Viability

			2015
Rental and non-rental:		$	315,000
Rent Supplement	0		
Federal Operating Subsidy	30,000		
Total Subsidies			30,000
Total Revenues			345,000
Operating expenses:		$	245,000
Mortgage payments			75,000
Capital reserve contribution			30,000
Total Operating Costs			350,000
Net income before EOA (year)		**$**	**(5,000)**

Year Under Review

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

This housing provider project is projected to not be sustainable pre-EOA due to persistent operating deficits. The HP has an accumulated operating deficit and will continue to use capital reserve funds for operating cash flow.

Savings (loss) to the Provider	**$**	**45,000**	Mortgage less Subsidies
Net Income without subsidy (year)	**$**	**40,000**	NI before EOA + EOA Savings (loss)

This housing provider would be viable with current RGI mix and Low-end-of-market rents post EOA without an on-going subsidy. HP has also begun reducing the number of income-tested units, budgeting for 10 in 2017.

Capital Funding Shortfall with Base Funding

Balance in Capital Reserve (CR) fund	$105,000	as of 2015 + CR Contribution	
Current Projected Capital Repair Backlog	(650,000)		
Base Year Capital Shortfall	(545,000)	7.79%	Base Year FCI
	+		
Base CR contributions 2016 to EOA	120,000	# of years x CR contribution	
Projected Capital Needs 2016 to EOA	(155,000)		
EOA Capital Shortfall	(580,000)	8.29%	EOA FCI
	+		
Base CR contributions EOA to 30 years	750,000	# of years x CR contribution	
Projected Capital Needs EOA to 30 years	(2,500,000)		
30 Year Capital Shortfall	$ (2,330,000)	33.29%	30 Year FCI

HP is projected to be in Fair condition at EOA with current base capital reserve contributions; however is projected to be in critical condition in 30 years.

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: 2019

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

$ 57,500 per year To be maintained in a "Good-Fair" Condition

Until EOA (2019), the housing provider won't be maintained in a "Good-Fair" condition, but will still be in "Fair" condition. There is no surplus sharing projected to EOA due to the persistent operating deficits.

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

$ 66,000 per year To be maintained in a "Good-Fair" Condition

On the "Post EOA Subsidy Scenarios" tab, surplus sharing from operating to the capital reserve account is evaluated. If 75% of the annual post-EOA operating surplus was transferred to the capital reserve fund, the annual capital needs shortfall could be reduced to $36k per year. Another scenario is if 10 rent supplements replaced the 10 income test units, this additional revenue would allow a further contribution to reduce the capital backlog to $13.5k per year.

* Good-Fair state of repair is defined as a capital backlog of: $350,000

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: Section 95 Municipal Non-Profit - Seniors Mandate

Important Considerations	Comments
Service Manager Obligation Post EOA 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?	No obligation for SM to fund Section 95 MNP programs post EOA. No Federal funding commitment post EOA.
Early pay-off of mortgage and EOA 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?	No desire to pay-off mortgage early.
Operational Review or Other Concerns Are there any issues or concerns that have been identified in an Operational Review (Site Visit). Is it a Project In Difficulty (PID)?	Operational review conducted. No significant concerns.
Organizational/Governance Capacity 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? Click here to access an org capacity assessment tool.	There is limited capacity in the past and present governance and administration. Outside resources will be necessary to do pre and post EOA assessments and option development.
Change Management Does the HP have the capacity to adapt to change in a post-EOA environment?	The HP does not have a current strategic plan. The Corporation would need external assistance in applying change management methodology.

Important Considerations	Comments
<u>Fed/Prov Capital Funding Programs</u> Has the HP received any capital funding from Provincial programs that require ongoing affordability past EOA?	None.
<u>Legal Definitions and Implications</u>	
Mandate and Tenant Mix 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?	Continue a senior mandate with a similar tenant mix.
Corporation Classification for Tax Purposes Does the HP want to retain or apply for charitable status under the Income Tax Act?	No interest in charitable status.
Compliance with Bylaws Has the HP considered all options and alternatives against the Corporation's bylaws?	Add to HP workplan.
Restrictions on Rent Increases & Tenant Mix 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 Rules and restrictions from generating new revenue streams through business activities or commercial use space.	Add to HP workplan.
HST Issues 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
<u>Legal Definitions and Implications</u> (continued)	
Shared Service Agreements Have key questions being asked regarding contractual and personnel considerations?	Add to HP workplan.
Merger/Amalgamation Have key legal questions being considered before looking at this option?	Not interested at this point.
Financing Would refinancing require Service Manager consent? Are there any other legal encumbrances preventing the HP from refinancing?	Add to HP workplan.
Redevelopment Has the housing provider considered: consent of Ministry, effect to existing tenants, or zoning?	HP has begun preliminary analysis. Add to HP workplan.
Other Property Considerations Has the HP considered the legal implications of the subdivision of land, potential contamination, encroachments, floor or hazard mitigation, etc.?	HP has begun preliminary analysis. Add to HP workplan.
Sale of Portfolio Assets Has the housing provider looked at potential restrictions, contractual issues, tenant issues, and tax issues related to the sale of assets?	Not interested at this point.

Important Considerations	Comments
<u>Social Sustainability</u> Do the current units meet community needs and demands for: location, design suitability and social suitability?	Increased demand in the community for accessible units to enable seniors to age in place.
<u>Projects on Leased Land</u> Is the HP on leased land? When does it expire and what are the options for renewal?	HP has a 100 year lease with municipality for the land. Would need approval to redevelop/intensify.
<u>Site Assessment</u> What is the site and building potential, zoning bylaw, and confirm covenants on land title.	HP has Board members with development expertise who have begun conducting a site assessment.
<u>Tenant Concerns</u> Does the HP have a plan to consult and engage tenants about post EOA plans?	Add to HP workplan.
<u>Fund-Raising</u> Has the HP considered any fund-raising opportunities?	HP has received interest from a retired investment banker who's interested in making a significant contribution for naming priviledges.
<u>Other</u>	

Step 3 Explore and Assess Options

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1. Strategic Direction

	Option?	Comments
New or Extended Operating Framework To maintain an agreed upon service level: continue existing agreement or create a new framework with a new form of funding.	Maybe	HP and SM are both interested in discussing a continued relationship.
Waitlist Access 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.	No	HP would only access centralized waitlist if it received rent supplements.
Diversify Portfolio Expanding services offered such as: support services, non-rental revenues, or social enterprise?	Yes	Support services for seniors aging in place.
Intensify Building, Land, or Both 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	HP is interested in intensifying.
Redevelop Site Is the current property in a poor state of repair that rebuilding and redeveloping the site should be considered?	No	Building is in acceptable condition.

2. Increase Revenue

	Option?	Comments
Operating/Capital Subsidy Does the HP need an increased or new operating/capital subsidy to operate? Does the HP need an revised or new funding formula?	Yes	The HP will either need subsidy or additional operating funds to address it's long-term capital needs.

	Option?	Comments
Adjust Rent Mix Does the HP want to change the mandated target number of RGI units? 100% RGI HPs want a higher market mix.	Yes	Current target is 10-18 units, HP has already reduced income-tested units to 10 for 2017.
Increase Market-Rate Rents Does the HP need to consider rent guidelines increases or higher increases on turnover to generate additional revenues?	No	HP preference has been to keep rents at LEM level.
RGI Tenants Can HP increase or decrease the depth of RGI/affordable rents? Is this a reasonable option?	Maybe	Possibility to implement a different calculation method and depth of subsidy.
Arrears Management Does the housing provider need to implement a stronger arrears policy to control high arrears (greater than 5% of the receivables)?	No	Arrears are low.
Vacancy Loss Does the housing provider need to implement stronger policies to limit RGI and market vacancy losses?	Yes	HP has experienced some vacancy losses due to difficulty renting market 2 bedroom units.
Pursue Strategic Partnerships Looking at partnerships to assist in increasing incomes of RGI tenants? Looking at partnerships to reduce costs or increase revenues from outside business opportunities?	Yes	Opportunities to partner with LHIN or private senior residence developers.

3. Increase Capital

Grants and Donations Does the HP have the capacity to apply for grants?	Yes	HP should take advantage of any capital grants including those that have reporting regarding affordability requirement.

	Option?	Comments
Refinancing Does the HP require it to refinance to fund long-term capital needs?	No	Refinancing isn't the best option for this HP. It would require long amortization periods and subsidy to be viable.
Land or asset sale Disposition of scattered projects, surplus land, or sale for strategic opportunities.	Yes	Project has excess land that could potentially be severed and sold. This is the current preferred option for the HP.

4. Find Operational Efficiencies

Shared services, space, or both Cost savings by "scaling-up" operations may include: bulk purchasing/procurement, shared administrative or maintenance services, and sector collaboration.	Yes	Service Manager would encourage shared services with other rural housing providers.
Energy Efficiency and Conservation 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 would benefit from participating in energy efficient initiatives.

5. Transfer Assets

Being Acquired 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.	No	This would not be considered an option by the HP.
Acquiring Assets 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	Not interested.

Post EOA Subsidy Scenarios

Name: Section 95 Municipal Non-Profit - Seniors Mandate

Subsidy Paid Before EOA $30,000

Single Subsidy Scenarios

	Status Quo w/o Mortgage	No Subsidy	Custom (Rent Supps)
Net Income without subsidy (year)	$ 40,000	$ 40,000	$ 40,000
<u>Subsidies:</u>			
Rent Supplement	-		30,000
Federal Operating Subsidy			
Custom Subsidy	-	-	-
Total Subsidy	-	-	30,000
Net income with subsidy option	$ 40,000	$ 40,000	$ 70,000
	Possible Option	Possible Option	Possible Option

Select Surplus Transfer 75%

Transfer of Operating Surplus to Offset Annual Capital Needs Deficit

	Status Quo w/o Mortgage	No Subsidy	Custom (Rent Supps)
Transfer of Operating Surplus	$ 30,000	$ 30,000	$ 52,500
Transfer of Capital Subsidy			
Annual Capital Funding Need to maintain "Good-Fair" Condition	$ (66,000)	$ (66,000)	$ (66,000)
Capital Needs Shortfall/(Surplus) post Operating Surplus Transfer	$ (36,000)	$ (36,000)	**$ (13,500)**
	Good option	Good option	Good option

Post EOA Refinancing Subsidy Scenarios

Name:	Section 95 Municipal Non-Profit - Seniors Mandate

Subsidy Paid Before EOA	**$30,000**
Pre-EOA Annual Mortgage Payment	**$75,000**

	w/o Mortgage	Refinancing Option #1	Refinancing Option #2	Refinancing Option #3
Loan Amount:		$500,000	$500,000	$1,000,000
Interest Rate (%):		2.50%	2.50%	2.50%
Number of Years:		10	15	30
Monthly mortgage amount		**$4,713**	**$3,334**	**$3,951**
Annual mortgage amount	**N/A**	**$56,562**	**$40,007**	**$47,415**
Net Income without subsidy (year)	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Subsidies:				
Rent Supplement	-	30,000	30,000	30,000
Federal Operating Subsidy		-	-	-
Total Subsidy	-	30,000	30,000	30,000
Less: New Mortgage Payments		(56,562)	(40,007)	(47,415)
Net income with subsidy option	$ 40,000	$ 13,438	$ 29,993	$ 22,585
	Possible Option	Possible Option	Possible Option	Possible Option

Select Surplus Transfer	**75%**

Transfer of Operating Surplus to Offset Capital Shortfall

	w/o Mortgage	Refinancing Option #1	Refinancing Option #2	Refinancing Option #3
30 Year Capital Shortfall	$ (2,330,000)	$ (2,330,000)	$ (2,330,000)	$ (2,330,000)
Less: Acceptable backlog	350,000	350,000	350,000	350,000
Less: Refinancing proceeds	-	500,000	500,000	1,000,000
Reduced Capital Shortfall/(Surplus)	$ (1,980,000)	$ (1,480,000)	$ (1,480,000)	$ (980,000)
Annual Capital Funding Need to maintain "Good-Fair" Condition	$ (66,000)	$ (49,333)	$ (49,333)	$ (32,667)
Transfer of Operating Surplus	$ 30,000	$ 10,079	$ 22,494	$ 16,939
Capital Needs Shortfall/(Surplus) post Operating Surplus Transfer	$ (36,000)	$ (39,255)	$ (26,839)	$ (15,728)
		No benefit	Good Option	Good Option

Comments

Refinancing does not appear to the best option. It would require long amortization periods and a commitment of rent supplement subsidy revenue to be viable.