Executive Summary

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

Name: Sect 95 Private Non-Profit - High Capital Needs

Housing Provider Overview

This is a fictitious single project housing provider (HP) with a Section 95 Private Non-Profit (former Federal) operating agreement in a downtown location.

Operating Viability Post EOA ☒

The housing provider would not be viable with it's current level of affordability in a post EOA environment. The HP has been able to maintain operating surpluses in a pre-EOA environment. The mandatory annual capital reserve contribution from the federal operating agreement is minimal. The SM currently provides 20 rent supplements that provides $100k in annual subsidy.

Capital Funding Adequacy Post EOA ☒

The HP is currently in "Good" physical condition due to the investment of significant Provincial capital funding (SHRRP). The HP has sufficient capital reserves through EOA. Over 30 years, the HP will need to generate a sustained source of capital funding to meet it's projected annual capital shortfall of $49,833 to maintain it's building in a "Good-Fair" state of repair.

Review of Other Factors ⓘ

As part of the Provincial capital funding received, the HP must maintain an 80% depth of affordability until 2022. The HP's current low-end-of-market (LEM) rents are below this threshold in addition to the affordability currently provided by the rent supplement units. The HP will need to be consulted to determine how their mandate will affect their post-EOA preferences. Additionally, the HP must consider the tax and legal implications in a post EOA environment for HST rebates and commercial rental revenue.

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) Continuing all or some of the rent supplement agreements;
b) Increasing market rents while considering affordability requirement to 2022;
c) Energy efficiency and conservation upgrades;
d) Pursuing strategic opportunities to rent out community space; and
e) Consider shared services with other non-profit housing providers.

Step 1 Financial Overview

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

Name: Sect 95 Private Non-Profit - High Capital Needs

Key Info

EOA/EOM/DM: **2018**		Location:	**Downtown**
Program: **Section 95 PNP**		Mandate:	**Seniors**
Accumulated Operating surplus/(deficit):	**$23,000**	Building:	**High Rise**
Capital Reserve Fund Balance:	**$120,000**		
Facility Replacement Cost:	**$7,000,000**	Year Built:	**1984**

Affordability mix:

# of RS units (30% of income)		**20**
# of Market units		**30**
	Total Units	**50**
Unit types:	**Bach apt**	**15**
	1 bdrm apt	**25**
	2 bdrm apt	**10**

Market Rent Analysis:

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

	Market Rents**	CMHC Avg Rents*
Bach Apt	**630**	**825**
1 bdrm Apt	**800**	**1,050**
2 bdrm Apt	**925**	**1,300**

~75% depth of affordability

Operating Viability

		2015	**Year Under Review**
Rental and non-rental:		$ 350,000	
Rent Supplement	100,000		
Federal Operating Subsidy	25,000		
Total Subsidies		125,000	
Total Revenues		475,000	
Operating expenses:		$ 345,000	
Mortgage payments		115,000	
Capital reserve contribution		10,000	
Total Operating Costs		470,000	
Net income before EOA (year)		**$ 5,000**	

This financial information is only a snapshot of one year.

The housing provider has had consistent operating surpluses. However, the base capital reserve contribution from this former federal operating program is insufficient.

Savings (loss) to the Provider	**$ (10,000)**	Mortgage less Subsidies
Net Income without subsidy (year)	**$ (5,000)**	NI before EOA + EOA Savings (loss)

There would be a negative net income if all subsidy and mortgage payments were removed and the same level of affordability was maintained post EOA. Additionally, the capital reserve contribution is still minimal. There are currently ~20 Rent Supplements with this HP.

Capital Funding Shortfall with Base Funding

Balance in Capital Reserve (CR) fund	$130,000		as of 2015 + CR Contribution
Current Projected Capital Repair Backlog	(225,000)		
Base Year Capital Shortfall	(95,000)	1.36%	Base Year FCI
	+		
Base CR contributions 2016 to EOA	30,000		# of years x CR contribution
Projected Capital Needs 2016 to EOA	(40,000)		
EOA Capital Shortfall	(105,000)	1.50%	EOA FCI
	+		
Base CR contributions EOA to 2044	260,000		# of years x CR contribution
Projected Capital Needs EOA to 2044	(2,000,000)		
30 Year Capital Shortfall	$ (1,845,000)	26.36%	30 Year FCI

The housing provider received capital grants under SHRRP to fix roof and elevator. No imminent issues, but over the long-term the annual capital reserve contribution needs to be significantly increased.

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: 2018

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

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

No concerns to EOA.

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

$ 49,833 per year To be maintained in a "Good-Fair" Condition

The housing provider would need to change it's affordability mix or receive continued rent supplement subsidy post EOA to meet it's capital needs. If the 20 rent supplement subsidies were continued, the housing provider would have a projected surplus of $95k and would be able to transfer funds to it's capital reserve to meet its funding shortfall (see Post EOA Subsidy Scenarios).

* 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: Sect 95 Private Non-Profit - High Capital Needs

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 Service Manager Obligation post EOA. No known Federal funding post EOA. The rent supplements being allocated to the housing provider do not currently count towards Service Level standards as they use the max shelter allowance.
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 or ability to pay off 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)?	Not a project in difficulty. Site Visit completed recently. No major 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.	Professionally managed. Engaged board with some professional credentials.
Change Management Does the HP have the capacity to adapt to change in a post-EOA environment?	Capacity to make minor changes and to evaluate some alternatives/options.

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?	The HP received funding from SHRRP programs, and has made an affordability commitment through 2022.
<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?	The Housing Provider has expressed an interest in providing housing to a specific community group.
Corporation Classification for Tax Purposes Does the HP want to retain or apply for charitable status under the Income Tax Act?	Unknown
Compliance with Bylaws Has the HP considered all options and alternatives against the Corporation's bylaws?	Unknown
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?	Yes
Implications of Diversifying Revenue Streams Rules and restrictions from generating new revenue streams through business activities or commercial use space.	Has diversified, used roof space for solar panels. Has experienced significant difficulty renting a community space in the property.
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?	Unknown

Important Considerations	Comments
Legal Definitions and Implications (continued)	
Shared Service Agreements Have key questions being asked regarding contractual and personnel considerations?	No
Merger/Amalgamation Have key legal questions being considered before looking at this option?	Unknown
Financing Would refinancing require Service Manager consent? Are there any other legal encumbrances preventing the HP from refinancing?	Unknown
Redevelopment Has the housing provider considered: consent of Ministry, effect to existing tenants, or zoning?	Unknown
Other Property Considerations Has the HP considered the legal implications of the subdivision of land, potential contamination, encroachments, floor or hazard mitigation, etc.?	Unknown
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?	Unknown

Important Considerations	Comments
<u>Social Sustainability</u> Do the current units meet community needs and demands for: location, design suitability and social suitability?	Yes
<u>Projects on Leased Land</u> Is the HP on leased land? When does it expire and what are the options for renewal?	No
<u>Site Assessment</u> What is the site and building potential, zoning bylaw, and confirm covenants on land title.	Low potential for intensification on this site.
<u>Tenant Concerns</u> Does the HP have a plan to consult and engage tenants about post EOA plans?	No
<u>Fund-Raising</u> Has the HP considered any fund-raising opportunities?	Yes, within the community.
<u>Other</u>	

Step 3 Explore and Assess Options

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

Name: Sect 95 Private Non-Profit - High Capital Needs

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	
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	They have expressed an interest in housing members of their community, which would not be possible under CWL rules.
Diversify Portfolio Expanding services offered such as: support services, non-rental revenues, or social enterprise?	Maybe	The HP currently has 2 market units leased to a supportive services agency, may consider increasing that amount.
Intensify Building, Land, or Both Is it a 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?	No	The lot is already intensely used.
Redevelop Site Is the current property in a poor state of repair that rebuilding and redeveloping the site should be considered?	No	

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?	Maybe	HP needs capital funding.

	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.	No	
Increase Market-Rate Rents Does the HP need to consider rent guidelines increases or higher increases on turnover to generate additional revenues?	Yes	HP is interested in increasing market rents as long as affordability requirement is met.
RGI Tenants Can HP increase or decrease the depth of RGI/affordable rents? Is this a reasonable option?	No	
Arrears Management Does the housing provider need to implement a stronger arrears policy to control high arrears (greater than 5% of the receivables)?	No	
Vacancy Loss Does the housing provider need to implement stronger policies to limit RGI and market vacancy losses?	No	
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	This may be an option for both providing community and tenant services, and utilizing the unused community space.

3. Increase Capital

Grants and Donations Does the HP have the capacity to apply for grants?	Yes	
Refinancing Does the HP require it to refinance to fund long-term capital needs?	No	Housing provider does not need a lump-sum injection of capital. It needs sustained capital funding.

	Option?	Comments
Land or asset sale Disposition of scattered projects, surplus land, or sale for strategic opportunities.	No	

4. Find Operational Efficiencies

	Option?	Comments
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	HP is in initial discussions with a larger housing provider for shared services first.
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	

5. Transfer Assets

	Option?	Comments
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.	Maybe	HP is in initial discussions with a larger housing provider for shared services first.
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	

Post EOA Subsidy Scenarios

Name: **Sect 95 Private Non-Profit - High Capital Needs**

Subsidy Paid Before EOA **$125,000**

	Single Subsidy Scenarios			
	Status Quo w/o Mortgage	**RGI/RS Subsidy**	**No Subsidy**	**Custom**
Net Income without subsidy (year)	$ (5,000)	$ (5,000)	$ (5,000)	$ (5,000)
Subsidies:				
Rent Supplement	100,000	100,000		50,000
Federal Operating Subsidy				
Other Subsidy	-	-	-	-
Total Subsidy	100,000	100,000	-	50,000
Net income with subsidy option	$ 95,000	$ 95,000	$ (5,000)	$ 45,000
	Possible Option	Possible Option	Unlikely Option	Possible Option

Select Surplus Transfer **50%**

Transfer of Operating Surplus to Offset Annual Capital Needs Deficit

	Status Quo w/o Mortgage	RGI/RS Subsidy	No Subsidy	Custom
Transfer of Operating Surplus	$ 47,500	$ 47,500	$ -	$ 22,500
Transfer of Capital Subsidy				
Annual Capital Funding Need to maintain "Good-Fair" Condition	$ (49,833)	$ (49,833)	$ (49,833)	$ (49,833)
Capital Needs Shortfall/(Surplus) post Operating Surplus Transfer	$ (2,333)	$ (2,333)	$ (49,833)	$ (27,333)
	Good option	Good option	No benefit	Good option

Post EOA Refinancing Subsidy Scenarios

Name:	Sect 95 Private Non-Profit - High Capital Needs

Subsidy Paid Before EOA	**$125,000**
Pre-EOA Annual Mortgage Payment	**$115,000**

	Status Quo w/o Mortgage	**Status Quo Refinancing Option #1**	**Status Quo Refinancing Option #2**	**Status Quo Refinancing Option #3**
Loan Amount:		$1,500,000		
Interest Rate (%):		2.49%		
Number of Years:		20		
Monthly mortgage amount		**$7,941**		
Annual mortgage amount	**N/A**	**$95,295**	**N/A**	**N/A**
Net Income without subsidy (year)	$ (5,000)	$ (5,000)	$ (5,000)	$ (5,000)
Subsidies:				
Rent Supplement	100,000	100,000	100,000	100,000
Custom Subsidy	-			
Total Subsidy	100,000	100,000	100,000	100,000
Less: New Mortgage Payments		(95,295)	N/A	N/A
Net income with subsidy option	$ 95,000	$ (295)	N/A	N/A
	Possible Option	Unlikely Option	No data	No data

Select Surplus Transfer	**50%**

Transfer of Operating Surplus to Offset Capital Shortfall

30 Year Capital Shortfall	$ (1,845,000)	$ (1,845,000)	$ (1,845,000)	$ (1,845,000)
Less: Acceptable backlog	350,000	350,000	350,000	350,000
Less: Refinancing proceeds	-	1,500,000	-	-
Reduced Capital Shortfall/(Surplus)	$ (1,495,000)	$ 5,000	$ (1,495,000)	$ (1,495,000)
Annual Capital Funding Need to maintain "Good-Fair" Condition	$ (49,833)	$ 167	$ (49,833)	$ (49,833)
Transfer of Operating Surplus	$ 47,500	$ -	N/A	N/A
Capital Needs Shortfall/(Surplus) post Operating Surplus Transfer	$ (2,333)	$ 167	N/A	N/A
		Good Option	No data	No data

Comments

Refinancing could work for this housing provider if rent supplements were continued; however, the housing provider does not need an immediate lump-sum cash infusion. The SM would also most likely have to provide a guarantee to continue the rent supps for the term of the mortgage which is not reasonable.