



**STAFF REPORT
ACTION REQUIRED**

**Grace Carmen Senior Citizens Home Inc. – Reserve
Fund Withdrawal and Approval of a Second Mortgage**

Date:	February 13, 2007
To:	Community Development and Recreation Committee
From:	General Manager, Shelter, Support and Housing Administration
Wards:	Ward 18 – Davenport
Reference Number:	

SUMMARY

Approval of this report would commit a loan of \$296,000.00 from the City of Toronto to a non-profit housing provider, Grace Carmen Senior Citizens Home Inc, in order to modernize elevators that have passed their useful life. The loan will be non-interest bearing and not repayable until the earlier of the date when the first mortgage on the property matures or the mortgage is redeemed. After that, the loan will bear interest over a 15 year period and can be prepaid by the housing provider without interest or penalty. The interest rate and repayment schedule will be renegotiable, subject to further Council approval. The housing provider will agree to provide rent supplement housing for a 15 year period following the repayment of its first mortgage.

The loan will be funded from the Social Housing Federal Reserve Fund which is an obligatory reserve fund set up to deal with the financial impact of the downloading of social housing to the municipal level. The loan must also be approved by the Minister of Municipal Affairs and Housing, as the guarantor of the first mortgage and by Canada Mortgage and Housing Corporation, as the prior lender. The City will pursue these approvals after Council approval has been obtained.

It is important to proceed with this loan approval now so that the housing provider can act on tenders that are due to expire by March 31st. This will allow the housing provider to begin the required elevator modernizations in April 2007.

RECOMMENDATIONS

The General Manager, Shelter, Support and Housing Administration recommends that:

1. authority be given to the General Manager, Shelter, Support and Housing Administration to:
 - a. withdraw \$296,000.00 from the Social Housing Federal Reserve Fund and lend these funds to Grace Carmen Senior Citizens Home Inc. at 180 Sheridan Avenue, for the replacement of elevators;
 - b. negotiate, execute and deliver a loan agreement, collateral security and ancillary agreements and documentation, including a second mortgage and a general assignment of rents, subject to the following terms and conditions:
 - i. the loan will be non-interest bearing and not repayable until the earlier of the date (the “Commencement Date”)
 1. that the first mortgage is due to mature, or
 2. such mortgage is redeemed;
 - ii. starting on the Commencement Date the loan will bear interest at a rate equal to the prime lending rate charged by the City’s leading banker plus one percent and be subject to a repayment schedule that would amortize the loan over a period of 15 years, subject to the right of the housing provider to pre-pay its loan at any time without interest or penalty;
 - iii. the interest rate and repayment schedule will be renegotiable, subject to further Council approval; and
 - iv. such other terms and conditions that are satisfactory to the General Manager, Shelter, Support and Housing Administration, and in a form acceptable to the City Solicitor;
 - c. enter into an option agreement requiring the housing provider to provide rent supplement housing from and after the date the operating agreement is terminated, for a term of up to 15 years, provided that appropriate funding is received from the Service Manager;
 - d. consent, on behalf of the City of Toronto to Grace Carmen Senior Citizens Home Inc. mortgaging, charging or encumbering the Property in connection with the City’s mortgage, as required under the Operating Agreement being administered by the City of Toronto as Service Manager pursuant to the *Social Housing Reform Act, 2000*;

- e. apply for the consent of the Minister of Municipal Affairs and Housing in connection with the City's mortgage, and accept such consent subject to the Minister's standard conditions;
 - f. apply for and accept such other consents and approvals as may be necessary or convenient from other third parties, including Canada Mortgage and Housing Corporation;
2. the loan of \$296,000.00 be deemed to be in the interests of the City of Toronto in accordance with subsection 83(1) of the *City of Toronto Act, 2006*, Chapter 11, Schedule A;
3. the 2007 Recommended Operating Budget for Shelter, Support and Housing Administration include \$296,000.00 gross and \$0 net funded by a withdrawal from the Social Housing Federal Reserve Fund for the loan to Grace Carmen Senior Citizens Home Inc.; and
4. any repayments of principal and interest on the loan be credited, as they are received, to the balance of the Social Housing Federal Reserve Fund.
5. a copy of this report be forwarded to the February 23, 2007 meeting of Budget Committee for its immediate consideration and transmittal of comments to the March 5 and 6, Council Meeting for consideration with this item.

Implementation Points

If Council approves the loan, the City must then get the consents of the Minister of Municipal Affairs and Housing and the lender, Canada Mortgage and Housing Corporation. Staff will be able to send the loan documentation to the housing provider to be signed once these consents have been granted. The funds will be withdrawn from the City's Social Housing Federal Reserve Fund after the loan documentation has been executed.

Financial Impact

This report includes a withdrawal of \$296,000 from the City's Social Housing Federal Reserve Fund and an increase to the social housing budget by the same amount. Grace Carmen will be given the funds in the form of a loan. The loan will not be repaid until the housing provider's first mortgage matures in 2026 or is redeemed.

Funding for the loan would come from the Social Housing Federal Reserve Fund that was established by Council to help address the financial exposure related to the devolution of social housing. The fund can be used to offset capital reserve shortfalls where there are urgent capital repair needs. The uncommitted balance of the fund as of December 31, 2006, is \$20.2 million.

The funds will be included in the 2007 Recommended Operating budget for Shelter, Support and Housing Administration to accommodate this withdrawal. In accordance with the requirements of paragraph 227-4 of Chapter 227 (Reserves and Reserve Funds) of the City of Toronto Municipal Code, the Deputy City Manager and Chief Financial Officer has determined that the use of the Social Housing Federal Reserve Fund is an appropriate funding source for the loan.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

ISSUE BACKGROUND

The administration and funding of social housing was transferred to the City under the *Social Housing Reform Act, 2000* from the Province of Ontario. The portfolio includes approximately 235 housing providers in addition to Toronto Community Housing Corporation. The City's role includes not only funding, but also ensuring that the buildings are maintained at a level that will provide a safe, decent and affordable home for the households that reside in them.

Non-profits fund their capital repairs through a capital reserve funded by annual allocations from operations. These funds can not however, be funded in the same way as private rental housing because non-profit housing providers do not have retained earnings that could be used as a source to fund these capital repairs. They also cannot increase earnings because of their non-profit status nor have large rent increases because their objective is low rents.

Council has been advised on many occasions that the downloading of social housing to the municipality could be expected to be a large and increasing financial pressure. In July 2006, Council approved a report entitled "Social Housing in Toronto and Future Risks". Council identified the need for a social housing risk mitigation strategy to be developed based on the input of key social housing stakeholders and other City divisions. Shelter, Support and Housing Administration is in the process of developing this strategy.

Council established the Social Housing Federal Reserve Fund at its May 2003 meeting, as a reserve fund that is to be targeted to projects in formerly federally funded programs, consistent with the 1999 Canada-Ontario "Social Housing Agreement". It is one of two social housing reserve funds set up to deal with social housing financial pressures.

As of December 31, 2006, Council had approved fourteen loans to housing providers for capital repairs totalling about \$25.7 million. Funds for all loans have been taken from the City's two Social Housing Reserve Funds according to approved withdrawal policies.

COMMENTS

Council approval is required to negotiate the terms of a loan agreement and collateral security, including a second mortgage and assignment of rents and to register it on title. City staff are recommending that the principal and interest loan repayment be deferred until the providers' first mortgage has matured in 2026. Deferring repayment helps to

ensure the financial viability of the housing provider, allowing it to continue to provide affordable housing as per the terms of its transferred operating agreement.

Grace Carmen's proposed mortgage requires the consent of the Minister pursuant to restrictions contained in the Transfer Order that transferred the administration of the federal section 27 *National Housing Act* program from the Province to the City. The Service Manager must apply for this consent on behalf of the housing provider. A request will be submitted by City staff after Council approvals have been obtained. In providing such consents, the Ministry has developed standard conditions.

City funding will only be advanced as milestones are achieved and unused funds will be returned to the City as per the terms of the loan agreement. It is important to proceed with the approval of this loan at this point in time so that the housing provider can respond favorably to the tenders that have already been received. The elevator modernization will begin in the spring of 2007.

Staff also recommend the negotiation of an option to require the housing provider to provide rent supplement housing for up to 15 years following termination of the federal operating agreement, which occurs when the first CMHC mortgage is paid out. This will provide a source of affordable subsidized housing during the period the City's loan is due to be repaid and will also provide a source of funding for the housing provider.

The housing provider's background is outlined in Appendix A of this report.

CONTACT

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SIGNATURE

Phil Brown
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ATTACHMENTS

Appendix A – Housing Provider Background

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Housing Provider:	Grace Carmen Senior Citizens Home Inc.
Project Name:	Bill McMurray Residence
Address:	180 Sheridan Avenue
Ward:	18 – Davenport
Nearest Intersection:	Dufferin Street and College Street
Operating since:	1975
Total units:	84
Rent Supplement units:	63
Annual Rent Supp subsidy:	\$301,644

Background:

The Operating Agreement between Grace Carmen Senior Citizens Home Inc. and Canada Mortgage and Housing Corporation (CMHC) was entered into in the mid 1970's pursuant to a federal social housing program. This agreement was assigned to the City through the social housing download on March 1, 2004.

The eight-story 84-unit building at 180 Sheridan Ave. was built in the mid-seventies. The primary purpose was to house senior citizens. However, the units are small ranging from 150 to 225 square feet. Each unit has its own bathroom but there are no cooking facilities in the units. There is a common dining room on the first floor. Grace Carmen houses households who need cleaning and food preparation supports but do not require full support services that are offered at long term care facilities.

Due to persistently high vacancy rates and operating losses, the Board terminated their administration of the project in 1993. As administrator and lender, CMHC assumed the project in 1994 and appointed a property management company to look after the project while it made a decision about its future. The Sionito Group took over the project in 1996 and renamed it the "Bill McMurray Residence" in 1999. The Sionito Group is a charity that operates two other non-profit social housing projects near Bathurst Street and St. Clair Ave. West.

When Sionito took over the management of the building, there was no capital reserve, a mortgage in default, substantial vacancies and an accumulated deficit. Sionito began its tenure as owner under difficult conditions. The challenge in maintaining full occupancy continued throughout the downloading from CMHC to the Province in 1999. The province delayed transferring the project to the City until 2004 due to these same financial and operational difficulties.

Grace Carmen is subject to an "action plan" that it agreed to with the Ministry of Municipal Affairs and Housing prior to the project's March 2004 transfer. Since that time, the City has been working with the housing provider to address concerns related to internal financial controls, management, maintenance and operations. The City is

monitoring the situation and will continue to do so, within the context of the action plan and its obligations under the operating agreement.

Grace Carmen Senior Citizens Home Inc. houses a tenant population that needs a high level of support. Many tenants receive financial assistance from the Ontario Disability Support Program and have come directly from hospitals. The Sionito Group does not have any support funding available to it. Habitat Services, a City-funded non-profit agency supporting adult psychiatric survivors, has recently begun to assist the tenant population at Grace Carmen.

The housing provider's Capital Reserve Fund Study from June 2005 indicated that there was no life remaining on the elevators and that they should be modernized within 2 years (ie. by 2007). The situation is becoming more critical as the housing provider has already received one notice from the elevator inspectors at the Technical Standards and Safety Authority (TSSA). Grace Carmen was able to correct the issue to TSSA's satisfaction but the City is concerned about the health and safety of the very vulnerable tenants in a building where one or more elevators may fail at any time.

Grace Carmen does not have the financial resources to complete the elevator replacement. It has an accumulated deficit of \$30,092 at December 31, 2005 and cash in its capital reserve was \$52,600. The housing provider has additional items that it must deal with as identified in its June 2005 Capital Reserve Fund Study. Therefore, it has no funds available that it can contribute towards the elevator modernization. It is therefore recommended that the City loan \$296,000 to Grace Carmen to fund this work.

The accompanying chart outlines the elevator modernization required.

Elevator Modernization

Repair Needed	Estimated Cost (\$)
Elevator Modernization	172,125
Replace geared machines	50,000
Warranty maintenance - 1 year	7,200
Mechanical work	6,850
Life safety systems upgrade	13,800
Consultant fees	7,000
Contingency (15%)	38,546
Loan Required from City (rounded)	296,000

Grace Carmen Senior Citizens Home Inc. was constructed under a former federal program that was not cost-shared. The loan will therefore come from the Social Housing Federal Reserve Fund.