

Affordable Housing – Request for Increased Funding for Affordable Housing Project at 2350 Finch Avenue West

Date:	May 14, 2007
To:	Executive Committee
From:	Sue Corke, Deputy City Manager
Wards:	7 York West
Reference Number:	

SUMMARY

This report seeks increased capital funding for the affordable housing project located at 2350 Finch Avenue West (“the Project”). The forty-eight unit project is being developed by Ghana Amansie Canadian Non-Profit Homes (“Ghana Amansie”). The Project is currently under construction and is over 60% complete; however, for a variety of reasons specific to this development, there are insufficient funds to finish construction. The project was previously funded by Council through a grant, a loan, the lease of a city surplus site for a nominal sum and the waiver of fees and property taxes.

The details are outlined in the body of this report, but the primary reasons for the capital shortfall are the inexperience of Ghana Amansie in matters related to housing development and their reliance on their development team (development consultant and architect) to provide guidance through a delayed planning process and a problematic pre-construction and construction stage. Delays in planning approvals resulted in increased capital costs of the Project, and this coupled with the limited capital funding available through previous federal/ provincial housing programs, made the budget very tight. During the tendering and construction stages errors were not promptly addressed by the development team which have led to serious cost over-runs.

The report also seeks authority for staff to intervene and manage the development of the Project including taking such actions as they consider necessary to ensure the timely and most efficient, cost effective completion of the Project. In addition, staff will ensure that an effective management plan is in place so that the Project operates effectively.

This report recommends that Council approve up to \$1,873,750 from the City's Capital Revolving Fund for Affordable Housing to be allocated for use in ensuring the completion of the construction of the Project and that an agreement be entered into with Ghana Amansie that sets out the terms and conditions of the City's additional assistance. These terms and conditions are to include Ghana Amansie irrevocably agreeing to the City's Affordable Housing Office acting as its agent in all aspects of the development to ensure the project is completed and that a management plan and revised operating budget satisfactory to the Director, Development, Affordable Housing Office are put in place to ensure long term financial viability of the Project.

The financial assistance being recommended in this report will allow the Project to be completed within approximately six months and provide much needed housing for 48 low-to-moderate income families and is possible because of the co-operation of Ghana Amansie, the construction contractor and the first mortgagee.

RECOMMENDATIONS

1. authority be granted to fund Ghana Amansie in an amount up to one million, eight hundred and seventy three thousand, seven hundred and fifty dollars (\$1,873,750) as a grant by way of forgivable loan from the City's Capital Revolving Fund for Affordable Housing ("CRF"), the final amount to be determined by the Director, Affordable Housing Office Development (the "Director").
2. authority be granted to defer all payments of principal and interest under the City's CRF loan, for a period of five years and a repayment plan be negotiated at that time to ensure the long-term financial viability of the Project;
3. authority be granted to enter into an agreement to amend the City's Loan and Grant Agreement with Ghana Amansie ("the "Amending Agreement"). The Amending Agreement would set out the terms and conditions of the City's assistance, including the irrevocable appointment of the City as agent to act in place of Ghana Amansie to complete the Project and to ensure that a viable, long-term operating and management plan is in effect; on such terms and conditions as determined by the Director and in a form approved by the City Solicitor;
4. authority be granted for the City to assume such contracts entered into by Ghana Amansie for the Project as the Director, in her sole discretion, considers necessary and advisable for the successful completion of the Project;
5. authority be granted for the City to enter into a sole source contract with R. Seligman Associates Inc. for project management services for so long as deemed necessary by the Director for a fee not to exceed \$100,000.00 on such terms and conditions satisfactory to the Director and in a form approved by the City Solicitor;

6. authority be granted for the City to enter into any agreements or other documents required to provide assurance to the Project's first mortgagees that the project will be financed to completion;
7. authority be granted to assign the City's lease and funding agreements with Ghana Amansie if necessary, as determined by the Director, to ensure the long-term viability of the Project;
8. The Director be authorized and directed, on behalf of the City, to execute all agreements and documents set out in the above recommendations.

Implementation Points

Upon the recommendations being approved, the City will enter into the Amending Agreement with Ghana Amansie Canadian Non-Profit Homes Inc. setting out details of the City's role as agent, including the requirement that the City alone, act as the developer of the Project, through to its completion. The City would then enter into a contract with a project manager to direct the Project, including overseeing the work of the construction contractor. The City would also take an assignment of all existing Project-related agreements, as well as any Project funds in the control of Ghana Amansie, and work towards an efficient and successful completion of the construction. The funding would be directed by the City to the contractor and other related parties. Furthermore the City would assume responsibility of ensuring that a property management plan is in place and all commercial and residential space was fully rented.

Once the City, as agent, has all the contracts and site instructions, staff will review the file with the Internal Audit Office to ensure all due diligence steps have been taken.

Financial Impact

This report recommends that the funding for this Project be increased by up to \$1,873,750 from the CRF upon Ghana Amansie Canadian Non-Profit Homes Inc. agreeing to the terms and conditions set out in the Amending Agreement. There is currently \$8,940,700 of uncommitted funds in the CRF available for investment in future affordable housing projects.

This report also recommends that all payments of principal and interest on the existing CRF loan of \$1,584,000 be deferred for five years and a repayment plan be negotiated at that time to ensure long term financial viability of the project.

Capital Funding

With increased capital funding from the City of \$1,873,750 and an increase in the first mortgage of \$800,000, the total capital costs for this project would be \$13,398,100, the details of which are set out in the tables below. This amount is being added to the total

capital costs to address construction cost overruns to ensure the completion of the Project which is currently 60% complete.

Government Assistance - Capital	2005	2007 with increase
Federal/provincial Affordable Housing Program	\$1,392,000	\$1,392,000
CRF Loan	\$1,584,000	\$1,584,000
CRF Grant	\$ 576,000	\$ 576,000
Waived development charges and fees	\$ 242,350	\$ 242,350
Contribution of City land value	\$ 960,000	\$ 960,000
CMHC start up funds	\$ 70,000	\$ 70,000
Recommended CRF grant increase		\$1,873,750
Total	\$4,824,350	\$6,698,100

Proponent Contribution – Capital	2005	2007 with increase
Private First Mortgage Financing	\$5,900,000	\$5,900,000
Increase in First Mortgage		\$ 800,000
Total	\$5,900,000	\$6,700,000

The first mortgagee has agreed to increase the mortgage by \$800,000 based on an extended amortization period, reduction in interest rates and increase in rents from time of commitment contingent upon expected revenues from the 4,600 square feet of commercial space, which occupies the ground floor of the building.

Government Assistance – Operating

Net present Value of Property Tax Exemptions over 50 years	\$633,586
--	-----------

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

DECISION HISTORY

In response to a Request for Proposals, issued for the City’s former Let’s Build program, Council, at its meeting held August 1, 2, 3 and 4, 2000, adopted Clause 10 of Report No. 16 of the Administration Committee, thereby approving Ghana Amansie as the Proponent to develop affordable housing on the City surplus fire station site. Capital funding from the CRF was also approved in the amount of a \$576,000 grant.

During the planning approval process, the design of the building had to be changed substantially to meet parking and garbage pick up requirements which resulted in increased capital costs. As a result, at its meeting of July 19, 20, 21 and 26, 2005 Council approved further funding to the Project, including recommending it for funding of \$1,392,000 under the Pilot project component of the new federal/provincial Affordable Housing Program and a CRF loan in the amount of \$1,584,000. It was this report, Clause

44 of Report 7 of the Policy and Finance Committee, that also recommended that the Project be exempt from property taxes for the term of the land lease.

This Project is one of the first projects to be selected under the City's former Let's Build Program. Developing affordable housing was in its pioneer years at the City and there were fewer financial tools to develop financially successful affordable housing and federal/provincial Affordable Housing Program funding was limited to \$29,000 per unit. The prolonged approval and pre-development phase, issues with the design and tendering and the lower federal/provincial funding have been contributing factors in the development being under funded.

ISSUE BACKGROUND

The Project is now 60% complete. The foundation and concrete shell are complete. However, there is a shortfall in funds to complete the remainder of the building. The first mortgagee has refused to advance further funds until they are assured that full financing is available to complete the project and consequently the construction contractor for the project has stopped work.

The financial difficulties came to the attention of staff in April 2007 when the Quantity Surveyor's Report no. 7, provided to the Lender and the City, indicated that Ghana Amansie had a budget shortfall and there were insufficient funds available to complete the Project. There was no indication of a budget shortfall in the previous Quantity Surveyor reports. It is now clear, however, that financial difficulties arose when major cost increases were incurred for the mechanical and electrical systems of the project. In a departure from usual practice, the development team tendered the project without having completed the design for the electrical and mechanical systems. The tender for mechanical and electrical work was issued after construction commenced in the fall of 2007. The construction contractor's budget had included an estimated cash allowance for these components, which was accepted by the development team before the design was complete. The cash allowance was low and seriously underestimated the mechanical and electrical components of the Project.

The costs of carrying the construction financing for a longer period and the costs inherent in the contractor demobilizing and remobilizing result in additional costs.

The difficulties and recommended solutions are detailed below in relation to adjustments to the capital and operating budgets.

Capital Budget

The total amount of the estimated capital shortfall is itemized below followed :

\$1,005,000 for the electrical and mechanical components (tendered price)

\$570, 000 from General Contractor for de-mobilize/re-mobilize (construction contractor's estimate)

\$300,000 for change orders and additional work as project completes (construction contractor's estimate)

\$100,000 for project management services (maximum)

\$100,000 additional interest on construction financing

\$250,000 for removal of "sweat equity" component

Total: \$2,325,000 + 15% contingency = \$2,673,750

Capital shortfall to be provided by Ghana Amansie (\$800,000)

Ghana Amansie will contribute to rectifying the budget shortfall by increasing the first mortgage amount and extending their amortization period. Their lender has agreed to increase the first mortgage by a maximum of \$800,000 provided they have rented the commercial space prior to occupancy. This increased mortgage amount will makeup for a shortfall in the construction budget due to the removal of \$250,000 volunteer labour services or "sweat equity" which the group and the general contractor have agreed is no longer feasible.

Capital shortfall to be provided through additional City grant (\$1,873,750)

This report recommends that the remaining shortfall in capital funds be met by granting \$1,873,750 in funds from the City's Capital Revolving Fund to Ghana Amansie to be secured through an Amending Agreement.

As a result of Council's increased funding to the Project in 2005, Ghana Amansie was in receipt of \$41,000/ unit total grant made up of \$29,000/unit from the Federal/Provincial Pilot Program funding in addition to the \$12,000/unit approved by Council in 2000 from the CRF. With the \$1,873,750 million additional grant from the CRF recommended in this report, the Project would be in receipt of a total of \$80,000/unit in grant funds. It is staff's opinion that the additional \$1,873,750 in public subsidy is required to complete the project as the building is 60% complete. The additional funding will ensure the project is completed in a timely manner and that government funds, already invested, are used for their intended purpose.

To ensure that with these extra funds the Project is able to move forward as quickly as possible to completion and occupancy, this report recommends that the City be authorized to act as agent for Ghana Amansie to complete the project. This would enable the Affordable Housing Office (AHO) to hire a project manager to directly oversee the work of the contractor in the place of the architect. As well, the AHO would be able to

coordinate the overall development of the project including dealing with the construction lender and the first mortgage lender.

Operating Budget

The increased total capital cost of the project has a direct bearing on the operating expenses and the project's financial viability. It is recommended that the increased funding be provided as a grant by way of forgivable loan so as not to increase the operating expenses of the project. Revenues are fixed because rents are not to exceed 100% of average market rents according to the City's definition of affordable housing. The Council report of 2000 which first approved Ghana Amansie to develop the city-owned site stated that initial rents should be at the interim definition of affordable housing which was 90% of the CMHC average market rents (AMR) at that time. The City's Municipal Housing Facility By-law now defines affordable housing as 100% of AMR and this is the definition the City has been using since 2003.

The recommendation that the payment of the current CRF loan of \$1,584,000 be deferred by five years would allow the project to set up on a stable financial footing. The loan would be subject to renegotiation based on actual expenses at the end of five years to ensure continued financial viability.

The 4,600 square feet of commercial space fronting Finch Avenue present a revenue generating opportunity for the development as well as a potential liability. A minimum income must be achieved to cover the mortgage costs needed to pay for the construction of the space. Ghana Amansie is in negotiations with parties currently for the space. One of the terms and conditions of the Amending Agreement would be that if commercial tenants are not secured at least three months prior to occupancy that the leasing of the commercial space it will be done by the City in its capacity as agent.

Operating costs will be met through housing and commercial rental revenues and laundry and parking income. An updated operating budget prepared by staff and reviewed by the City's Social Housing Unit has confirmed that the figures and assumptions are in line with benchmarks for similar affordable housing projects.

COMMENTS

The Affordable Housing Office has considered possible scenarios with respect to the difficulties faced by Ghana Amansie. Staff have held a number of meetings with the group, the lender and the general contractor. All parties have co-operated in providing information which has been helpful in developing a plan to complete the project under

difficult circumstances. The solutions proposed in this report, to be implemented upon approval of the recommendations, are in the best interests of the City and the residents in need of good affordable housing.

With the above recommended solutions in place 48 households will be able to take occupancy of new affordable homes.

CONTACT

Kathleen Llewellyn-Thomas P. Eng.
Director of Development
Affordable Housing Office
Phone: (416) 392-8590
Fax: (416) 392-4219
E-mail: Kllewel@toronto.ca

SIGNATURE

Sue Corke
Deputy City Manager