STAFF REPORT
INFORMATION ONLY

Provision Of City Loan Guarantees To Toronto Community Housing

Date:	May 31, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\Cf\ec07023Cf – et (AFS #4997)

SUMMARY

This report discusses various options to lower the interest costs and increase the accessibility of borrowed funds for the Toronto Community Housing Corporation (TCHC) to increase the funding for deferred maintenance and capital repairs.

FINANCIAL IMPACT

Any debt issued by TCHC is consolidated on the City's financial statements and the associated debt charges are part of the annual operating subsidy to TCHC. The financial impact on the City's debt capacity and its credit rating depends upon the amount and type of long term financing used to support TCHC's capital requirements.

DECISION HISTORY

At the Executive Committee meeting held on April 30, 2007, the report EX8.3 "Toronto Community Housing Corporation 2007 – 2009 Community Management Plan" was amended to include the following recommendation:

The Executive Committee:

1. requested the Deputy City Manager and Chief Financial Officer to submit a report to the May 28, 2007 meeting of the Executive Committee on the feasibility of substantially increasing the borrowing capacity of the Housing Company through loan guarantees in order to accelerate the retirement of deferred maintenance; and

2. once the aforementioned report has been submitted to the Executive Committee, the City strongly encourage the Minister of Municipal Affairs and Housing to match loan guarantees so that deferred maintenance can be further accelerated.

ISSUES BACKGROUND

Contained in the draft Toronto Community Housing "Community Management Plan 2007 – 2009" that was received at the meeting of the Executive Committee held on April 30, 2007 is the statement that current estimates for deferred maintenance are $300 million (2006). A lack of preventative maintenance is increasing operating costs and the frequency of service interruptions.

It was suggested that this backlog partially exists because TCHC does not have access to loans with reasonable costs and requires credit enhancement to increase its borrowing program.

Toronto Community Housing Corporation 2007 - 2009 Community Management Plan
(http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3165.pdf)
Attach. 2 - Transmittal Letter from TCHC Chief Executive Officer
(http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3166.pdf)
Attach. 3 - 2007 - 2009 TCHC Community Management Plan
(http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3167.pdf)

COMMENTS

TCHC's May 2007 Debenture Issue

TCHC has recently demonstrated its ability to directly access the capital markets with a public bond issue that was very well-received by investors. They recently issued $250 million in bonds in the capital markets with a term of 30 years and a yield of 4.887%. It was their first transaction which was not guaranteed by the City. Investor reaction was very favourable as it sold well with an interest rate that was estimated at 4 basis points (4/100) above a comparable City debenture that could have been issued for a 30 year term.

TCHC received a credit rating of AA- with a stable outlook from Standard and Poor's in October 2006 which is one level lower than the City's AA rating.

In a recent report, S&P stated that:

> "The long-term issuer credit rating on the Toronto Community Housing Corp. reflects its supportive relationship with its owner, strong demand and dominant supplier conditions, solid financial performances, robust interest coverage, healthy operating results, and adequate liquidity support. These strengths are somewhat counterbalanced by a moderate state-of-good repair backlog, increased

debt issuance for two redevelopment projects, and low levels of geographical diversification."

City and TCHC Outstanding Debt

The City's Shareholder Direction requires TCHC to demonstrate that its potential borrowing will not have the effect of increasing the amount of subsidy that is required from the City to service the debt. Also, Council approval is needed for the City to issue debentures for TCHC to be commingled with the City's borrowing requirements.

The City's net debt which is consolidated on the City's financial statements is currently $3.45 billion, consisting of $2.2 billion of own source debt and TCHC's $1.0 billion in outstanding mortgages combined with their recent bond issue of $250 million. Including the City's 2007 approved borrowing program of $500 million, the City's fiscal capacity to finance additional debt obligations is limited and it would not be advisable to add additional borrowing requirements unless a new revenue source to service this debt is identified.

For the year 2008, the City is facing significant operating budget pressures including the costs of servicing debt contained in the approved 2007-2011 capital plan. Any additional debt service costs not offset within TCHC's operating budget would put further pressure on property taxes and/or potential reductions in the provision of essential City services. In addition to the practical problem this creates for property taxes, additional debt places further pressures on the City's credit rating.

Financing Options

To respond to the request of Executive Committee, three financing options were considered with an objective of lowering TCHC's financing costs to facilitate additional borrowing to help address its capital maintenance backlog: a City loan guarantee, provincial support through interest free loans, and provincial assistance on debt service costs.

1. City Loan Guarantee

If the City had guaranteed the future payments of interest and principal, it is estimated that the issue would have been placed using the City's estimated interest rate as investors would have placed a value of 4 basis points on the guarantee. On a $100 million financing, the guarantee could have saved TCHC approximately $40,000 per annum on interest costs.

Based upon the risk that would be assumed by the City's guarantee, the small potential savings are not considered to be adequate to justify the additional exposure to the City as it is expected that TCHC's debt would be considered as City debt by the credit rating agencies as well as by investors.

2. Provincial Interest Free Loan

Were the Province to provide interest free loans to the City to help support the TCHC capital program, short term enhanced borrowing could occur. However, principal repayments traditionally make up about one-half of the debt service costs associated with a debenture issue and this approach only eliminates the interest payments but does not reduce the requirement to repay the principal. The amount borrowed would still form part of the City's consolidated debt.

3. Provincial Assistance on Debt Service Cost

A third option is for the Province to subsidize part or all of the debt service costs on debt issued in respect of an enhanced TCHC capital maintenance program. If the Province agreed to this approach, it may leverage higher capital expenditures, however, to the extent that TCHC could not find offsetting operating savings to fund its share of those debt service costs, there would be pressure on the property tax based to fund those costs. As well, this option would also mean that the City's consolidated debt would rise by the amount borrowed – in other words, the debt would be on the City's books, not the Province's.

From a risk standpoint, the City would be vulnerable to future provincial actions to cap or eliminate their debt service contributions and the TCHC, and ultimately the City, would be liable for all debt service costs over the life of the debt.

All of the financing options identified place additional financial risks and burdens on the City, over and above its already formidable challenges. These burdens will only be exacerbated in future years by the phase out of federal government support for housing.

Upload of Housing Costs to the Province – The Preferred Solution

The City, along with the Association of Municipalities of Ontario, is currently in discussions with the Province to help determine the long term fiscal relationship between the Province and municipalities as part of the Provincial Municipal Fiscal and Service Delivery Review. The City will continue to advance the position that the costs of social housing and social assistance, such as Ontario Works and the Ontario Disability Support Program, should not be funded from the property tax base.

The funding challenges relating to an aging housing stock, while not unique to Toronto, are particularly acute in the City due to the age of the stock and the disproportionate share of housing units that are currently the responsibility of the City. Without action by both the provincial and federal governments, this problem will continue to worsen and will continue to contribute to the mismatch between the City's revenue sources and its service responsibilities.

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SIGNATURE

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