TORONTO

STAFF REPORT
ACTION REQUIRED

A Ten-Year Capital Financing Plan for Toronto Community Housing

Date:	October 16, 2013
To:	Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

At its meeting in October 2012, City Council approved *Putting People First – Transforming Toronto Community Housing,* the report of the Special Housing Working Group, chaired by Councillor Ana Bailão, which made a number of recommendations to address the significant capital repair backlog and set a new course for Toronto Community Housing (TCH). This report responds to the request for the development of a capital financing plan. A companion report *Putting People First: Moving Forward* responds to a number of other recommendations arising from the Special Working Group's report.

TCH December 31, 2012 Capital Backlog - $862 million

The *Putting People First* report identified that the TCH capital repair backlog needed to be addressed and as a result the City and TCH have secured new sources of financing. Funding is being generated from approved mortgage refinancing in 2013 and through the ongoing sale of TCH properties as approved by Council. At the same time, the Special Housing Working Group recognized that the capital repair backlog was going to grow significantly over time unless further funding measures were identified.

Based on a recent building condition study commissioned by TCH on their social housing portfolio, the consulting group Ameresco has estimated the current TCH capital backlog to be $862 million. For an aging housing stock with an asset replacement value of some $9 billion this is considered on average a fair and acceptable Facility Condition Index (FCI) – ratio of backlog to asset value.

The average age of the 58,500 units within the TCH portfolio is over 40 years. With an asset value of $9 billion, maintaining and modernizing TCH's housing stock is a significant challenge.

TCH 2013-22 Capital Requirements - $2.6 Billion

Given the age of the portfolio and years of deferred capital repairs, TCH is facing a projected $2.6 billion "spike" in capital requirements from 2013 to 2022. The need for solutions to address the upcoming ten-year capital repair needs is now urgent as the forecasted growth in capital repairs will threaten the ratio of capital backlog to asset value.

Historically, TCH has operated year to year with capital repair funding from its annual operating budget and has not undertaken a longer term capital and financing plan to solve this significant issue. Over the past year, City and TCH staff have worked collaboratively to develop a long-term plan that sets out the financial resources TCH will require to properly maintain its housing stock in an acceptable state of repair.

The TCH Ten-Year Capital Financing Plan, detailed in Appendix A, is designed to finance the 2013-22 capital requirements and create greater certainty for the Board to govern and maintain housing in a safe and good state of repair and provide security to the people who call these buildings home.

Federal, Provincial and Toronto Partnership Funding

The Ten-Year Capital Financing Plan is built upon the principle of a federal, provincial and Toronto partnership, where each order of government will contribute one-third or $864 million each of the funding required by TCH over the next ten years to address the $2.6 billion in new capital repairs.

The federal and provincial governments created the legacy of social housing and it is their duty and social responsibility to renew their partnership. At a time when more support is required, social housing funding from the other the orders of government is being withdrawn through the cancellation of the provincial Toronto Pooling Compensation grant and the on-going withdrawal of federal funding for social housing. Yet, given the diversity and depth of their revenue sources, the federal and provincial governments are much better positioned to fund social housing than the City of Toronto.

The Financing Plan provides that the City and TCH will commit to its $864 million share of funding over the next ten years. Cognizant of current federal and provincial deficit pressures, the Plan defers the matching one-third federal and provincial contributions to 2016 to 2022. Through intergovernmental advocacy, the City and TCH will continue to work with local, provincial and national housing partners to secure commitments from the federal and provincial governments. Without on-going commitments from all orders of government, the TCH capital backlog is expected to grow with the portfolio reaching a critical state of repair (i.e. FCI > 30%) by 2020.

Future TCH Sustainability

The adoption of the Ten-Year Capital Financing Plan is intended to provide TCH with a greater level of funding certainty to address the ten-year "spike" in capital repair requirements. After ten years, from 2023 onward, the Financing Plan assumes TCH will be able to address its capital needs from City and TCH funding sources.

This report recommends that TCH report annually on the status of the capital backlog, the results from prior year expenditures and updates related to estimates for capital need and funding requirements. The Financing Plan will create sustainability and will ensure accountability through annual reporting to Council while providing opportunities for necessary adjustments and reporting on the outcomes of intergovernmental efforts.

Overall the TCH Ten-Year Capital Financing Plan demonstrates to the federal and provincial government and other partners that the City is being both aggressive and proactive in maintaining its social housing assets but that the $2.6 billion in capital needs required over the next ten years cannot solely be financed on the City's property tax base.

RECOMMENDATIONS

The City Manager recommends that City Council:

1. In its capacity as Shareholder of Toronto Community Housing Corporation (TCH):

    a. approve the TCH Ten-Year Capital Financing Plan (2013-22) as outlined in Appendix A; and

        i. direct TCH to increase its annual allocation from its existing operating budget for capital backlog repairs to $50 million for 2013 and to adjust this amount by the annual Consumer Price Index (CPI) for each year thereafter subject to annual Council budget approval;

        ii. direct TCH to initiate negotiations with potential lenders for the refinancing of TCH mortgages maturing in 2014 and 2015, with the potential to leverage equity, withdrawals of $22 million and $36 million respectively, to address the capital repair backlog and seek approval from Council for any proposed mortgage refinancing terms negotiated;

        iii. direct TCH to increase its annual capital repair backlog expenditures from $50 million in 2013 to in excess of $300 million annually by 2018 subject to annual Council budget approval and receipt of necessary federal and provincial funding;

iv. direct TCH to allocate any unspent annual capital repair funding into a State of Good Repair Reserve Fund which is restricted to fund future capital repair backlog expenditures;

b. direct TCH to report annually, through the TCH *Annual Report* to Council, with an updated Ten-Year Capital Financing Plan as of December 31st of the prior year that includes:

i. total amount of capital backlog repair expenditures from the prior year;

ii. outstanding capital repair needs carried forward from the prior year;

iii. reductions to the capital repair backlog due to the sale of assets and/or revitalization;

iv. balance of the capital repair backlog reserve fund;

v. changes in estimates for current and future capital repair requirements;

vi. changes in estimates for current and future capital repair funding;

2. request the Province of Ontario and the Government of Canada to continue to fund the City Toronto for social housing at current levels and to provide additional funding in the amount of $864 million each, representing an equal one-third share of the $2.6 billion in new ten-year TCH capital requirements (2016 through 2022) as detailed in Appendix A; and

3. authorize the City Manager to allocate $10 million in total, $5 million in each of 2013 and 2014, to TCH from the City of Toronto's Development Charge Reserve Fund for Subsidized Housing to replace equity that TCH has previously used in new construction that supported growth through an increase in affordable housing units and require TCH to direct funds received to address the capital repair backlog.

Financial Impact

This report identifies that the TCH capital backlog is $862 million as of December 31, 2012 and that new capital repair expenditures of $2.6 billion will be necessary over the next ten years (2013 through 2022) in order to achieve an average Facility Condition Index (FCI) value of 10%.

This report recommends that Council approve a TCH Ten-Year Capital Financing Plan that calls for equal one-third funding commitments from the City/TCH and the federal and provincial governments, or $864 million each, to address the projected growth in the capital needs for TCH. The following table illustrates the necessary funding commitments required from all order of government:

Table 1: Summary of Proposed TCH Ten-Year Capital Financing Plan ($M Adjusted for Inflation)

Ten-Year TCH Capital Funding Commitments	**$M**
Existing Capital Repair Backlog	862
Ten-Year Growth in Capital Repair Needs	2,805
Total Needs	**3,667**
Acceptable Backlog (10% FCI)	(1,072)
Ten-Year Capital Spending Required to Achieve 10% FCI	**2,595**
City/TCH 1/3 Funding:	
Prescribed TCH Annual Capital Funding from Operating Budget	(543)
Property Tax Exemption Savings (Education portion)	(94)
Development Charge Reserve Fund for Subsidized Housing	(10)
Sale of TCH Single Family Houses	(65)
TCH Mortgage Refinancing (2013-2015 mortgages renewals)	(152)
City/TCH Sub-total	(864)
Federal 1/3 Funding	(864)
Provincial 1/3 Funding	(864)
Facility Condition Index (FCI) at End of Ten Years (2022)	**10%**

The City and TCH's combined $864 million one-third share of the ten-year capital needs will be achieved through a number of measures. Funding sources previously approved by Council include: sale of single family houses, exemption of certain TCH properties from property taxes and the refinancing of TCH mortgages renewing in 2013. New proposed funding sources include: defining a permanent allocation level for capital repairs from within TCH's existing annual operating budget, additional refinancing of TCH mortgages renewing in 2014 and 2015, and an allocation from the City's Development Charge Reserve Fund for Social Housing.

The financial impact arising from new City and TCH funding sources are detailed below:

1. City/TCH Annual Capital Funding

This report recommends that TCH retain an annual baseline allocation from its existing operating budget for capital backlog repairs of $50 million, adjusted for inflation each year. This amount corresponds to the annual amount TCH will require to fund capital repairs over the long-term, once the upcoming spike in capital needs has been addressed. Over the next ten years, this baseline funding is forecast to generate $543 million for capital repairs.

However, as outlined in the report entitled, *The Impact of the Loss of the Provincial Pooling Compensation* submitted to Council at its July 2013 meeting, the Shelter, Support and Housing Administration (SSHA) budget, through which the City provides TCH with subsidy support, is facing significant financial pressures related to the loss of provincial funding through the cancellation of the Toronto Pooling Compensation (TPC) grant and the withdrawal of federal funding for social housing.

Under the terms of the 1997 Canada-Ontario Social Housing Agreement, the federal government agreed to provide block funding to the Province for social housing until 2031 to offset social housing capital, operating and mortgage/debenture costs. In turn, the province transfers this funding to municipalities. When federal funding expires, the debt obligations (mortgage and debentures) associated with social housing projects will also end, however, debt obligations represent only a fraction of the total federal funding reductions. The balance of funding for operating and capital costs is also withdrawn at expiry even though social housing projects continue to incur those costs, which the City in turn must continue to subsidize.

The chart below details the loss of provincial and federal social housing funding:

Table 2: 2014 – 2022 Loss of Provincial and Federal Social Housing Funding ($M)

Year	Toronto Pooling Compensation	Federal Funding Withdrawal	Total Revenue Loss
2014	38.0	4.7	42.7
2015	38.0	8.7	46.7
2016	38.0	6.4	44.4
2017	-	8.9	8.9
2018	--	6.7	6.7
2019	-	5.9	5.9
2020	-	14.5	14.5
2021	-	11.2	11.2
2022	-	5.4	5.4
Total	**114.0**	**72.4**	**186.4**

Note: The Province has not published the federal funding payable beyond 2017. As such, federal funding loss for 2018 through 2022 is based on City estimates.

As identified in the July report to Council on the Loss of the TPC grant, the bulk of SSHA's operating budget goes towards funding social housing and the legislation setting out funding obligations for all social housing providers but TCH is very prescriptive. In the absence of any offsetting increase in the property-tax-funded contribution to the SSHA operating budget, the funding loss would likely result in a substantial reduction in the subsidy support provided to TCH through SSHA. This would, in turn, likely result in a sharp reduction in the available amount TCH can allocate annually from its operating budget to address the capital repair backlog. If no offsets are found, the July 2013 staff report on the Loss of the TPC grant report estimated a 5.4% property tax impact over three years (i.e. 1.8% per year).

TCH must have sufficient resources available to dedicate $50 million annually from its operating budget to address the capital repair backlog. Given TCH's limited ability to raise additional revenue through tenant rents, the City must maintain and increase its funding to TCH over time subject to the annual budget approval process.

2. *TCH Mortgage Refinancing*

In 2013, TCH undertook mortgage refinancing through Infrastructure Ontario which raised $93 million for capital repairs. The Ten-Year Capital Financing Plan recommends that TCH pursue additional refinancing opportunities for mortgages renewing in 2014 and 2015, in order to generate funding of $22 million and $36 million respectively for capital repairs. Any negotiated term sheet between TCH and a lender will require Council's approval.

The proposed mortgage refinancing requires the City to extend mortgage subsidy payments to TCH at current levels to match the new extended terms of affected mortgages. As the City's annual mortgage subsidy payments will not be increasing relative to current levels, there will be no annual incremental subsidy impact. However, this approach will result in an elimination of the mortgage subsidy savings that would have otherwise been realized when the current mortgages reached maturity. At that point, the corresponding mortgage subsidy payable to TCH for each City-funded property would have been reduced under the terms of the City's Operating Agreement with TCH.

For the proposed mortgage refinancing that will generate a total of $58 million for capital repairs, the total nominal value of the foregone mortgage subsidy savings is estimated at $84 million and the present value of this amount is estimated at $38 million.

3. *Development Charge Reserve Fund for Subsidized Housing*

As identified in *Putting People First*, Corporate Finance staff have confirmed that $10 million from the Development Charge Reserve Fund for Subsidized Housing can be substituted for TCH equity used to increase the City's supply of affordable housing units through the construction of new developments. By substituting Development Charge reserve funds TCH funds can be freed up and applied to address the capital repair backlog.

This report recommends the City allocate $10 million to TCH, $5 million in each 2013 and 2014, from the Development Charge Reserve Fund for Subsidized Housing and directs TCH to use the funds to address capital repairs. There is no associated financial impact to the City's operating or capital budgets.

TCH Capital Repair Program

A detailed cash flow forecast for the proposed funding measures is detailed in Appendix A, TCH Ten-Year Capital Financing Plan.

This forecast assumes that TCH's ability to address the capital repair backlog will initially be limited as it will need time to build internal capacity to increase capital spending from $50 million annually in 2013 to more than $300 million by 2018. As a result, it is anticipated that the capital repair needed, and available funding, will initially grow more rapidly than TCH's capacity to carry out necessary repairs.

As such, this report recommends that surplus capital funds raised through the initial mortgage refinancing be set aside in a State-of-Good-Repair Reserve Fund for future capital repair needs. Contributions from the federal and provincial governments to support TCH's expanded and enhanced capital repair program are forecast to begin in 2016.

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

Equity Impact

The TCH Ten-Year Capital Financing Plan provides the necessary state of good repair backlog funding to ensure that TCH will have the ability to improve and maintain its social housing portfolio that serves equity seeking groups who live in that housing, such as women, seniors, people with disabilities, individuals with mental health issues, the working poor and other vulnerable groups.

DECISION HISTORY

Staff have outlined the need for additional capital repair funding for social housing in many reports to City Council since the transfer of social housing from the Province to the City in 2001. In November 2007, Council approved a strategy for renewing Toronto's social housing in the report *Tied In Knots: Unlocking the Potential of Social Housing Communities*.
http://www.toronto.ca/legdocs/mmis/2007/cd/bgrd/backgroundfile-8980.pdf

Council's ten-year affordable housing plan, *Housing Opportunities Toronto,* was approved by Council at its meeting of August 5 and 6, 2009. The report, identifies a key City action to "Ensure that the existing social housing stock achieves and maintains a state of good repair".
http://www.toronto.ca/legdocs/mmis/2009/cc/decisions/2009-08-05-cc38-dd.htm

City Council, on March 5, 6 and 7, 2012 adopted without amendment the recommendations of the Executive Committee contained in clause EX 17.1, *Securing Funding to Repair Toronto Community Housing's Multi-Residential Portfolio: Sale of Toronto Community Housing Stand-Alone Units.* Council authorized the sale of 56 unoccupied TCH single-family homes and established a Special Housing Working Group, chaired by the Chair of the Affordable Housing Committee, with a mandate to investigate, make findings and report on, amongst other items, "innovative funding models to address the social housing repair backlog".
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX17.1

On October, 30, 31 and November 1, 2012 Council adopted the Special Housing Working Group's report, *Putting People First, Transforming Toronto Community Housing Corporation*. The report sets out a number of actions aimed at providing immediate funding solutions for TCH and for the City to undertake a social housing advocacy campaign to re-engage the federal and provincial governments in funding social housing. The report directed staff to develop a blueprint for a five-year capital plan to address the capital repair backlog.
http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-50147.pdf

City Council, on April 3 and 4, 2013 adopted the report, EX29.2 *Infrastructure Ontario Refinancing of Toronto Community Housing* which responded to a recommendation from the *Putting People First – Transforming Toronto Community Housing* report, that called for staff to investigate the potential of leveraging equity through mortgage refinancing. Through Infrastructure Ontario, TCH refinanced mortgages of $154.7 million of which $60.4 million will be used to pay out mortgages with the balance of $93.5 targeted to address the capital backlog. http://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-56572.pdf

At its meeting on July 16, 17, 18 and 19, 2013, City Council adopted the report, *The Impact of the Loss of the Provincial Toronto Pooling Compensation.* The report outlined the implications of the elimination of Toronto Pooling Compensation grant and identifies additional financial pressures related to the on-going withdrawal of federal funding for social housing, both of which negatively impact revenues received by SSHA for the funding of social housing. For 2014, the combined loss of provincial and federal funding for social housing is $42.7 million. http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.CC37.5

A joint meeting on October 1, 2013 of TCH's Building and Investment Committee and the Corporate Affairs Committee passed a resolution recommending that the Board of Directors approve the Ten-Year Capital Financing Plan based on an average Facility Condition Index target for the TCH portfolio of 10%. At the same meeting, staff provided an update on measures taken in response to the direction received from the *Putting People First* report.

ISSUE BACKGROUND

Outlined below are details on the transfer of social housing responsibility to the City from the provincial and federal governments, the current TCH backlog, projections for future growth of capital repair requirements over the next 30 years, and details on a measure employed by TCH to assess the relative average state of repair of its social housing portfolio.

Shared Government Responsibility for TCH

The TCH portfolio was developed under a variety of provincial and federal housing programs and was funded jointly by these two governments until the signing of the 1997 Canada-Ontario Social Housing Agreement, which transferred social housing responsibilities to the Province. In 1998, the Province transferred the funding responsibilities for social housing, including TCH, to the City, and in 2001 responsibility for its administration. The 58,500 TCH units were transferred with few existing capital reserves and no additional funding was provided by the Province for deferred capital repair requirements.

The legacy left to the City, was a massive housing portfolio requiring extensive maintenance and repair with insufficient funding to ensure the necessary investments. The City of Toronto has a long standing position that social housing is a shared responsibility amongst governments and that all parties have an obligation to ensure that social housing remains in a good state of repair and continues to provide safe, healthy affordable housing for the tens of thousands of people that call TCH communities home.

Since the City assumed responsibility to fund and administer social housing there have been a number of one-time investments from all levels of government to assist with TCH's capital repair backlog. These investments, which acknowledge a level of shared responsibility, are detailed in the following table:

Table 3: Summary of One-Time Government Funding for TCH Capital Repairs ($M)

Year	Government Funding Sources	$M			
		Mechanical	Structural	Interiors	Total
2005	Grant from Social Housing Reserve Funds (City)	5.0	0	0	5.0
2008	Proceeds from Sale of Toronto Hydro Telecom (City)	12.3	18.7	44.0	75.0
2008	Provincial Grant (Ontario)	0	0	36.5	36.5
2009	Economic Stimulus Funding (Canada/Ontario)	74.0	24.6	53.3	151.9
Total		**91.3**	**43.3**	**133.8**	**268.4**

While these investments have provided important funding towards the state-of-good-repair capital backlog, they have been insufficient to address the growing TCH capital repair challenges.

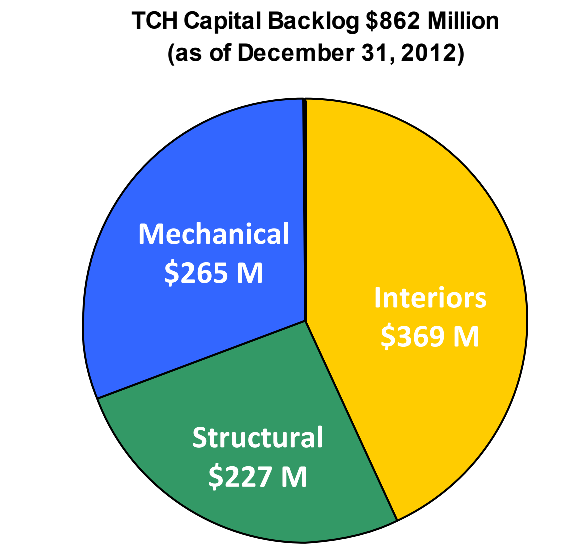
TCH requires on-going and predictable funding in order to develop and execute an enhanced capital plan that can deploy $2.6 billion and make the investments required to ensure TCH's 58,500 units are adequately maintained over the long-term. At a time when more and not less investment in social housing is required from the provincial and federal governments, the limited funding the City does receive is being reduced through the elimination of the provincial TPC grant and withdrawal of federal funding for social housing.

Current TCH Capital Backlog

TCH engaged Ameresco, a third party engineering and consultancy firm, to analyze the capital repair data and report back on the following: the amount of the backlog as of December 31, 2012, the condition of each property within the portfolio (i.e. Facility Condition Index), and projected capital needs over 30 years.

TCH reports that the capital backlog as of December 31, 2012 was $862 million. This represents an increase of $162 million in new capital requirements since the $751 million backlog figure that was identified in the report to Executive Committee in January 2012 entitled, *Securing Funding to Repair TCH's Multi-Residential Portfolio: Sale of TCH Stand-Alone Units*. The chart that follows details the distribution of the $862 million backlog in three broad building element categories: interiors, mechanical and structural.

Figure 1: TCH Capital Backlog Components ($M)

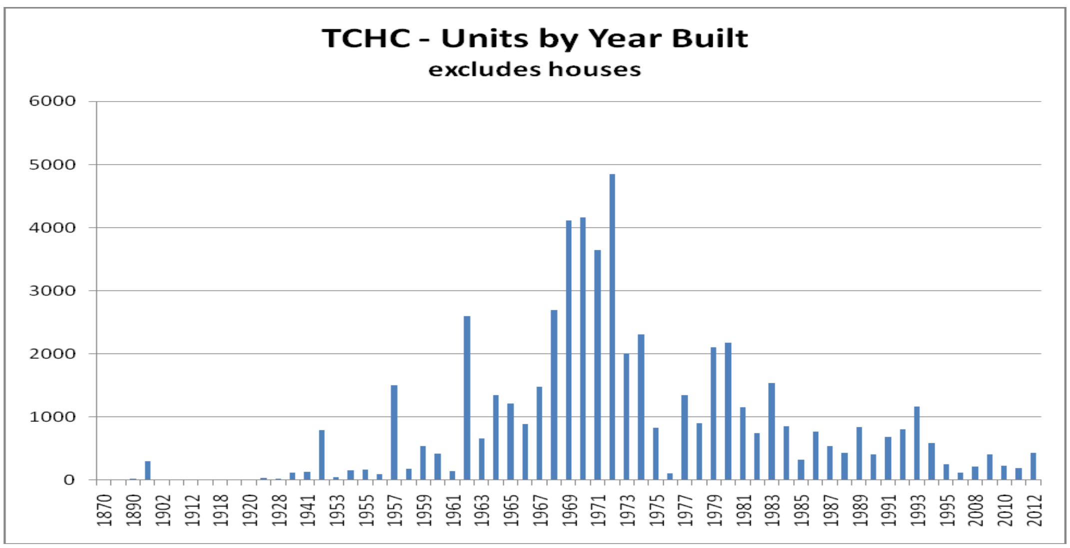


Note: excludes assets approved for Sale and Revitalization Sites

Forecast 30-Year TCH Capital Requirements

The majority of TCH social housing was built in the 1960s and 1970s and the average age of the portfolio is 40 years. As buildings age, the costs to keep them in a good state of repair increase. Major building components throughout the portfolio have or will reach the end of their life cycle over the next ten years and will need to be replaced. An illustration of the average age of the TCH portfolio is detailed in the following graph.

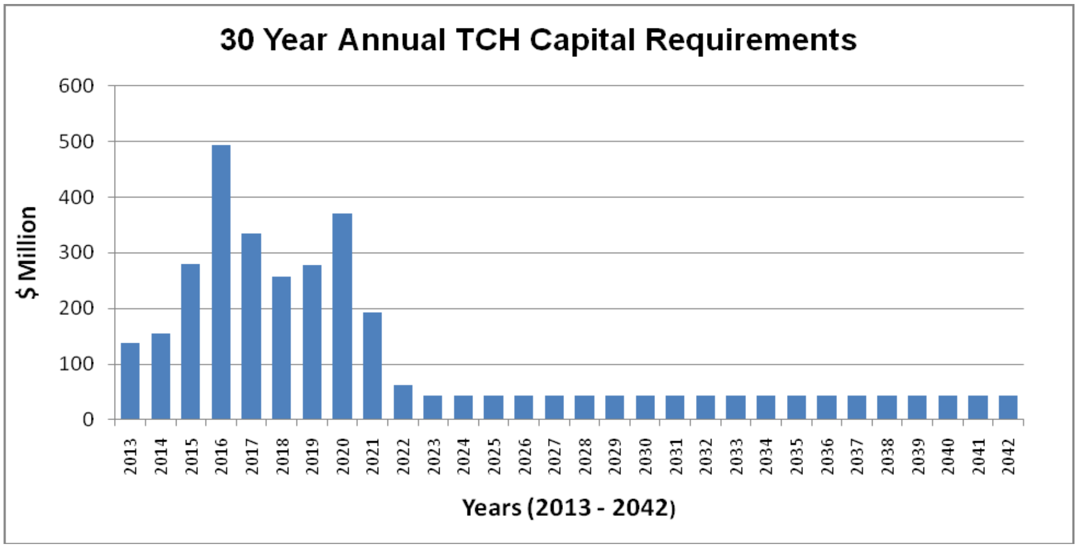
Figure 2: Age of the TCH Portfolio



Note: Represents an average age of 40 years (i.e. built in 1974)

Through an analysis of TCH data and life cycle models, Ameresco developed a 30-year forecast of the capital repair backlog growth. Ameresco relied upon TCH data including comprehensive building conditions assessments completed in 2009, along with life cycle modelling, which uses building specific data and life cycle and replacement cost estimates to project future costs.

Figure 3: 30 Year Forecast of Incremental Growth of the TCH Capital Backlog (SM)



Note: Represents annual growth over and above current Backlog of $862 million (constant 2013 $)

Based on Ameresco's analysis and as illustrated in the preceding graph, there is significant capital repair growth projected from 2013 to 2022 when a total of $2.6 billion is required. This "spike" is consistent with the average age of the portfolio as illustrated identified in Figure 2. After ten years, capital requirements stabilize to more manageable levels of approximately $43 million in 2013 dollars on average annually or $860 million from 2023 to 2042.

Assessing the Current State of Repair - Facility Condition Index

In assessing the condition of its housing portfolio, TCH uses the Facility Condition Index (FCI), an industry standard used to assess the relative condition of a building or portfolio of buildings. The FCI for real estate assets is calculated as follows:

$$\textbf{FCI} = \frac{\textbf{Unfunded Backlog}}{\textbf{Portfolio Replacement Value}}$$

The percentage derived from this formula can then be used against the scale that follows to assess the relative condition of a property or portfolio:

FCI %	Condition
< 5%	Good
6% to 10%	Fair
11% to 30%	Poor
> 30%	Critical

In consultation with Ameresco, TCH staff have recommended to their Board of Directors that an average FCI target for their portfolio of 10%, or a 'Fair' condition, be adopted. This means TCH would carry a deferred capital backlog of up to 10% of the replacement value of its assets.

At the 10%, or 'Fair', FCI threshold, the assets could be continually sustained at a tolerable level of risk that preserves the buildings and minimize impacts to residents. As FCI increases, the assets would experience increased risk of component failure, increased facility maintenance and operating costs, and increased negative impacts to residents.

The current replacement cost of the TCH portfolio is $9.0 billion when adjusted for the sale of approved single family homes, as well as properties identified for revitalization. As such, the current FCI for the TCH portfolio as of December 31, 2012 is as follows:

$$\textbf{9.6\%}\ \text{FCI} = \frac{\textbf{\$862 Million}\ \text{Unfunded Backlog}}{\textbf{\$9.0 Billion}\ \text{Portfolio Replacement Cost}}$$

Based on the above analysis, the current average condition of the TCH portfolio is just below the 10% threshold. However, without necessary funding, and given the expected "spike" in building repairs needed as the portfolio ages over the next ten years, the overall condition of the portfolio will regress from 'Fair' to 'Poor' and eventually to 'Critical'. It should be noted that the FCI is a portfolio average and due to the size of the TCH portfolio and the number of buildings managed, there are a number of buildings for which the FCI is in the 'Poor' range and a few, which are deemed to be 'Critical'.

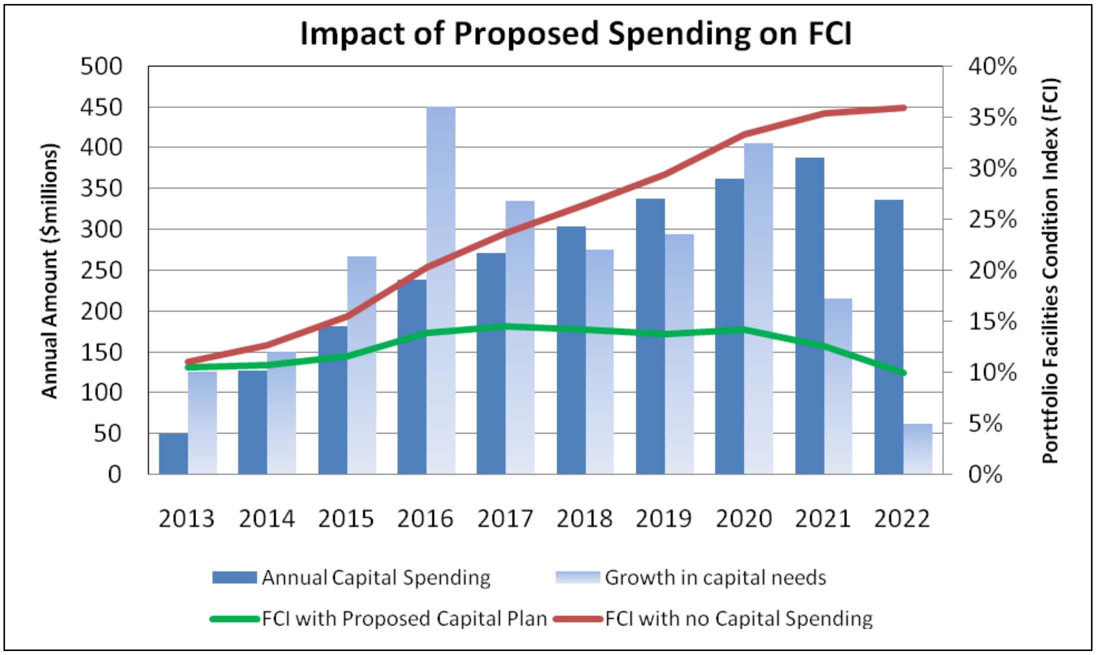
COMMENTS

Over the past ten years, TCH has implemented various comprehensive programs, such as the Building Renewal, Preventative Maintenance and Building Energy Retrofit programs for capital renewal through remedial maintenance, rehabilitation, renovation and equipment replacement to address critical building condition issues. Within significant capital funding constraints, TCH has aimed to provide a holistic review of its properties and map out an effective capital renewal plan to address the priority replacement of building systems and equipment and to extend the life of other building equipment to maximum life-cycle potential.

In March 2013, City Council approved *Putting People First – Transforming Toronto Community Housing*, which made 19 recommendations to address the significant capital repair backlog at TCH. This report responds to the direction to develop a capital financing plan.

Based on the City's position that social housing is a shared responsibility, the Ten-Year Capital Financing Plan calls on all orders of government to do their fair share by contributing equally to the repair needs of the TCH portfolio. The effect of this funding will enable TCH to ensure that its portfolio achieves a 'Fair' FCI of 10% by 2022. Without this funding, the TCH portfolio will quickly deteriorate as detailed in the chart below:

Figure 4: Ten Year Impact of Capital Spending on Average Condition of TCH Portfolio



City and TCH staff have worked collaboratively over the past months to develop a Ten-Year Capital Financing Plan that will ensure the TCH portfolio is maintained in a 'Fair' state of repair and that will ensure TCH has the capacity to manage the long-term capital needs from within its existing funding arrangements.

The Financing Plan includes a number of funding measures to contribute to the City/TCH one-third commitment of $864 million. The measures proposed are achievable with Council approval. A number of additional recommendations put forward in *Putting People First* continue to be investigated. This report recommends that TCH be required to report annually to Council on the Financing Plan. Should additional funding measures or opportunities materialize in future, they will be incorporated into the rolling plan. Updates on the additional measures are contained within a companion report entitled, *Putting People First: Moving Forward*.

Ten-Year Capital Financing Plan

One of the fundamental goals of *Putting People First* report was to provide immediate funding solutions to TCH and a blueprint for a five-year capital plan. Through Council's approval of the sale of assets ($65 million) and the refinancing of mortgages renewing in 2013 through Infrastructure Ontario ($93 million), for a total of $158 million, the report's target of $120 million over two years has already been surpassed by more than $38 million.

Through the collaborative work of City and TCH staff it became evident that, due to the relative age of the portfolio and the "spike" in new capital needs over the next ten years, a ten-year, not a five-year plan was required in order to ensure that the TCH portfolio can achieve and maintain a 'Fair' state of repair with an FCI of 10%.

The proposed Ten-Year Capital Financing Plan includes a number of measures aimed at increasing the funding available to TCH to address the capital backlog. Details on these measures are outlined below:

1. Increase to TCH's Annual Funding Allocation for Capital Repairs

The Financing Plan calls for enhanced capital funding for TCH on an annual basis. TCH is directed to increase its annual allocation to address capital backlog repairs to $50 million. This amount will be indexed annually to the Consumer Price Index (CPI) to address inflationary pressures in future years. The $50 million will be drawn from TCH's base operating budget, which includes revenues TCH receives from tenant rents and from the operating subsidy provided by the City through its operating agreement with TCH.

This increase, when combined with other revenue sources including the cost-shared funding with the other governments, will help address the increased annual funding requirement for capital repairs over the next ten years. Following this period, this indexed base capital funding will provide TCH with the means to address its capital requirements on an on-going basis through 2032.

In order to ensure TCH has the ability to direct $50 million annually towards capital, the City must ensure that TCH receives stable and consistent funding. Given the limitations on TCH's ability to raise additional revenues through rents, it is imperative that the City's residual operating subsidy is maintained and grows at inflationary levels at a minimum so TCH is insulated from pressures resulting from reductions in provincial revenues through the Toronto Pooling Compensation grant and from the withdrawal of federal funding for social housing. Accordingly, the City must maintain and increase its funding to TCH over time subject to the annual budget approval process.

The increased annual allocation from TCH's operating budget will provide $500 million over ten-years in present dollars, and $543 million when adjusted for inflation.

2. Property Tax Savings

At its meeting on October 24 and 25, 2011, City Council approved the designation of TCH affordable housing stock as Municipal Capital Facilities. Council's decision to make certain TCH properties exempt from property tax resulted in an annual net savings given that the provincial education portion of property taxes is no longer payable. These savings were passed along to TCH with the requirement that they be directed to capital repairs.

This net annual savings was $6.9 million in 2013 and will increase to approximately $10 million for 2014 and beyond. The Ten-Year Capital Financing Plan calls on TCH to target these annual savings towards addressing the capital backlog each year resulting in a total of $94 million over ten years.

3. Development Charge Reserve Fund for Subsidized Housing

In recent years, TCH in partnership with the City has created more than 800 new affordable housing units. In accordance with the mandate and eligibility requirements of the City's Development Charge Reserve Fund for Subsidized Housing, the report recommends that $10 million from the Fund be provided to replace equity that was used in the development of new affordable housing that supported growth.

The City will direct $10 million to TCH, $5 million in 2013 and $5 million in 2014, from the Development Charge Reserve Fund for Subsidized Housing. TCH will be required to use these funds for capital repairs. The Reserve Fund currently has more than $25 million in unallocated funds.

4. Sale of TCH Single Family Houses

City Council has previously approved the sale of 111 TCH single-family homes, some of which were valued at more than $600,000, or were vacant and/or in a poor state of repair. The sales of these houses will provide important one-time revenues targeted to capital repairs.

The Ten-Year Capital Financing Plan includes a forecast of sales of single-family homes of $20 million, $30 million, and $15 million for 2013, 2014, and 2015 respectively, for a total of $65 million. The sales of the most recent 15 houses have exceeded TCH's initial estimates so it is expected that TCH will achieve the targeted revenues.

5. *TCH Mortgage Refinancing*

In April 2013, Council approved a term sheet between TCH and Infrastructure Ontario for the refinancing of 18 TCH mortgages scheduled for renewal in 2013 at a fixed rate for a 30-year term. TCH and Infrastructure Ontario have finalized the mortgage refinancing. The refinancing allocates funding for existing mortgage payouts, the establishment of capital expenditure reserves for the refinanced properties, and funding to address the capital repairs as detailed in the following table:

Table 4: 2013 Infrastructure Ontario Mortgage Refinancing

IO Mortgage Refinancing Components	($M)
Repayment of Existing Mortgage Balances	60.4
Capital Expenditure Reserve Funds	11.8
Funds for Capital Backlog Repairs	81.7
TOTAL	**153.9**

The TCH Ten-Year Capital Financing Plan proposes similar additional refinancing of mortgages scheduled for renewal in 2014 and 2015.

The mortgage refinancing has no immediate financial impact on the City. However, it does extend the City's commitment to provide funding to TCH. This commitment does not represent an increase in current subsidy costs but rather an elimination of mortgage subsidy payment savings that would have otherwise been realized when current mortgages reached maturity. At that point, the corresponding mortgage subsidy payable to TCH for each City-funded property would have been eliminated under the terms of the Operating Agreement with TCH.

TCH mortgage refinancing approved for 2013 is $93 million and it is forecast that the 2014 and 2015 refinancing will raise $22 and $36 million respectively. All funds raised will be targeted to address the capital repair backlog.

6. TCH Revitalization Sites

In addition to using capital funding to address the aging condition of its portfolio, TCH has and will continue to pursue opportunities to revitalize communities. TCH and City Planning have been working to review potential redevelopment opportunities whereby TCH can intensify land use, develop market housing and, through revenues generated, completely rebuild the social housing on those sites. The companion report *Putting People First: Moving Forward* discusses these efforts in greater detail.

Revitalization has a positive influence on the capital repair backlog. As communities are revitalized, all deferred capital maintenance that contributes to the backlog within those communities is eliminated. The TCH Ten-Year Capital Plan incorporates the reduction in the capital backlog associated with the sale of assets and revitalization sites. Currently, 13 sites are included, seven of which are actively underway and five which are projected to be initiated within the next ten years.

As the collaborative efforts between TCH and City Planning lead to additional revitalization initiatives, the resulting adjustments to the backlog will be incorporated into the rolling Ten-Year Capital Financing Plan.

7. Provincial and Federal Matching One-Third Contributions

The existing stock of social housing is the result of many decades of investment by all three orders of government and the protection of these public investments in social housing is a shared responsibility. As such, the TCH Ten-Year Financing Plan calls on the provincial and federal governments to provide matching one-third contributions of $864 million each. The capital funding requirements over the short-term will be addressed exclusively from the collective contributions of the City and TCH. However, it is imperative that the provincial and federal governments begin contributing their fair share no later than in 2016.

Through the Close the Housing Gap campaign and intergovernmental efforts with the Federation of Canadian Municipalities (FCM), the Association of Municipalities of Ontario and others, the City, over the next two years, will continue to pressure the federal and provincial government to maintain existing social housing funding at current levels and contribute their fair share of the $2.6 billion in capital backlog repairs that will be required over the next 10 years.

CONCLUSION

The average age of the TCH portfolio is now 40 years and with a projected increase of $2.6 billion in new capital requirements over the next ten-years, there is an urgent need to provide TCH with sufficient funding to maintain its social housing assets.

Given that social housing is a shared responsibility, the Capital Financing Plan is built upon the principle that the City and TCH, as well as the federal and provincial governments, should pay their fair share by contributing one-third, or $864 million each, over the next ten-years.

With the requested support provided by the other governments, the Ten-Year Capital Financing Plan will enable TCH to address the "spike" in capital repairs over the short-term and provide the funding certainty necessary to effectively manage its assets over the long-term.

This report has been prepared through extensive consultation with TCH, the Deputy City Manager and Chief Financial Officer, and the Deputy City Manager, Cluster A.

CONTACT

Sean Gadon
Director
Affordable Housing Office
416-338-1143
sgadon@toronto.ca

Joe Farag
Director
Corporate Finance
416-392-8108
jfarag@toronto.ca

Phillip Abrahams
General Manager
Shelter, Support and Housing Administration
416-392-7885
pabraham@toronto.ca

SIGNATURE

____

Joseph P. Pennachetti
City Manager

ATTACHMENTS

Appendix A, Toronto Community Housing Ten-Year Capital Financing Plan

Appendix A

TCH Ten-Year Capital Financing Plan

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Capital Needs ($ millions)											
Outstanding needs carried over from prior year	862	938	980	1,084	1,316	1,406	1,406	1,390	1,462	1,319	
Growth in new capital needs	138	159	291	523	362	283	313	426	226	74	
Inflation on opening balance	0	19	20	22	26	28	28	28	29	26	
Reduction due to sale/revitalization	-12	-8	-24	-74	-27	-8	-19	-20	-11	-12	
Reduction due to capital spending (from * below)	-50	-128	-182	-239	-271	-304	-338	-362	-388	-336	2,595
Outstanding capital needs at year-end:	**938**	**980**	**1,084**	**1,316**	**1,406**	**1,406**	**1,390**	**1,462**	**1,319**	**1,072**	
Year end Facilities Condition Index (FCI):	**10%**	**11%**	**12%**	**14%**	**14%**	**14%**	**14%**	**14%**	**13%**	**10%**	
Capital Funding Sources ($ millions)											
City/TCH Funding Sources											
Annual Capital Funding (TCH Operating Budget.)	50	51	52	53	54	55	56	57	58	59	543
Property Tax Exemption (Education Portion)	7	10	10	10	10	10	10	10	10	10	94
Development Charge Reserve Fund Allocation	5	5									10
Sale of TCH Single Family Houses Proceeds	20	30	15								65
TCH Mortgage Refinancing	93	22	36								152
Total Annual City/TCHC Funding:	**175**	**118**	**113**	**62**	**63**	**64**	**65**	**67**	**68**	**69**	**864**
Capital reserve Draws(+)/Contributions(-)	-125	9	69	50	1	0	0	0	0	0	
Sub-total:	50	128	182	112	64	64	65	67	68	69	
Federal/Provincial Contributions											
Federal 1/3 total nominal funding				64	103	120	136	148	160	133	864
Provincial 1/3 total nominal funding)				64	103	120	136	148	160	133	864
Total Annual Fed/Prov Funding:	**0**	**0**	**0**	**127**	**207**	**239**	**272**	**295**	**320**	**267**	**1,727**
Total Capital Spending:	**50**	**128**	**182**	**239**	**271**	**304**	**338**	**362**	**388**	**336**	**2598**
TCHC Capital Reserve Balance ($ Millions)											
Opening Balance	0	125	117	50	1	0	0	0	0	0	
Interest	0	2	2	1	0	0	0	0	0	0	
Capital reserve Contributions(+)/Draws(-)	125	-9	-69	-50	-1	0	0	0	0	0	
Year-End Balance:	125	117	50	1	0	0	0	0	0	0	