



**STAFF REPORT
ACTION REQUIRED**

Refinancing of City Loans to Toronto Community Housing

Date:	June 17, 2014
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2014\Internal Services\Cf\Ec14016Cf (AFS #19647)

SUMMARY

The purpose of this report is to respond to a direction from Executive Committee that the City Manager, in consultation with Corporate Finance, Shelter, Support and Housing Administration and Toronto Community Housing, report on options to restructure/refinance high-interest City loans to Toronto Community Housing (TCH) in order to unlock funding to address Toronto Community Housing's capital repair backlog.

This report recommends that TCHC be provided with a new 30-year loan that replaces the existing City loans for 55 properties. As shown in Appendix A, these existing loans have an outstanding balance of approximately \$19.4 million and maturity dates that range from 2017 to 2031. The existing interest rates on these loans range from 5.5% to 11% and average about 8%.

It is proposed that the City provide the new loan at an interest rate that is equal to the City's current cost of capital for 30-year debentures, which is approximately 4.5%. The new loan would have a total annual repayment amount equal to the total annual repayment amount currently being provided by TCH on the existing loans. As a result of the extended amortization period and the reduced interest rate, the existing annual repayment amounts can now support a new total loan amount of \$52.4 million. After repayment of the existing loans, this will allow TCH to apply approximately \$33.0 million towards addressing capital needs throughout the entire TCH social housing portfolio.

In order to support TCH's repayment of this expanded loan, TCHC has requested a City commitment to extend the existing mortgage subsidy funding being provided by the City

to TCH for 47 of the 55 properties (8 properties do not currently receive mortgage subsidies) so that the current annual subsidy amounts are maintained until the end of the new 30-year mortgage amortization term. The extended mortgage subsidy funding has a total nominal value of \$40.1 million and a present value of \$16.9 million.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. City Council, in its capacity as Shareholder of Toronto Community Housing Corporation (TCH):
 - a. pursuant to Section 6.3.1 (a) of the City's Shareholder Direction to TCH approve the term sheet substantially in the form attached as Attachment 1 to this report (the Term Sheet) between TCH and the City for refinancing totalling \$52.4 million in order to address the renewal of 55 TCH mortgages with a total outstanding balance of approximately \$19.4 million, as well as obtaining incremental financing of approximately \$33 million (less transaction costs and legal fees); and
 - b. approve the extension of TCH's mortgage subsidy for 47 identified properties, based on the current monthly mortgage payment, until the end of 2044, both on condition that:
 - i. the net amount of incremental financing be deposited to a new special reserve other than the State of Good Repair Fund dedicated to the repair or replacement of building components with a useful life of at least 30 years;
 - ii. TCH report annually, through TCH's Annual Report to Council, on the status and use of funding deposited to such special reserve;
2. In order to provide the credit facilities to TCH, that City Council:
 - a. authorize a loan to TCH in the amount of \$52.4 million in accordance with the terms and conditions set out in the term sheet attached as Attachment 1 of this report
 - b. authorize the City Manager or his delegate to execute a new loan agreement between the City and TCH substantially on the terms and conditions set out in the term sheet attached in Attachment 1 and on such other terms and conditions that are satisfactory to the City Manager or such delegate and in a form approved by the City Solicitor;
 - c. authorize the drawing of the incremental financing amount of approximately \$33.0 million from working capital.
 - d. Deem the loan recommended in a) to be in the interests of the City

3. City Council, in its capacity as Service Manager under the Housing Services Act, 2011 (the HSA):
 - a. grant Service Manager consent to TCH pursuant to section 162(2) of the HSA to mortgage those properties described in Appendix 1 of the Term Sheet that require Service Manager consent to secure the obligations of TCH to the City described in the Term Sheet; and
 - b. authorize the General Manager, Shelter, Support and Housing Administration to:
 - i. request all necessary third party waivers, consents or other authorizations which the Service Manager is required to seek in connection with the transactions contemplated by the Term Sheet;
 - ii. provide the necessary notice to the Minister of Municipal Affairs and Housing pursuant to Section 163 of the HSA;
4. City Council consent pursuant to subsection 453.1(6) of the *City of Toronto Act 2006* to any mortgage or charge given to the City (as Chargee) with respect to any of the properties described in Appendix 1 to the term sheet by TCH, and that where required, the City Clerk provide a certificate, in registerable form, pursuant to subsection 453.1(9) of the City of Toronto Act, 2006
5. City Council authorize the City Manager to execute and deliver such other notices, consents, authorizations and agreements on behalf of the City a shareholder or Service Manager in order to facilitate the refinancing of the TCH mortgages on the properties described in the Term Sheet, including, without limitation, amendments to the Operating Agreement between the City and TCH.

Financial Impact

The Term Sheet developed between TCH and the City proposes mortgage refinancing totalling \$52.4 million for 55 TCH properties. The mortgage refinancing provides for approximately \$19.4 million to pay out the existing City loans and an incremental financing amount of approximately \$33.0 million which represents new funding for state-of-good repair expenditures throughout the TCH portfolio. This report recommends that the incremental \$33.0 million amount be drawn from the City's working capital.

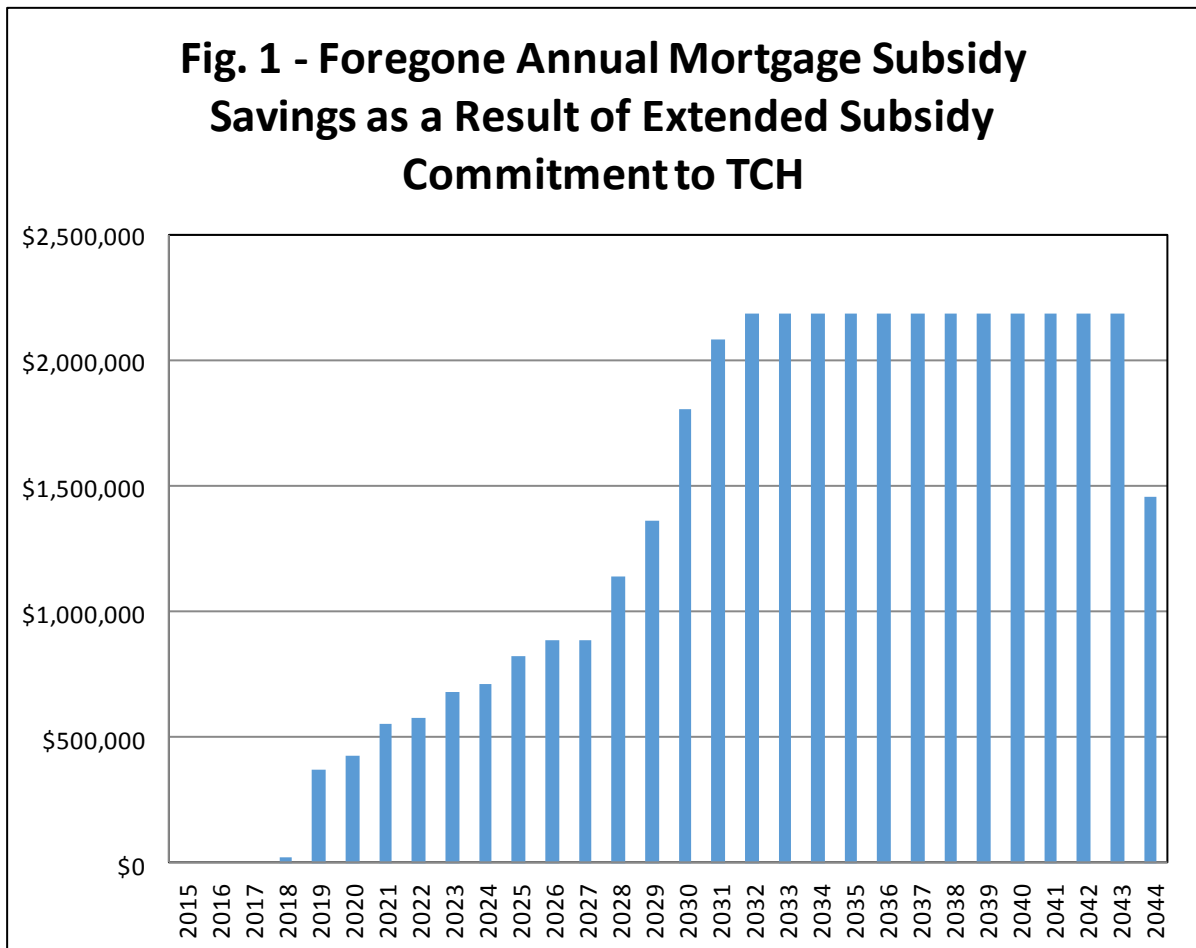
TCH has requested a City commitment to extend the existing mortgage subsidy funding to the end of the new 30-year mortgage amortization term, at current levels, for the 47 of the 55 properties which currently receive these subsidies.

As shown in Figure 1, the impact on the City's Operating budget ranges from a low of \$0.02 million in 2018 to a high of \$2.2 million in years 2032 through 2044.

The City's extended mortgage funding commitment does not represent an increase to current subsidy costs but rather an elimination of future debt payment savings that would have 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 reduced under the terms of the City's Operating Agreement with TCH.

The extended mortgage subsidy funding has a total nominal value of \$40.1 million and a present value of \$16.9 million.

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



DECISION HISTORY

At its November, 2013 meeting, City Council approved the Toronto Community Housing (TCH) Ten-Year Capital Financing Plan. This plan proposed that the City fund a portion of the required capital maintenance expenditures on TCH buildings using the capital freed up through the refinancing of mortgages on TCH properties that are coming up for renewal in 2014 and 2015.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX35.4>

At its meeting of May 27, 2014, the Executive Committee requested that the City Manager, in consultation with Corporate Finance, Shelter, Support and Housing Administration, and Toronto Community Housing, report back to the July 2, 2014 Executive Committee meeting on options to restructure/refinance high interest bearing City loans to Toronto Community Housing in order to unlock funding to address the Toronto Community Housing's capital backlog.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX42.35>

ISSUE BACKGROUND

The Toronto Community Housing (TCH) Ten-Year Capital Financing Plan adopted by Council in 2013 identified a total capital maintenance funding requirement of \$2.6 billion over the next ten years. The plan proposed that this funding need be supported equally by the three orders of government.

The plan proposed that the City's one-third share of this funding be raised through measures such as property tax exemptions, establishing a permanent allocation level for capital repairs from within TCH's existing annual operating budget, providing an allocation from the City's Development Charge Reserve Fund for Social Housing and through additional refinancing of TCH mortgages renewing in 2014 and 2015. The plan forecast that an amount of \$22 million could be raised through mortgage refinancing in 2014 which could be applied towards addressing capital maintenance needs in the overall TCH building portfolio.

COMMENTS

The City currently holds existing loans for 55 TCH properties that have an approximate total balance owing of \$19.4 million. These loans have maturity dates that range from 2017 to 2031 and have interest rates that range between 5.2% and 11%. The average interest rate on the loans is about 8%. The annual total repayment amount to the City for these loans is currently \$3.2 million.

The same total repayment amount can support a new total loan amount of \$52.4 million with an interest rate of 4.5% if this annual total repayment of \$3.2 million is maintained over the next 30 years. This means that, after applying an amount of approximately \$19.4 million to repay the existing loans, a net amount of approximately \$33 million will be available to address the capital maintenance backlog in TCH's overall building portfolio.

However, in order to be able to maintain the capacity to provide the City with this level of annual repayment, TCH will need the City to also maintain the existing mortgage subsidies to TCH for the same 30-year period. The value of the extended mortgage commitment is \$40.1 million in nominal terms or \$16.9 million in present value terms.

The City's extended mortgage funding commitment does not represent an increase to current subsidy costs but rather an elimination of future debt payment savings that would have 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 reduced under the terms of the City's Operating Agreement with TCH.

Consents

In order to execute the proposed refinancing of TCH social housing mortgages, the following City of Toronto consents are required:

Sole Shareholder

Council's shareholder relationship with TCH is set out in the Shareholder Direction. Under Section 6.3.1 (a), the approval of the Shareholder is required to permit TCH to create any additional indebtedness that would require additional payment in the form of subsidies.

Service Manager

As a designated Service Manager for social housing under the *HSA*, the City is also responsible for ensuring TCH's compliance with the requirements of the legislation and its regulations. The *HSA* requires the Service Manager to consent to encumbering any social housing project.

This report recommends that the General Manager, Shelter, Support and Housing Administration, be authorised to grant any Service Manager consents required in connection with the refinancing.

City of Toronto Act

Under section 453.1 of the *City of Toronto Act, 2006* and the former provisions of *The City of Toronto Act, 1975 (No. 2)* and the *City of Toronto Act, 1988 (No. 2)* the City was authorized to enter into agreements requiring developers to provide housing accommodation located or to be located on the land, for the purpose of an assisted or social housing program. These agreements and the provisions of the *City of Toronto Act, 2006* restrict the ability of the owner to grant a mortgage or charge over the housing accommodation without the prior consent of council.

This report recommends that the General Manager, Shelter, Support and Housing Administration, be authorised to grant any Service Manager consents required in connection with the refinancing.

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SIGNATURE

Roberto Rossini
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ATTACHMENTS:

Attachment 1: City/TCH Mortgage Refinancing Proposal (Term Sheet)

Attachment 2: Additional City Funding Commitment by Property