



**STAFF REPORT  
ACTION REQUIRED**

**Infrastructure Ontario Refinancing of Toronto  
Community Housing Mortgages**

<b>Date:</b>	June 17, 2014
<b>To:</b>	Executive Committee
<b>From:</b>	City Manager and Deputy City Manager and Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2014\Internal Services\Cf\Ec14017Cf (AFS #19656)

**SUMMARY**

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In November, 2013 City Council approved the Toronto Community Housing (TCH) Ten-Year Capital Financing Plan. As part of that approval, Council directed that TCH initiate negotiations with potential lenders for the refinancing of Toronto Community Housing mortgages being renewed in 2014 and 2015.

This report seeks approval from Council for a proposal developed by TCH and Infrastructure Ontario (IO) which would result in the refinancing of 15 TCH properties with mortgages scheduled for renewal in 2014. Upon approval by Council, TCH will receive mortgage refinancing totalling \$49.7 million. Of this total, \$19.0 million will be used to pay out the existing social housing mortgages. The balance of \$30.7 million represents incremental financing of which \$2.9 million will be restricted for investment in future capital repairs within the pool of 15 refinanced properties and \$27.9 million which will be invested to address capital needs throughout the entire TCH social housing portfolio.

The refinancing proposal will have no immediate financial impact to the City. However, TCHC has requested a City commitment to extend subsidy funding of mortgages for 8 of the 15 properties, at current levels, to the end of the new 30-year mortgage amortization term. The extended mortgage subsidy funding has a total nominal value of \$44.7 million and a present value of \$19.6 million.

In addition, the proposed terms require that the City provide an explicit guarantee to IO for repayment of the mortgages within this proposal. They also require that the City

provide a guarantee for repayment of the TCH mortgages that were refinanced by IO in 2013.

## **RECOMMENDATIONS**

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**The City Manager and Deputy City Manager and Chief Financial Officer recommend that:**

1. City Council, in its capacity as Shareholder of Toronto Community Housing Corporation (TCH)
  - a. pursuant to Section 7.4.1 (a) of the City's Shareholder Direction to TCH approve the term sheet attached as Attachment 1 to this report (the Term Sheet) between TCH and Infrastructure Ontario for refinancing totalling \$49.7 million in order to address the renewal of 15 TCH mortgages totalling \$19.0 million, as well as obtaining incremental financing of \$30.7 million (less transaction costs and legal fees); and
  - b. approve the extension of TCH's mortgage subsidy for 8 properties (identified in Attachment 2 to this report), based on the current monthly mortgage payment, until the end of 2045, 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;
  - c. authorize the City Manager or his delegate to execute on behalf of the shareholder an agreement among the City, TCH and Infrastructure Ontario which provides a City guarantee for the repayment of the principal and interest on the mortgages in this proposal on terms and conditions satisfactory to the City Manager or his delegate and in a form approved by the City Solicitor;
  - d. authorize the City Manager or his delegate to execute on behalf of the shareholder an amendment to the existing 2013 Shareholder Agreement amongst the City, TCH and Infrastructure Ontario (for the refinancing of mortgages that required renewal in 2013) which will provide for the following on conditions satisfactory to the City Manager or his delegate and in a form approved by the City Solicitor:
    - i. a City guarantee for the repayment of principal and interest on the mortgage loans;
    - ii. deletion of the existing requirement that TCH provide IO with a Letter of Credit in the amount of \$4.5 million.

- e. Deem the guarantees recommended in c. and d. to be in the interests of the City
2. 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) or 162(2) of the HSA, as appropriate, to mortgage those properties described in Appendix 1 of the Term Sheet that require Service Manager consent to secure the obligations of TCH to Infrastructure Ontario 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.
  3. City Council consent pursuant to subsection 453.1(6) of the City of Toronto Act 2006 to any mortgage or charge given to Infrastructure Ontario (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, to Infrastructure Ontario pursuant to subsection 453.1(9) of the City of Toronto Act, 2006.
  4. 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 Infrastructure Ontario proposes mortgage refinancing totalling \$49.7 million for 15 TCH properties with mortgages scheduled for renewal in 2014. The mortgage refinancing includes \$19.0 million to pay out existing social housing mortgages, \$2.9 million for capital expenditure reserves for future capital repairs within each of the refinanced properties and the balance, \$27.9 million, less transaction costs and legal fees, represents new funding for state-of-good repairs throughout the TCH portfolio.

As detailed in Attachment 1, eight TCH properties will receive mortgage refinancing at a fixed interest rate for a 30-year term, while seven single-family properties will be refinanced at a floating interest rate for a five-year term.

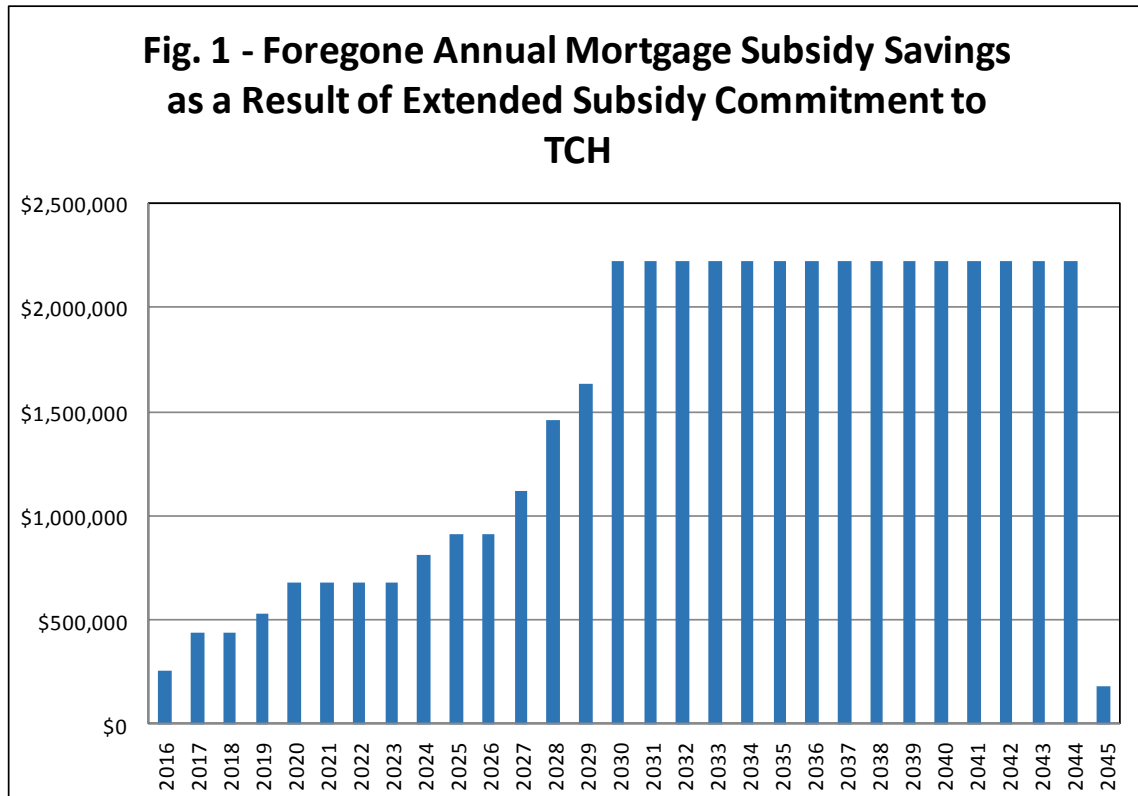
The interest rate on the two term loans will not finalize until the close of the transaction. However, and as per the term sheet in Attachment 1, TCHC will be subject to interest rates as specified by IO for housing providers. To provide a sense of the interest rate levels, at the time of this report, for housing providers, a fixed 25 year term rate was 3.99%, and a fixed 5 year term rate was 2.21%.

The seven single-family houses will be financed over a shorter period because TCH is currently unable to secure longer-term financing for these homes on satisfactory terms from a debt service coverage standpoint.

The recommendations in this report will have no immediate impact on the City's operating or capital budgets as no additional funding from the City is required by TCH to meet their short-term funding obligations related to the refinanced properties.

For those eight properties subject to the 30-year Infrastructure Ontario mortgage refinancing term, TCH is extending its debt commitment beyond the maturity date of its current mortgages. TCH is requesting that the City provide a corresponding extension of its existing mortgage payments for these properties to the new refinanced maturity date of January 31, 2045.

As shown in Figure 1, the impact on the City's Operating budget ranges from a low of \$0.26 million in 2016 to a high of \$2.2 million in years 2029 through 2045.



The extended mortgage subsidy funding has a total nominal value of \$44.7 million and a present value of \$19.6 million.

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 terms negotiated with IO call for this commitment by the City to be further secured through a specific guarantee to IO by the City for repayment of the principal and interest on the refinanced mortgages. In addition, the terms also require the City to provide a similar guarantee for the repayment of TCH mortgages that were previously refinanced by IO in 2013.

As a result of the proposed commitment to extend the term of the mortgage subsidies to TCH, the proposed guarantee does not represent a further increase in the City's potential financial liabilities. The proposed commitment to TCH to extend the existing mortgage subsidies for the mortgages being renewed in 2014 (and the already approved subsidy extension commitment for the first tranche of IO refinancing in 2013) will provide TCH with the funds necessary to make the necessary debt service payments for these mortgages.

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

## **DECISION HISTORY**

At its meeting of March, 2013, Council adopted the proposed terms negotiated with IO for the refinancing by IO of a first tranche of mortgages on TCH properties which required renewal in 2013. This refinancing generated \$154.7 million in total financing, of which approximately \$82 million will be available for to address capital needs throughout the entire TCH social housing portfolio.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX29.2>

At its November, 2013 meeting, City Council approved the Toronto Community Housing (TCH) Ten-Year Capital Financing Plan. As part of that approval, Council directed that Toronto Community Housing initiate negotiations with potential lenders for the refinancing of Toronto Community Housing mortgages maturing in 2014 and 2015.

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

## **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**

TCH has negotiated proposed terms with IO for the refinancing of the 15 properties for which mortgage renewals are required in 2014. Based on a detailed, updated assessment of these buildings and their associated revenues, IO and TCH have determined that a total amount of \$49.7 million can be raised through the 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 repair backlog throughout the TCH portfolio as follows:

### ***Mortgage Payouts***

\$19.0 million of the total mortgage refinancing will be used to pay out existing mortgages on the 15 properties.

### ***Capital Expenditure Reserve Funds***

In order to ensure the refinanced assets are preserved and maintained in a good state of repair for the duration of the refinancing term, Infrastructure Ontario requires that TCH set aside a portion of the mortgage refinancing equal to 4% of the gross revenues generated by each property.

Accordingly, \$2.9 million of the total mortgage refinancing is dedicated to the establishment of capital expenditure reserve funds based on current building requirements, the use of which will be restricted for future capital repairs within each property to address these current requirements. These funds do not preclude the use of other capital funding derived from other sources if necessary.

### ***New Equity for the Capital Repair Backlog***

The remaining \$27.9 million of mortgage refinancing represents leveraged equity which TCH can use to address its capital repair backlog. Unlike the restricted financing described above, TCH has the flexibility to employ this funding throughout its portfolio to address its capital funding priorities.

In order to ensure that the capital assets replaced with this realized equity correspond with the long-term nature of the refinancing, the report recommends that the use of these funds be restricted to the replacement of capital assets with a useful life expectancy of at least 30 years. Such repairs would include mechanical (i.e. HVAC, electrical, elevator and life safety system), structural and building envelope repairs all of which have previously been identified by TCH as priority capital repairs. TCH will be required to establish a segregated reserve fund for the \$27.9 million in new equity for capital repairs and to report back annually to Council on the use of the funds through TCH's Annual Report to Council.

The seven single-family properties will be refinanced on a floating interest rate for five years versus a fixed rate for 30 years. TCH and IO have proposed this shorter loan term because the revenues realized on these properties currently do not support longer-term financing on satisfactory terms from a debt service coverage standpoint.

### **City Subsidy Funding to TCH**

The City's subsidy payments to TCH are made in accordance with negotiated agreements. TCH's subsidy is flowed through four main components: mortgages, property taxes, rents supplement and residual subsidy. The residual subsidy covers a portion of costs associated with utilities, maintenance, and administration relating to tenancy management. It also includes rent-geared-to-income (RGI) subsidy and waiting list management costs, annually inflated by provincial cost indices. Mortgages, property taxes and rent supplement funding are provided at actual costs. The City does not provide separate capital funding to TCH.

Upon approval by Council of the recommendations in this report, the City will extend the mortgage subsidy for the 8 identified properties, based on the current monthly mortgage costs, to the end of 2045. The City will continue to pay property taxes, rent supplement and residual subsidies to TCH in accordance with the agreements.

### **New Security Provisions for 2014 Refinancing**

Although the proposed terms largely mirror those reached between TCH and IO for a first tranche of refinancing in 2013, IO is requiring that a number of new terms related to lender security be added in order to implement the proposed second tranche of refinancing. The most important of these terms is the addition of an explicit guarantee by the City for repayment of both the second and the first tranches of refinancing. The application of this guarantee to the first tranche would require an amendment to the existing 2013 agreements between TCH, the City and IO.

As a result of the proposed commitment to extend the term of the mortgage subsidies to TCH, the proposed guarantee does not represent a further increase in the City's potential financial liabilities. The mortgage subsidies will provide TCH with the funds necessary to make the necessary debt service payments.

In return for providing the proposed guarantees, IO has agreed to eliminate the requirement set out in the 2013 agreement that TCH provide IO with a Letter of Credit for \$4.5 million.

## **Consents**

In order to execute the proposed refinancing of TCH social housing mortgages with Infrastructure Ontario, 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.

## **Financial Advantages of the Proposed Mortgage Refinancing**

TCH has identified a number of key financial advantages in the proposed Infrastructure Ontario mortgage refinancing when compared with the traditional process of mortgage renewal through the provincial Ontario Competitive Financing Renewal Program (OCFRP):



- Ability to lock-in at historical low interest rates and equivalent amortization periods of 30 years.
- Infrastructure Ontario is a unique lender as 30 year terms are not available through OCFRP and not generally available in the private markets.
- Provides TCH the ability to extend the financing terms to 30 years, which provides the benefit of extracting significant funds to address the capital repair backlog throughout TCH's social housing portfolio.
- The proposal improves the financial discipline of TCH through a process where individual assets are evaluated to determine the appropriate level of debt they can support. Securing debt against actual properties rather than the general assets, ensures that that each asset is financially evaluated to ensure that the financial outcomes will be viable over the long-term.

## CONTACT

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## SIGNATURE

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City Manager

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## ATTACHMENTS:

Attachment 1: Infrastructure Ontario TCH Mortgage Refinancing Proposal (Term Sheet)  
Attachment 2: Additional City Funding Commitment by Property