EX26.2
Appendix 4

Financial Sustainability of Toronto Community Housing Corporation
Prepared for the City of Toronto

Summary Report

6 June 2017

Prepared for the exclusive use of the City of Toronto under engagement letter dated March 14, 2017

pwc

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PricewaterhouseCoopers Inc.
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Dear Mr. St. Amant,

As requested, PricewaterhouseCoopers Inc. has performed an analysis of the financial sustainability of the Toronto Community Housing Corporation (the "TCHC") in accordance with our engagement letter dated March 14, 2017 ("Engagement Letter") and attached as Appendix 1.

Our work was based on information supplied by the management of TCHC, information provided by the City of Toronto and discussions with TCHC staff carried out on the basis that such information is accurate and complete. Certain information was not subject to checking or verification procedures.

Our work did not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the Chartered Professional Accountants of Canada.

Accordingly, we do not express an opinion or any other form of assurance on the financial statements of the Company or any financial or other information, or operating and internal controls of the Company.

There will usually be differences between forecast and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievement of forecast results.

This is our summary report. Per your request, we have not discussed this summary report or our findings with TCHC.

Save as described in our engagement letter and as expressly agreed by us in writing, we accept no liability for damages, costs or losses suffered by reason (including for negligence) of any reliance upon the contents of this summary report by any person other than the City of Toronto or for any other purpose in connection with this report, and this summary report may not be provided to anyone else.

Please contact the undersigned if you need further help or information on the Company.

Yours very truly,
PricewaterhouseCoopers Inc.

Michelle M. Pickett

Michelle Pickett,
Senior Vice President

At a glance

1 Operations are not sustainable in light of increasing expenses

- Although TCHC has generated a surplus of revenue over expenses in the recent past, the Company has forecast an operating cash flow shortfall (after debt service) in FY18. The Company projects a cumulative operating cash shortfall of $295.4 million in the Review Period.
- The Company is facing serious headwinds as growth in expenses (utilities, repairs & maintenance, corporate, etc.) is outpacing growth in revenue.
- Limitations on rent increases to RGI units (90% of TCHC's portfolio) and minimal increases in subsidies are contributing to cash shortfall.
- TCHC unable to generate cash flow to increase Reserves or contribute to capital expenditures.

2 TCHC unable to fund forecast capital improvements in FY19 and beyond

- TCHC has forecast $3.3 billion in total required capital improvements over the Review Period in order to meet and sustain an FCI of 10%.
- A funding shortfall for capital improvements is forecast as early as FY19, despite $899.5 million in forecast refinancing opportunities and TCHC using all available Reserves.
- There is no operating cash flow surplus forecast to contribute to capital improvements.
- Funding shortfall of nearly $2.0 billion in building and corporate cash projected over Review Period.

3 Uninhabitable units forecast to rise significantly if forecast capital improvements are not funded

- As at December 31, 2016, TCHC had 325 units (0.6% of total) units that were uninhabitable.
- Based on forecast FCI, TCHC estimates that 569 units will be uninhabitable by the end of FY17.
- Without the forecast $3.3 billion spend on capital improvements, TCHC estimates the number of uninhabitable units could increase to 4,228 (7.3%) by the end of the Review Period, or 6,522 (11.2%) if maturing loans are not refinanced as a source of additional funding for capital improvements.
- An increase in uninhabitable units will reduce annual rent revenue and add to the waiting list for social housing units.

4 Development projects also require additional funding

- During the Review Period, development costs of $1.2 billion are forecast to exceed identified funding of $850.1 million. Majority of shortfall ($200.8 million) is forecast in FY17 and FY18.
- TCHC has been authorized to incur additional debt of $115 million to fund phase 3 of Regent Park. The City has agreed to fund the debt service on this loan in the amount of $6.0 million per year.
- TCHC intends to use its Credit Facility to fund the shortfall in development projects in the short term while sourcing long-term financing.

At a glance

5 Revised Forecast assumes all Reserves will be used

- At December 31, 2016, TCHC had $3.9 million in unrestricted cash and investments and $312.6 million in internally and externally restricted Reserves.
- Most Reserves were set up in in FY13 to support or fund debt retirement and unplanned operating expenses, working capital needs, capital improvements, etc.
- No additional funds have been added to most Reserves since they were established in FY13.
- TCHC forecasts using all cash and available Reserves along with 100% of the Credit Facility to support cash shortfalls and capital improvements during the Review Period.
- TCHC has a $200 million Credit Facility, with $165.3 million available at the end of FY16.

6 Limited opportunities available to refinance high interest rate debt

- TCHC raised gross proceeds of nearly $600 million from debt refinancing in the period FY13-FY16.
- Additional net proceeds of $899.5 million from debt refinancing is forecast over the Review Period, which includes refinancing of maturing mortgages.
- Limited opportunities exist in the future to continue to increase cash inflows through the refinancing of high interest rate debt.

7 Revised Forecast and assumptions reasonable, but subject to variances

- The Revised Forecast and assumptions appear reasonable, however actual cash flow will vary.
- The Revised Forecast is largely based upon annual data, hence the specific timing of forecasted cash flows throughout the year is unknown.
- The Revised Forecast assumes full head count, hence costs savings from already vacant positions will occur.
- The Revised Forecast assumes implementation of new initiatives, such as IT capital investment, effective January 1. TCHC is yet to choose a service provider, hence, some of the forecast costs will not occur in FY17.

8 Additional observations

- The Revised Forecast projects a steady increase in operating expenses with limited ability to increase residential rent revenue in the Review Period.
- TCHC to consider a review of certain expenses to identify opportunities to generate efficiencies and/or reduce costs – e.g. IT (return on capital investment) and employee wages (> 100 open positions).
- TCHC to consider developing monthly cash flow forecasts to provide more granular estimates of timing of cash flow shortfall. This will be helpful in discussions with various levels of government regarding funding and exploring alternative financing solutions.

Key findings

1. Management has a good understanding of TCHC's challenges and financial and capital budget requirements over the Review Period.

- TCHC's finance department understands the financial position of the Company, including the regulatory constraints that limit the Company's ability to grow its rent revenue and the cash flow and funding requirements to support necessary capital improvements and development opportunities, and are working proactively to address same.
- TCHC raised $600 million in gross debt refinancing in the period FY13-FY16 to fund capital improvements, which was largely cash neutral from an operating perspective to TCHC.
- The Capital Planning Budget is prepared in a methodical and rigorous manner. The Capital Planning Department has a good understanding of the state of repair of the units, costs required to repair the units and schedule for when the repairs should take place. The Capital Planning Department also employs a streamlined procurement process to ensure competitive tension among service providers.
- A delay in addressing the backlog of repairs can lead to a greater than forecast increase in the cost of major repairs and capital improvements as the Capital Planning Department has forecast an annual rate of inflation of 2% for deferred repairs.
- TCHC capital planning staff apply for specific grants and low cost funding initiatives provided by various levels of government to fund required capital improvements. Many of the recent programs are in the area of energy efficiency and conservation.

2. TCHC's Forecasts are Reasonable

- The Initial Forecast prepared by TCHC in March 2017 was fairly high level.
- Based on PwC's review and discussion with Management, various amendments were made to the Initial Forecast to arrive at the Revised Forecast as described in detail later in this report.
- The overall conclusion in respect to the Company's liquidity situation detailed in the Initial Forecast was in line with the Revised Forecast, although the timing and magnitude of same differed.

3. TCHC Budgeting process has certain Limitations

- The budgeting process at TCHC is restricted by the inefficiency and lack of connectivity of the Company's IT systems.
- The budgeting process requires coordination between several systems and spreadsheets, manual data entry and is a time consuming endeavor that could be impacted by human error.
- A single financial model would be a useful planning tool for TCHC to better understand and forecast financial projections, cash flow and financing needs while reducing the potential for missing and inaccurate data inherent with manually integrating separate spreadsheets from different parts of the business.
- The Capital Planning Department and finance department are physically separate and use different planning systems which leads to a less collaborative environment. The implementation of new software and planning tools should be designed to integrate information between the departments in an effort to improve collaboration.

Key findings

Summary of cash and funding surplus (shortfall)

(in $000s)	FY17	FY18	FY19	FY20	FY21	FY22	FY23-FY26	Total
Operating and development cash and investments								
Beginning cash and reserves balance	**140,441**	**52,459**	**-**	**-**	**-**	**-**	**-**	**140,441**
Net operating cash surplus (shortfall) after debt service	15,716	6,819	(648)	(13,362)	(21,664)	(32,533)	(249,728)	(295,401)
Net development cash surplus (shortfall)	(71,698)	(129,138)	(68,758)	58,529	39,872	(84,372)	(82,963)	(338,527)
Annual operating and development cash surplus (shortfall)	**84,459**	**(69,859)**	**(69,405)**	**45,167**	**18,208**	**(116,906)**	**(332,691)**	**(493,487)**
Credit Facility balance (beginning)	**32,000**	**-**	**69,859**	**139,265**	**94,098**	**75,890**	**192,796**	
Draws on Credit Facility	-	69,859	69,405	-	-	116,906	4,537	260,708
Credit Facility repayment	(32,000)	-	-	(45,167)	(18,208)	-	-	(95,375)
Credit Facility balance (ending) (max $200 million less $2.67 million letter of credit)	**-**	**69,859**	**139,265**	**94,098**	**75,890**	**192,796**	**197,333**	**197,333**
Cumulative operating and development cash surplus (shortfall) after Credit Facility	**52,459**	**-**	**-**	**-**	**-**	**-**	**(328,154)**	**(328,154)**
Building and corporate cash and investments								
Beginning cash and reserves balance	**176,022**	**406,812**	**145,248**	**(282,512)**	**(714,155)**	**(1,130,694)**	**(1,492,423)**	**176,022**
Net building and corporate cash surplus (shortfall)	230,790	(261,564)	(427,760)	(431,644)	(416,539)	(361,729)	(465,704)	(2,134,149)
Cumulative building and corporate cash surplus (shortfall)	**406,812**	**145,248**	**(282,512)**	**(714,155)**	**(1,130,694)**	**(1,492,423)**	**(1,958,127)**	**(1,958,127)**

4. TCHC projects that, without additional subsidies or rent revenue, it will not have sufficient liquidity to fund operations and debt service obligations in FY19 without using Reserves and the Credit Facility

- TCHC forecasts that the growth in its operating expenses will outpace the growth in its subsidies and rental revenue over the Review Period.
- TCHC projects an annual cash shortfall from operations after debt service of $0.6 million in FY19, which is expected to increase throughout the Review Period, for a cumulative operating cash shortfall after debt service in the Review Period of $295.4 million.
- The Revised Forecast projects that the Company will use and deplete available internally restricted Reserves to address the funding shortfall.
- The Revised Forecast assumes that TCHC will draw on its Credit Facility to fund any operating and development cash shortfalls starting in FY19. The Credit Facility will be able to offset these shortfalls until the end of FY22.
- TCHC forecasts a cumulative operating and development funding requirement of $328.2 million for the Review Period.
- We have not reviewed the resolutions passed by TCHC's Board authorizing the conditions and use of the internally restricted Reserves as this is outside the scope defined for this engagement. Accordingly, we cannot comment on whether the use of the Reserves is permitted, however Management has advised that they intend to use these Reserves where possible.

Key findings

5. TCHC to consider whether Reserves are necessary

- TCHC does not generate sufficient cash flow from operations to make certain annual contributions to Reserves, including the Sinking Fund of Public Debentures Reserve.
- TCHC forecasts that it will use all available Reserves to fund projected cash shortfalls in the Review Period, but that the Reserves will still not be enough.
- TCHC should consider whether maintaining certain operating and capital related Reserves is necessary given TCHC's financial situation and access to the Credit Facility.
- Funding the Sinking Fund of Public Debentures is a prudent measure. TCHC should consider whether this is a priority given its ability to refinance this debt when it matures, particularly in light of the urgent need to invest in capital improvements.

6. TCHC is constrained in its ability to increase annual revenues

- Various provincial and municipal legislation and agreements restrict TCHC's ability to increase the number of Market Units, monthly rent on RGI units, annual rent increases, etc.
- The Province of Ontario has stipulated that 90% of TCHC's units must be rented out as RGI units. With low income tenants occupying all such RGI units, TCHC's potential to increase or earn additional revenue is constrained.
- Market rent for TCHC's designated Market Units is restricted to 90% of the average rates posted by CMHC.
- Annual subsidies from the City, which require council approval, have remained fairly flat and do not appear to have taken into account the inflation in operating expenses, particularly in utilities and asset management.
- Approximately 17% of all TCHC household units (this amount would be higher if based solely on occupied units) are in arrears on their monthly rental payments. As at December 31, 2016, TCHC had approximately $12.8 million in tenant rent arrears, with no action taken on 22% of these arrears.
- Given that 90% of its rent revenue is RGI, TCHC's options to collect these arrears from tenants with low or no income and/or to evict tenants with physical and/or mental disabilities may be limited and, if possible, would will take considerable time, resulting in increased costs and lost revenue.
- TCHC has approximately 3,500 units that are vacant and not contributing rent revenue. Some of the vacant units are under repair, while others are taking longer than expected to find a suitable tenant due to various reasons described in this report.

7. TCHC does not have sufficient cash resources to fund the majority of forecast capital improvements

- Capital improvements are currently funded largely by refinancing certain high interest rate mortgages, mortgaging unencumbered properties, and funding available under various federal and provincial programs (for special energy and related capital improvements).
- TCHC forecasts that it will need to use the specific Reserves set aside for capital repairs to fund forecast capital improvements in the Revised Forecast, but still forecasts a funding shortfall of nearly $2.0 billion.

Key findings

- Although directed by City Council in 2013 to set aside $50 million of operating cash flow annually to fund capital improvements, recent increases in utility expense and repairs and maintenance expenses have reduced cash flow from operations and limited TCHC's ability to contribute any operating cash flow towards capital improvements.
- TCHC has projected cumulative building and corporate cash inflows of $1.2 billion, including net proceeds from mortgage refinancing (including maturing mortgages) of $899.5 million, during the Review Period.
- TCHC projects that it will have a shortfall in funding needs for forecast capital improvements beginning in FY18 ($261.6 million), however Reserves are expected to be available and used to fund the shortfall until FY19. The funding shortfall is forecast to continue throughout the remainder of the Review Period for a cumulative funding shortfall of nearly $2.0 billion after Reserves.
- The Federal Government recently announced $11 billion in funding for affordable housing; however, the distribution of this funding, timing of same and any amounts available to TCHC are unknown and are not considered in the Revised Forecast.

8. TCHC does not have committed funding for all of its forecast Development Projects

- TCHC has forecast cumulative cash shortfall or funding requirement of approximately $338.5 million to fund both approved and unapproved planned development projects over the Review Period.
- TCHC intends to fund this shortfall through grants, land sales, the Development Risk Reserve Fund, the Credit Facility, and other mortgage financing to be arranged.

9. Many of TCHC's units are considered to be in critical need of repair.

- The FCI of TCHC's buildings and properties as of the end of 2016 was 14.6%, as compared to a target of 10% (considered fair), suggesting that its buildings are in poor condition.
- 160 of TCHC properties representing 1,894 units (approximately 3.5% of TCHC's total units) are forecast to have an FCI greater than 30% by the end of FY17, which is considered critical.
- In addition to $1.2 billion of development projects, TCHC projects that it will need to spend $3.3 billion on total capital improvements over the next 10 years in order to reduce its FCI to 10% by FY22 and maintain it thereafter, in line with TCHC's 2013 ten-year plan.

10. Number of uninhabitable units will grow without capital improvements

- Without required capital improvements, TCHC's FCI and capital improvement backlog are expected to grow to 24.9% and $2.8 billion, respectively, by the end of FY26.
- Without the required capital improvements, the number of uninhabitable units is forecast to increase to 4,228 by the end of the Review Period, approximately 13 times the 325 uninhabitable units reported at the end of FY16.
- The estimated number of uninhabitable units could increase to 6,522 if TCHC does not refinance certain maturing mortgages as a source of funding for capital improvements.
- An increase in the number of uninhabitable units is a challenge for the City given the substantial waiting list for subsidized housing (nearly 100,000 households) the City already faces.

Key findings

11. Sensitivity Analysis

PwC performed certain sensitivity analyses on the Revised Forecast, as described in detail later in this report, and found that:

- If 50% of the forecast building and corporate funding shortfall of $2.0 billion (i.e., $1.0 billion) is funded during the Review Period, forecast FCI and the number of inhabitable units would decrease to 17.2% and 1,158 respectively (relative to the Revised Forecast), by FY26;
- If 100% of the forecast building and corporate funding shortfall of $2.0 billion is funded during the Review Period, forecast FCI and the number of inhabitable units would decrease to 9.6% and 361 respectively, by FY26.
- The Revised Forecast assumes that TCHC will be able to refinance its high-interest rate debt at a rate of approximately 3.5% throughout the Review Period in order to access additional debt (to fund capital improvement) while maintaining the same level of debt service expense.
- PwC has performed a sensitivity analysis and found that if interest rates were to immediately rise to 5.0% (as compared to 3.5% assumed in the Revised Forecast), the net proceeds (including maturing loans) available from debt refinancing would reduce from $900 million to $680 million during the Review Period. This would reduce the cash available for capital improvements and increase the estimated FCI and number of uninhabitable units (these figures have not been calculated).

12. The mismatch between the mix of rental unit (supply) and the needs of tenants (demand) leads to vacant units.

- Approximately 30% of the RGI portfolio (15,795 units, or 27% of TCHC's residential portfolio) consist of bachelor units, many of which are in undesirable locations.
- TCHC has difficulty in finding tenants from the waiting list who are willing to live in bachelor apartments, to live in certain areas of the City or to live in certain buildings owned by TCHC.
- This mismatch in supply and demand, coupled with the inefficient, and largely manual waitlist system, means that bachelor units can often sit vacant for significant periods of time, which reduces TCHC's rent revenue and ability to house those on the waiting list.

13. TCHC's IT systems are old, inefficient, lack required connectivity and functionality and require upgrading

- TCHC currently uses over 125 different IT systems. The inability of many of these systems to communicate with each other creates inefficiencies and the potential for errors within TCHC's financial (and non-financial) information. For example, the system which forecasts repairs does not interface with the system used to procure the same repairs. Some of these systems are obsolete, difficult and expensive to service.
- The Company has hired a new Vice President of Information Technology and Information Systems and is targeting to start the implementation of an integrated IT system to replace the majority of the old systems during FY17.

Key findings

- We understand that the changeover will be a long and comprehensive process, and will take several years to complete.
- While this action alone will not solve any of the liquidity issues at TCHC, it is an important step towards becoming more efficient and integrated as an organization, and helping resolve some of the challenges that TCHC is currently facing with respect to budgeting, forecasts, and timeliness of financial reporting.
- TCHC is forecasting that the IT capital budget will increase from $3.8 million in FY16 to $8.0 million in FY17, with annual increases of 5% thereafter for a total of $101.2 million over the Review Period.
- This is a significant expenditure for TCHC and should be reviewed further to understand and ensure the success of the implementation and to avoid potential cost overruns associated with the project.
- We understand that TCHC has not yet identified a service provider for its new IT system; it is still in the Request for Proposal stage. Accordingly, the cash outflow in FY17 in respect of IT capital may be less than forecasted due to timing differences.

TCHC's Revised Forecast (1/2)

(in $000s)	Notes*	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	Total
OPERATING CASH FLOW												
Cash inflows												
Residential rent	1	298,087	300,639	302,497	300,366	299,604	299,420	301,006	300,852	301,390	302,887	3,006,747
Subsidies	2	241,894	245,908	250,002	254,178	258,437	262,782	267,213	271,734	276,344	281,047	2,609,539
Other	3	38,213	39,522	40,744	41,864	42,827	43,805	44,809	45,838	46,895	47,981	432,497
		578,194	**586,068**	**593,242**	**596,408**	**600,869**	**606,007**	**613,028**	**618,424**	**624,630**	**631,914**	**6,048,783**
Cash outflows												
Utilities	4	140,946	143,819	149,059	154,351	159,700	168,121	177,005	186,397	196,331	206,840	1,682,570
Repairs & maintenance (Asset management)	5	114,687	116,981	119,320	121,707	124,141	126,624	129,156	131,739	134,374	137,062	1,255,791
Corporate level expenses	6	70,479	72,130	73,826	75,568	77,359	79,199	81,091	83,036	85,037	87,094	784,819
Facilities and services	7	57,625	58,778	59,953	61,152	62,375	63,623	64,895	66,193	67,517	68,867	630,978
Other	8	41,343	42,846	44,293	45,681	46,964	48,194	49,461	50,768	52,115	53,504	475,169
Contribution to Capital Asset Replacement Reserve	9	8,927	8,927	8,927	8,927	8,927	8,927	8,927	8,927	8,927	8,927	89,270
Contribution to IO reserve	9	4,463	5,626	5,934	6,041	6,308	6,430	6,430	6,526	6,566	6,566	60,890
		438,470	**449,107**	**461,313**	**473,426**	**485,775**	**501,117**	**516,965**	**533,586**	**550,867**	**568,860**	**4,979,486**
Net operating cash surplus (shortfall) before debt service		**139,723**	**136,961**	**131,930**	**122,981**	**115,094**	**104,889**	**96,063**	**84,837**	**73,763**	**63,054**	**1,069,297**
Mortgage & loan debt service	10	124,007	130,142	132,577	136,344	136,759	137,422	141,724	141,088	143,154	141,480	1,364,698
Net operating cash surplus (shortfall) after debt service		**15,716**	**6,819**	**(648)**	**(13,362)**	**(21,664)**	**(32,533)**	**(45,661)**	**(56,250)**	**(69,391)**	**(78,426)**	**(295,401)**
DEVELOPMENT CASH FLOW												
Cash inflows												
Grants for rental development (approved)	11	39,424	24,709	12,726	13,610	1,664	-	-	-	-	-	92,132
Profit distributions and equity returns (approved)	12	26,301	15,509	18,600	38,501	16,201	-	-	-	-	-	115,112
Proceeds from land sale (approved)	13	34,752	18,843	53,666	72,643	20,917	-	-	-	-	-	200,820
Total Development cash inflows approved		100,477	59,061	84,991	124,754	38,782	-	-	-	-	-	408,064
Grants for rental development (not approved)	11	-	-	6,027	8,202	12,920	11,978	11,444	15,575	21,183	24,331	111,659
Profit distributions and equity returns (not approved)	12	-	25	65	4,038	9,369	7,238	20,254	3,412	15,923	18,648	78,972
Proceeds from land sale (not approved)	13	-	1,300	600	12,525	56,933	23,769	32,899	31,835	25,761	65,738	251,361
Total Development cash inflows not approved		-	1,325	6,692	24,765	79,221	42,985	64,597	50,822	62,867	108,718	441,992
		100,477	**60,386**	**91,683**	**149,518**	**118,003**	**42,985**	**64,597**	**50,822**	**62,867**	**108,718**	**850,056**
Cash outflows												
Rental building development capital (approved)	14	150,638	170,625	78,564	29,909	264	-	-	-	-	-	429,999
Market investment capital (approved)	15	11,217	5,693	2,252	-	-	-	-	-	-	-	19,162
Capitalized costs (development costs and loan interest) (approved)	16	7,744	12,140	8,010	5,794	43	-	-	-	-	-	33,730
Total Development cash outflows approved		169,598	188,459	88,825	35,703	307	-	-	-	-	-	482,892
Rental building development capital (not approved)	14	2,450	994	64,990	46,314	67,026	115,875	54,547	34,028	70,569	160,674	617,467
Market investment capital (not approved)	15	-	-	-	-	-	-	-	-	-	-	-
Capitalized costs (development costs and loan interest) (not approved)	16	126	71	6,626	8,973	10,798	11,482	12,260	12,796	12,718	12,376	88,225
Total Development cash outflows not approved		2,576	1,065	71,616	55,286	77,824	127,357	66,807	46,824	83,286	173,050	705,691
		172,174	**189,524**	**160,441**	**90,989**	**78,131**	**127,357**	**66,807**	**46,824**	**83,286**	**173,050**	**1,188,583**
Net development cash surplus (shortfall) (approved)		**(69,122)**	**(129,398)**	**(3,834)**	**89,051**	**38,475**	**-**	**-**	**-**	**-**	**-**	**(74,828)**
Net development cash surplus (shortfall) (not approved)		**(2,576)**	**260**	**(64,924)**	**(30,522)**	**1,397**	**(84,372)**	**(2,210)**	**3,998**	**(20,419)**	**(64,332)**	**(263,700)**
Net development cash surplus (shortfall)		**(71,698)**	**(129,138)**	**(68,758)**	**58,529**	**39,872**	**(84,372)**	**(2,210)**	**3,998**	**(20,419)**	**(64,332)**	**(338,527)**

TCHC’s Revised Forecast (2/2)

(in $000s)	Notes*	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	Total
Operating and development cash and investments												
Beginning cash and reserves balance		**140,441**	**52,459**	**-**	**-**	**-**	**-**	**-**	**(43,334)**	**(95,586)**	**(185,395)**	**140,441**
Net operating cash surplus (shortfall) after debt service		15,716	6,819	(648)	(13,362)	(21,664)	(32,533)	(45,661)	(56,250)	(69,391)	(78,426)	(295,401)
Net development cash surplus (shortfall)		(71,698)	(129,138)	(68,758)	58,529	39,872	(84,372)	(2,210)	3,998	(20,419)	(64,332)	(338,527)
Annual operating and development cash surplus (shortfall)		**84,459**	**(69,859)**	**(69,405)**	**45,167**	**18,208**	**(116,906)**	**(47,871)**	**(95,586)**	**(185,395)**	**(328,154)**	**(493,487)**
Credit Facility balance (beginning)		**32,000**	**-**	**69,859**	**139,265**	**94,098**	**75,890**	**192,796**	**197,333**	**197,333**	**197,333**	
Draws on Credit Facility		-	69,859	69,405	-	-	116,906	4,537	-	-	-	260,708
Credit Facility repayment		(32,000)	-	-	(45,167)	(18,208)	-	-	-	-	-	(95,375)
Credit Facility balance (ending) (max $200 million less $2.67 million letter of credit)		**-**	**69,859**	**139,265**	**94,098**	**75,890**	**192,796**	**197,333**	**197,333**	**197,333**	**197,333**	**197,333**
Cumulative operating and development cash surplus (shortfall) after Credit Facility		**52,459**	**-**	**-**	**-**	**-**	**-**	**(43,334)**	**(95,586)**	**(185,395)**	**(328,154)**	**(328,154)**
BUILDING AND CORPORATE CASH FLOW (CAPITAL IMPROVEMENTS)												
Cash inflows												
Net proceeds from mortgage refinancing - Maturing loans	17	-	58,484	45,317	23,690	48,503	47,618	39,682	39,237	54,399	-	356,930
Net proceeds from mortgage refinancing - Renewals	17	404,643	38,414	10,610	29,699	19,722	12,796	-	5,669	-	21,013	542,566
SHIP/SHARP/SEPF/Other	18	55,000	58,439	-	-	-	-	-	-	-	-	113,439
Withdrawal from IO reserve	19	4,463	5,626	5,934	6,041	6,308	6,430	6,430	6,526	6,566	6,566	60,890
Withdrawal from Capital Asset Replacement Reserve	19	8,927	8,927	8,927	8,927	8,927	8,927	8,927	8,927	8,927	8,927	89,270
Investment income	20	7,757	6,045	1,452	-	-	-	-	-	-	-	15,255
		480,790	**175,936**	**72,240**	**68,356**	**83,461**	**75,771**	**55,038**	**60,359**	**69,892**	**36,507**	**1,178,351**
Cash outflows												
Capital improvements (backlog)	21	200,000	350,000	400,000	400,000	400,000	350,000	150,000	150,000	150,000	100,000	2,650,000
Capital improvements (new spend)	21	50,000	87,500	100,000	100,000	100,000	87,500	37,500	37,500	37,500	25,000	662,500
		250,000	**437,500**	**500,000**	**500,000**	**500,000**	**437,500**	**187,500**	**187,500**	**187,500**	**125,000**	**3,312,500**
Net building and corporate cash surplus (shortfall)		**230,790**	**(261,564)**	**(427,760)**	**(431,644)**	**(416,539)**	**(361,729)**	**(132,462)**	**(127,141)**	**(117,608)**	**(88,493)**	**(2,134,149)**
Building and corporate cash and investments												
Beginning cash and reserves balance		**176,022**	**406,812**	**145,248**	**(282,512)**	**(714,155)**	**(1,130,694)**	**(1,492,423)**	**(1,624,885)**	**(1,752,026)**	**(1,869,634)**	**176,022**
Net building and corporate cash surplus (shortfall)		230,790	(261,564)	(427,760)	(431,644)	(416,539)	(361,729)	(132,462)	(127,141)	(117,608)	(88,493)	(2,134,149)
Cumulative building and corporate cash surplus (shortfall)		**406,812**	**145,248**	**(282,512)**	**(714,155)**	**(1,130,694)**	**(1,492,423)**	**(1,624,885)**	**(1,752,026)**	**(1,869,634)**	**(1,958,127)**	**(1,958,127)**
TOTAL CASH FLOW												
Net operating cash surplus (shortfall) after debt service		**15,716**	**6,819**	**(648)**	**(13,362)**	**(21,664)**	**(32,533)**	**(45,661)**	**(56,250)**	**(69,391)**	**(78,426)**	**(295,401)**
Net development cash surplus (shortfall)		**(71,698)**	**(129,138)**	**(68,758)**	**58,529**	**39,872**	**(84,372)**	**(2,210)**	**3,998**	**(20,419)**	**(64,332)**	**(338,527)**
Net building and corporate cash surplus (shortfall)		**230,790**	**(261,564)**	**(427,760)**	**(431,644)**	**(416,539)**	**(361,729)**	**(132,462)**	**(127,141)**	**(117,608)**	**(88,493)**	**(2,134,149)**

#		Notes and assumptions to the Revised Forecast
	General	• The majority of FY17 operating expenditures (excluding utilities) are based on a reforecast budget that includes actual results for the first three months of FY17. Beyond this period, where expenses are based on prior year results, FY17 is used as the base period. • The Revised Forecast assumes that approved headcount is at full capacity. Vacant positions and the timing of intra-year hires may impact actual employee costs as compared to forecasts. • The Revised Forecasts assumes that neither the Provincial nor the Federal governments will provide any new funding beyond what is discussed in the report. Any change to this assumption may have a material impact on the forecasts. • The Revised Forecast assumes that all existing Reserves will be used up to fund funding shortfalls where applicable. It is also assumed that the Credit Facility will be used to its maximum capacity of $200 million (excluding the $2.7 million allowance for letters of credit) to fund shortfalls in operating and development activities.
1	**Residential rent**	• The current ratio of rental units (90% RGI / 10% market) is forecast to remain constant throughout the Review Period. Any change in this assumption could materially affect the Revised Forecast. • Rent revenue has been adjusted for forecast uninhabitable units in each year. • Annual rent revenue is based on the total available inhabitable units and TCHC's forecast monthly rental rates for FY17, which is forecast to increase throughout the Review Period. • Growth in the RGI rent rate is forecast to be 0.5% throughout the Review Period, while the market unit rent rate is forecast to grow at 2.0% annually. • A vacancy allowance of 5.0% for RGI units has been assumed throughout the Review Period, which includes units kept vacant in case of emergency and revitalization.
2	**Subsidies**	• Base subsidies to be received from the City are budgeted at $200.7 million in FY17 and are forecast to increase 2.0% annually throughout the Review Period. • The City recently committed additional subsidies of $31.0 million (to fund operations) and $6.0 million (to fund the annual debt service related to Regent Park development phase 3). These subsidies are forecast to remain flat throughout the Review Period. • TCHC is forecast to receive a subsidy of $4.2 million per year to fund implementation of initiatives under the Mayor's Task Force.
3	**Other revenue**	• Parking, laundry, cable fees, commercial rent, and other miscellaneous revenue are forecast to increase at 2.0% per year.
4	**Utilities**	• Utilities includes any expenses related to electricity, natural gas, water and waste, net of any rebates or credits received. • Utilities also includes loan principal and interest payments and associated savings for various energy initiatives (e.g., SEP, TAF, TRP). • Electricity rates are forecast to increase by 2.5% annually from 2018 to 2021 and by 6.8% thereafter, in accordance with the Financial Accountability Office of Ontario. • Natural gas, water and waste are forecast to increase by 3.0% annually throughout the Review Period. • An assumed 8% HST credit is applied throughout the Review Period. • Utilities consumption is assumed to increase by 0.5% annually throughout the Review Period.
5	**Repairs & maintenance**	• Day-to-day repairs and maintenance (including staff costs) of TCHC’s buildings and facilities are assumed to increase at 2.0% annually after FY17.

#		Notes and assumptions to the Revised Forecast
6	**Corporate level expense**	• Corporate expenses, including but not limited to salaries, IT, legal, finance and human resources are forecast to increase by 2.0% annually during the Review Period. • IT capital expenses related to improving TCHC's IT infrastructure are forecast to increase from $3.8 million in FY16 to $8.0 million in FY17 and 5% per annum thereafter. TCHC has planned significant upgrades to its IT infrastructure over the Review Period.
7	**Facilities and services**	• Facilities management and resident community/community safety services are forecast to grow at 2.0% annually throughout the Review Period. • TCHC has committed to investing more heavily in these programs in FY17.
8	**Other expenses**	• Municipal taxes and expenses paid to the Commissioner of Housing Equity are forecast to grow at 2.0% annually. • Expenses related to the Mayor's Task Force initiatives are forecast to remain stable at $4.2 million per year and are offset by the subsidy received. • Other miscellaneous expenses are forecast to grow at 3.66% per year throughout the Review Period.
9	**Contributions to reserves**	• Individual reserves were set up to support or fund unplanned expenses in specific areas (operating, capital improvement, etc.) and debt retirement. • TCHC historically has only made annual contributions to the State of Good Repair Fund, the CARR and the IO Reserve. This practice is assumed to continue in the Revised Forecast.
10	**Mortgage & loan debt service**	• The Revised Forecast includes principal and interest payments under existing mortgage and loan agreements as well as payments for loans forecast to be refinanced at approximately 3.5% during the Review Period. • Borrowings under the Credit Facility are assumed to have an interest rate of 3.0% per annum. • Principal and interest payments of $2.5 million per year on a construction bridge loan are expected to continue throughout the Review Period. • Annual bond interest payments of $23.0 million are expected to continue throughout the Review Period.
11	**Grants for rental development**	• TCHC forecasts grants from the City and other levels of government to fund certain rental building developments during the year.
12	**Profit distributions and equity returns**	• These profits relate to forecast equity distributions from joint venture development projects.
13	**Proceeds from land sale**	• These proceeds are from forecast land sales related to market development projects.
14	**Rental building development capital**	• These represent forecast costs related to the development of rental buildings (such as Regent Park).
15	**Market investment capital**	• TCHC expects to receive a portion of the funds from the sale of market units in development projects.
16	**Capitalized costs**	• TCHC capitalizes both the development costs and the loan interest related to developments projects, however these are cash outflows that are forecast to occur.
17	**Net Proceeds from mortgage refinancing**	• These amounts represent net proceeds from the refinancing of certain loans and mortgages, including maturing mortgages, during the Review Period.
18	**SHIP/SHARP/SEPF**	• TCHC is forecast to receive $25.0 million from SHIP and $28.0 million from SHARP in FY17. These amounts are both grants. In FY18 TCHC is projected to receive an additional $23.2 million from SHIP and $35.2 million in SEP loan funding.
19	**Reserve withdrawals**	• All contributions made to the CARR and IO Reserve are projected to be withdrawn and used against the capital backlog throughout the Review Period.
20	**Investment Income**	• TCHC has forecast a 2% return on its cash and investments, which is estimated to the average of the beginning and ending total cash and reserves balance for the year.
21	**Capital improvements**	• Expenditures on capital improvements are forecast based on a target to achieve a FCI of 10% by 2022 and thereafter.