

2019 Toronto Community Housing Corporation Mortgage Renewal

Date: September 4, 2019
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: 10 and 11

SUMMARY

This report recommends that Council approve the renewal and extension of a term loan and City guarantee for the repayment of principal and interest of mortgages for two Toronto Community Housing Corporation (TCHC) properties at 931 Yonge Street and 679 Queen's Quay West.

In 2018 Council approved an interim 1-year extension of the term loan and City's guarantee for the two mortgages, in order to allow more time to negotiate long-term financing terms for these properties. The extension facilitated the renewal of the five year mortgages originally taken out by TCHC in 2013 (and set to expire in November 2018) by one additional year to November 1, 2019 with an outstanding previous balance of \$13.4 million.

TCHC has now secured favourable permanent financing renewal terms for these properties with Infrastructure Ontario (IO) for a 24 year term to match with the same maturity time frame as the other TCHC mortgages renewed in 2018. The proposed terms require that the City provide an explicit guarantee to IO for repayment of the mortgages within this proposal.

This report has been prepared in consultation with staff from the Shelter, Support and Housing Administration and TCHC.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council, in its capacity as Shareholder of Toronto Community Housing Corporation (TCHC):

a. Pursuant to Section 7.4.1(a) of the City's Amended and Restated Shareholder Direction to TCHC approve the terms for the renewal of Term Loan No. 1 effective November 1, 2019 as described in the Ontario Infrastructure Loan letter dated September 6, 2018 addressed to TCHC attached as Attachment 1 to this report (the Loan Extension) between TCHC as "Borrower" and IO as "Lender" for a remaining term of 24 years; and

b. Approve the extension of TCHC's mortgage subsidy for the 679 Queen's Quay West property, based on the current monthly mortgage payment, until November 1, 2043.

2. City Council, in its capacity as shareholder of Toronto Community Housing Authority authorize TCHC to enter into a 24 year extension of the term of Term Loan No. 1 described in the original financing agreement between TCHC and IO dated October 18, 2013, as previously amended, with respect to two TCHC owned properties at 931 Yonge St. and 679 Queen's Quay.

3. Subject to the satisfaction of the foregoing conditions, City Council authorize the Chief Financial Officer and Treasurer or her delegate to execute on behalf of the shareholder amendments to the agreements among the City, TCHC and IO which will provide for:

a. City consent to the amended terms and conditions of Term Loan No. 1; and

b. amended City guarantee for the repayment of all principal and interest payable by TCHC to IO under the amended terms and conditions of Term Loan No. 1; on terms and conditions satisfactory to the Interim Chief Financial Officer or her delegate and in a form approved by the City Solicitor.

4. City Council deem the foregoing guarantee to be in the interest of the City.

5. City Council, authorize the General Manager, Shelter, Support, and Housing Administration to:

a. Provide such Service Manager consents under the Housing Services Act, 2011 (the HSA) as are necessary to authorize the extended mortgage security to be provided to IO to secure Term Loan No. 1;

b. 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 attached Loan Extension; and

c. Provide the necessary notice to the Minister of Municipal Affairs and Housing pursuant to Section 163 of the HSA.

6. City Council authorize the City Manager or the Chief Financial Officer and Treasurer or her delegate to execute and deliver such other notices, consents, authorizations, approvals and agreements on behalf of the City as shareholder or service manager in order to facilitate the refinancing of the TCHC mortgages on the properties described in

the Loan Extension, including, without limitation, amendments to the Operating Agreement between the City and TCHC.

FINANCIAL IMPACT

The Loan Extension developed for TCHC by IO proposes the renewal and extension of two mortgages scheduled to expire on November 1, 2019 with a current aggregate principal balance of \$13.1 million.

A comparison of the original loan terms and renewals terms for both properties is contained in the following chart.

Property/Year	2013	2018	2019
Term of Loans	5 year	1 year	24 year
Loans maturity	2023	2023	2043
931 Yonge	\$8,481,635	\$5,954,358	\$5,791,468
679 Queen's Quay West	\$8,642,250	\$7,503,781	\$7,299,554
Total	\$15,123,885	\$13,458,139	\$13,091,022

The new mortgage terms with IO reflect lower interest rates that currently prevail today. As detailed in Attachment 1, the two properties will receive mortgage refinancing at IO's indicative fixed interest rate for a 24 year term. For example, IO's current indicative rate is 2.49% as at August 2019.

The renewal terms for both mortgages require confirmation of a City guarantee for the repayment of the principal and interest on the mortgages.

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

For the two properties subject to the 24 year IO mortgage refinancing term, TCHC is extending its debt commitment beyond the maturity date of its current mortgages (from 2023 to 2043). The mortgage payments for the property at 931 Yonge Street are fully funded by TCHC. The mortgage for the property at 679 Queens Quay West receives a funding commitment from the City which was anticipated to continue until 2023. The loan would not have been fully amortized by 2023 and a remaining principal balance would otherwise have to be funded. The current loan extension term will match with the full amortization of the loan in 2043. Continued funding beyond 2023 until 2043 will impact the City's operating budget in future years.

The City's extended mortgage funding commitment does not represent an increase to the current subsidy costs but rather an elimination of debt payment savings that would have been realized when current mortgages reached maturity. At that point the corresponding mortgage subsidy payable to TCHC would have been reduced.

The total nominal value of the foregone mortgage subsidy savings is \$8.6 million and the present value of this amount in 2019 dollars is \$5.2 million.

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

DECISION HISTORY

At its meeting of April 3 & 4, 2013, Council adopted the proposed terms negotiated with IO for the refinancing by IO of a first tranche of mortgages on TCHC properties, including short term (5 year) financing for 931 Yonge Street and 679 Queens Quay West.

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

At its November 13, 14, 15 and 18, 2013 meeting, City Council approved the TCHC Ten-Year Capital Financing Plan. As part of that approval, Council directed that TCHC initiate negotiations with potential lenders for the refinancing of other TCHC mortgages maturing in 2014 and 2015.

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

At its meeting of July 8, 9, 10 and 11, 2014, Council adopted the proposed terms negotiated with IO for the refinancing by IO of a second tranche of other mortgages on TCHC properties which required renewal in 2014.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX43.10>

At its meeting of July 17, 2018 Executive Committee adopted the proposed terms for:

- Refinancing totalling \$76.5 million in order to address the renewal of 7 Toronto Community Housing Corporation mortgages, as well as obtaining incremental financing of \$57.2 million
- Mortgaging of a further property totalling \$19.3 million
- Extension for one year of the City's guarantee for the repayment of principal and interest of the mortgages originally taken out in 2013 for two Toronto Community Housing Corporation properties at 931 Yonge Street and 679 Queen's Quay

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX36.15>

COMMENTS

In 2013, TCHC had anticipated the sale or development on its headquarters at 931 Yonge Street as well as potential renovations or redevelopment of the 679 Queen's Quay West site and therefore made a decision to enter into a shorter term loan (5 years) for the two properties making up Tranche #1 of the IO Financing Agreement with IO. Subsequently these redevelopment plans for the properties did not materialize.

Upon renewal of the terms of the mortgages in 2018, TCHC opted for interim financing of one year in order to allow time to negotiate favourable long-term financing terms that would match the same maturity time frame as the other mortgages under the 2013 Financing Agreement with IO.

TCHC has subsequently received favourable terms with IO for the renewal of the two mortgage renewals that are set to expire on November 1, 2019, as proposed in the Loan Extension included as Attachment 1. The renewed loans will be used to pay out the existing mortgages on these properties and extend repayment over an additional twenty year period (from 2023 until 2043).

The mortgage on 931 Yonge Street is fully funded by TCHC. The mortgage for 679 Queens Quay West is funded from the City via a subsidy of \$0.42 million per year to cover the annual principal and interest charges. This subsidy was set to expire upon the mortgage maturity in 2023. The extension of the maturity date of the mortgage proposed in this report will require a commensurate extension of the City subsidy to TCHC from 2023 to the renewed maturity date of 2043. This represents an elimination of debt payment savings that would have been realized when current mortgages reached maturity in 2023.

However, the renewal and extension of the loans are on favourable terms and lock in historically low long term interest rates that approximate the rates on the existing short term loans. The renewed loans terms and maturity dates match the full amortization of the loans set to occur in 2043, whereas upon the maturity of the previous loans in 2023 there would have been remaining principal loans balances that would have required funding and/or further financing by TCHC.

Capital Expenditure Reserve Funds

In order to ensure that refinanced assets are preserved and maintained in a good state of repair for the duration of the financing term, IO requires that TCHC set aside a capital expenditure fund equal to 4% of the gross income generated by each financed property. This condition applies only to the 679 Queens Quay West property. 931 Yonge Street is TCHC's office building and does not generate gross income.

City Guarantee

At its meeting of July, 2014, Council adopted recommendations authorizing the City Manager or his delegate to execute on behalf of the shareholder an agreement among the City, TCHC, and IO which provided a City guarantee for the repayment of the principal and interest on the 2013 and 2014 mortgages. The Loan Extension requires the City to provide an amendment to the limited guarantee pursuant to which the City will also provide a guarantee for the repayment of the principal and interest on the two mortgages which are the subject of this report.

Consents

In order to enter into the mortgages with IO, further encumbering TCHC property, the consent of the City of Toronto, as Shareholder, pursuant to the Amended and Restated Shareholder Direction and the consent of the City of Toronto, as Service Manager under the Housing Services Act, are required.

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SIGNATURE

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ATTACHMENTS

Attachment #1 - Infrastructure Ontario Loan Extension for Proposed Refinancing