



STAFF REPORT ACTION REQUIRED

Putting People First: Moving Forward

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

SUMMARY

One year ago Toronto City Council considered the report *Putting People First, Transforming Toronto Community Housing* which had been prepared by the Special Housing Working Group chaired by Councillor Ana Bailão.

At the time, Council approved a series of actions and requested the City Manager to further report to Council on some specific initiatives, including the development of a longer-term financing plan for Toronto Community Housing (TCH).

This report provides a one-year status update on some of the major recommendations of the *Putting People First* report. This report is a companion to the report "A Ten-Year Capital Financing Plan for TCH". During the past year there has been important progress toward putting TCH on a sounder financial footing so it can better tackle its growing capital repair needs.

In the short term, working together the City and TCH have arranged to successfully unlock \$93.5 million in capital repair funding through mortgage refinancing and will achieve \$65 million through the approved sale of assets. In short, some \$158.5 million has been identified for capital repairs just 12 months after *Putting People First* was adopted by Council.

This is just the beginning. Moving forward there is significant work yet to be accomplished. As the companion report "A Ten-Year Capital Financing Plan for TCH" makes clear, there are significant challenges ahead in securing the necessary funding required to meet the growing capital repair needs of TCH.

This report specifically reviews work underway in follow-up to the *Putting People First* report and makes recommendations concerning:

- re-engaging the federal and provincial governments in paying their fair share for capital repairs
- achieving results from TCH's revitalization efforts
- investigation of investment opportunities such as Real Estate Investment Trusts (REITs)
- management of TCH single family homes, including diversification to ownership

In addition, the report addresses motions by councillors which were referred to the City Manager for consideration. These are attached as Appendix A – Update on City Council Member Motions.

Most important, the city with TCH and its partners must continue to press the federal and provincial governments to pay their fair share of sustainable funding for TCH's capital repairs. The decision some 15 years ago to download social housing was short-sighted and unsustainable.

As the City and TCH take significant steps forward through the two and 10-year financing plans it is essential that the federal and provincial governments join our effort. The residents of TCH and the people of Toronto deserve nothing less.

RECOMMENDATIONS

The City Manager recommends that City Council:

1. Endorse the Federation of Canadian Municipalities' efforts to work with the Government of Canada to ensure federally-funded social housing programs are maintained and expiring funding from existing agreements is reinvested into social housing;
2. urge the federal/provincial/territorial governments to expedite the work of the "Working Group on Expiring Social Housing Agreements" with the aim of providing solutions to support the repair and ongoing vitality of social housing;
3. request the City Manager, as part of the 2014 report on the 10-Year Capital Financing Plan, to report on the progress of the TCH/City "Planning and Development Steering Committee" on the redevelopment and revitalization of TCH sites;

4. request TCH to report annually to the shareholder beginning in 2014, on the results of the organizational review and the creation of a specialized unit with responsibility for single-family homes; and
5. request TCH to report annually to the shareholder beginning in 2014, on efforts to partner with other organizations to further provide affordable ownership opportunities to TCH residents and qualifying families.

FINANCIAL IMPACT

There are no financial implications resulting from this report at this time.

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

EQUITY IMPACT

Toronto Community Housing provides essential secure and affordable housing for a diverse range of low-and moderate-income residents. It serves equity seeking groups such as women, seniors, people with disabilities, individuals who live with mental health issues, the working poor, and key workers.

DECISION HISTORY

At its meeting on October 30, 31 and November 1, 2012 City Council adopted *Putting People First, Transforming Toronto Community Housing* – Special Housing Working Group's report (EX23.4). The report contained recommendations to address the significant repair backlog at Toronto Community Housing, including immediate two-year funds, a capital financing plan and a strategy to re-engage federal and provincial governments in funding social housing. A number of recommendations were referred to the City Manager's Office for review and further reporting to Affordable Housing Committee and Executive Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX23.4>

At its meeting on April 3 and 4, 2013 City Council adopted *Infrastructure Ontario Refinancing of Toronto Community Housing Mortgages* (EX29.2) that recommended Infrastructure Ontario mortgage refinancing to unlock \$93.5 million of Toronto Community Housing equity to address the repair needs of its social housing portfolio.

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

ISSUE BACKGROUND

The issues facing TCH are well known. In response, the City has been working with TCH to strengthen its capacity and transform it into a landlord of excellence providing well-maintained housing.

A key part to this is the work of the Special Housing Working Group in 2012 and its report, *Putting People First, Transforming Toronto Community Housing*.

The report contained recommendations to address the significant capital repair backlog at TCH, including immediate generation of funds over the first two years, a capital financing plan and a strategy to re-engage federal and provincial governments in funding social housing.

One year later, TCH continues to be driven and devoted to change for the better. The Board, Chief Executive Officer, senior management team, front line staff and residents are working together for better housing and better communities.

But TCH can't do it alone. Moving forward through hard work and partnerships with others, TCH is tackling the challenges, which include steering its transformation, funding its work, increasing its capacity, supporting its residents, increasing safety and restoring its credibility.

Most important the federal and provincial governments must reverse their 15-year withdrawal of sustainable support for social housing and the people who live there.

COMMENTS

1. Intergovernmental Strategies

As recommended in the *Putting People First* report and endorsed by Council, the City has launched a series of initiatives aimed at persuading the federal and provincial governments to pay their fair share by properly funding social housing.

Earlier this year, the City Manager wrote to the President and CEO of Canada Mortgage and Housing Corporation (CMHC) regarding the City's continued efforts to address funding challenges in providing and maintaining social housing.

In a response dated May 16, 2013, CMHC advised that "a federal-provincial-territorial working group is currently examining how the expiry of long-term agreements will impact the existing social housing stock. The results of this working group will provide governments with a better understanding of the future financial viability of the social housing portfolio."

On September 30th, City and TCH officials held discussions with CMHC and provincial Ministry of Municipal Affairs and Housing staff on options to eliminate CMHC prepayment penalties on home sales and penalties on prepayment of closed high-interest mortgages. These discussions continue in an effort to reduce and eliminate financial costs incurred in the sale of assets and/or in introducing other innovative financial initiatives.

Concurrent with the City's housing advocacy efforts, the Federation of Canadian Municipalities (FCM) has prioritized affordable housing as a key issue in its federal advocacy efforts. In particular, FCM has committed to "...work with the Government of Canada to ensure that, as federal social housing operating agreements expire over the next decade, the \$500 million currently allocated for these agreements is reinvested into sustaining and growing adequate, affordable housing stock."

On June 6th, the City and TCH launched the *Close the Housing Gap* campaign. The campaign calls for:

- the federal government to stop withdrawing money for social housing and instead reinvest that money back into social housing capital repairs
- the provincial government to treat social housing providers fairly when paying social assistance rent rates, and
- the federal and provincial governments to provide fully-funded, long-term housing strategies

Recently, FCM referenced the City on its effort stating that "all governments must commit to work together to fill the gaps and find long-term, sustainable solutions to protect and preserve Canada's social housing system. Campaigns such as *Close the Housing Gap* bring needed attention to the importance of safe, adequate and affordable housing."

The City's efforts to re-engage the federal and provincial governments are ongoing. Key objectives include seeking social housing capital funding in upcoming federal/provincial Throne Speeches and 2014 budgets. In this regard, City Councillors and City officials will be participating in key meetings in late November as part of the FCM "advocacy days" in Ottawa.

The *Close the Housing Gap* campaign continues to ramp up with public education activities, bus shelter advertizing in Toronto and Ottawa and outreach to partner organizations.

2. Revitalization and Re-Development

The *Putting People First* report made several recommendations concerning leveraging land assets through infill and revitalization.

Revitalization initiatives provide an important city building opportunity by improving the quality of life of TCH residents while physically transforming former public housing neighbourhoods into mixed-income, mixed-use communities. This includes sites which have room for intensification without requiring demolition of existing housing.

The redevelopment and revitalization activity is focused on achieving three key objectives:

- modernizing TCH's housing through new construction and intensification thus reducing the backlog
- generating additional revenue to pay for revitalization and shifting the financial risk to other partners
- creating jobs and boosting the economy, including opportunity and employment for residents

To advance and expand the revitalization effort, City Planning and TCH established an Interdivisional "Planning and Development Steering Committee." This group has developed a work program to review and evaluate up to 50 TCH sites for their development potential, challenges and solutions to proceeding.

In 2013, the Steering Committee is reviewing sites with infill potential and smaller scale redevelopment potential. In 2014, the Committee will also consider potential for larger scale revitalization projects, comparable to Regent Park or Lawrence Heights. The review of potential development opportunities builds on the success and lessons learned from revitalization efforts already underway.

The Steering Committee has been reviewing 13 communities for major revitalization. Five sites are projected to be initiated in future years and the following seven sites are actively underway:

- Regent Park
- Lawrence Heights
- Alexandra Park
- 250 Davenport Road
- Don Summerville
- Allenbury Gardens
- Leslie Nymark

Of the 50 communities under active review by TCH and the Steering Committee, some may result in major revitalization efforts. Already two new projects have come from the City and TCH review process, Don Summerville and 250 Davenport.

Overall, the sites under current redevelopment/revitalization or review represent the opportunity to replace approximately 5,000 homes which have an accumulated capital repair backlog of some \$120 million.

The replacement social housing generates \$1.35 billion in construction activity and a further \$4 billion in new market housing construction. The larger benefits to government include job creation and growth in property tax assessment.

While there will be new revenue achieved through successful site redevelopment and revitalization it is prudent at this time to project that any revenues will need to be reinvested into driving the development activity.

On an ongoing basis, TCH will be requested to report annually on development generated sources of funding and the potential to direct funds to the broader capital repair budget.

3. Increasing Building Energy Retrofit Activity

The *Putting People First* report recommended that the City Manager consider including building energy retrofit activity as a component of the TCH capital financing plan.

TCH has actively participated in a number of energy conservation projects including the Building Energy Retrofit Initiative, the federal/provincial Renewal Energy Initiative, and projects funded through the City's Better Building Partnership Loan Repayment Reserve Fund, and Sustainable Energy Funds, as well as energy measures pursued through the City's Tower Renewal Initiative. TCH's energy projects have served to improve energy security, create new green jobs, enhance tenant experience and contribute to a better environment. In 2013, TCH is seeking \$21 million for energy conservation projects, which will be measured to evaluate performance on an on-going basis.

TCH will continue to pursue energy efficiency projects that are financially viable. These projects improve energy efficiency, reduce operating costs, and often are targeted towards capital components, such as HVAC equipment, which serve to reduce the TCH capital repair backlog.

TCH typically relies on a combination of capital and debt financing to fund energy projects. Free cash flow arising after the payback period of the underlying energy initiative can take several years. Operational savings realized through energy retrofit projects in the short-term fund the debt related to the cost of implementing the projects. As such at this time, TCH is not forecasting that energy savings resulting from retrofit activity will provide a stable and secure funding source for the Ten-Year Capital Financing Plan.

4. Real Estate Investment Trusts (REITs)

Putting People First identified the experience of other Canadian jurisdictions generating revenue for capital improvements through Real Estate Investment Trusts (REITs) and other innovative investment opportunities.

The report requested that the City and TCH investigate the feasibility and interest of the private sector in participating in a housing REIT whereby some of the 5,000 market units in the TCH portfolio would be transferred to private investors to raise new revenue to repair and maintain TCH homes. At the same time, the terms of the REIT would guarantee the protection of social housing within the portfolio.

The report recommended that the City Manager and TCH investigate the full range of public-private partnerships, including REITs, as well as the transfer of market units to existing institutional real estate investors.

To investigate these opportunities and gather market insights on the TCH housing portfolio, the city retained Ernst & Young in 2013 to conduct a Housing Partnership Market Sounding with selected social housing providers/resources, public-private partnership investors and developers, multi-family homes real estate investors and operators and real estate brokers and capital markets advisors.

Participants represented a cross-section of potential investors and partners for the City to consider with local, national and international P3, social housing or multi-residential real estate expertise. Of 19 firms contacted by Ernst & Young, 15 elected to participate.

The purpose of the market sounding was to:

- Ascertain and gauge private sector interest and capacity to participate in potential partnerships such as a REIT for the ownership, maintenance and operations of portions of the TCH portfolio
- Identify potential transaction structures
- Identify potential risks, constraints and opportunities related to the ongoing ownership, maintenance and operations of portions of the portfolio and its repair backlog

Topics explored were: initial reactions to TCH partnership and/or assets; project scope and structure – types of partnerships and structure; challenges and constraints; steps to take before involving the private sector; technical due diligence required; commercial and financial – forms of private sector investment opportunities; asset types; financing options for capital backlog; and social purpose enterprises.

Participants generally expressed an interest in a variety of potential partnership and investment opportunities with the TCH portfolio. They also raised a number of key issues and considerations that would need to be addressed to attract private investment, notably political exposure; project scope and scale and revenue risk.

Based on the summary feedback and key issues identified, Ernst & Young advised the City and TCH to undertake significant due diligence and analysis prior to the initiation of any public-private partnership transactions or procurement processes related to the portfolio. Below is a summary of next steps recommended by Ernst & Young.

1. *Clarify Objectives & Options*: Clarify the City and TCH's specific objectives with respect to the portfolio and satisfy options permitted under the Housing Services Act.
2. *Asset Grouping and Bundling*: Conduct an assessment of key strategic assets to determine which are candidates for public-private partnership opportunities; and group those assets into transaction or procurement bundles based on relevant characteristics.
3. *Potential Delivery Models*: Analyze potential delivery models for each bundle of assets to determine the viability of each option.
4. *Commence Pre-Transaction/Pre-Procurement Diligence*: Once assets are prioritized, compile all information that might be required by potential investors/partners.
5. *Community and Stakeholder Consultation*: Conduct community and stakeholder consultation with public sector organizations which have recently examined or initiated similar projects. Develop a Phase II market sounding to test more specific options with market participants.

TCH will continue to report on private sector opportunities and partnerships as part of its annual reporting to the shareholder.

5. Operational Efficiencies

The *Putting People First* report requested TCH to pursue internal financial efficiencies with the potential to generate \$10 million in 2013 and 2014 including procurement of goods and services, utilizing more competitive bidding process and a reduction in vacancy loss at time of tenant turn-over.

In response to the recommendations, TCH has taken a number of steps to streamline processes and optimize opportunities to reduce operating costs. Current efficiency measures include a reduction of management costs for the single-family homes portfolio given recent and pending sale of houses, savings through the transfer of Fleet Services to the City of Toronto, and improvements to tendering and procurement processes that are at present difficult to quantify but which are anticipated to provide savings in future. TCH in partnership with the City, have also engaged in discussions to reduce insurance and natural gas costs with their bulk purchasing provider and with Canada Mortgage and Housing Corporation (CMHC) on the potential to reduce mortgage costs.

The TCH Ten-Year Capital Financing Plan includes an increased annual funding from TCH's base operating budget to address the capital backlog. In order to allocate \$50 million annually for capital repairs, TCH must ensure it has the necessary internal capacity to address their on-going operating costs. TCH anticipates that energy costs, for example, will increase in future years at a higher rate than the revenues TCH receives through City subsidy and tenant rents.

Internal efficiencies have been realized and while TCH will continue to aggressively pursue additional opportunities, they are forecasting that any internal efficiency savings achieved will likely be required to offset future operating cost pressures.

6. TCH Organizational Review

To ensure TCH is best positioned to meet the challenges ahead, the *Putting People First* report recommended an organizational review and updating of the Shareholder Direction.

TCH has now realigned its Operations Division with the creation of divisions responsible for Resident and Community Services, Asset Management and Facilities Management. With these changes the former Housing Services subsidiary has been legally dissolved.

Concurrent with these changes the new senior management team is now in place to direct the daily affairs of the corporation.

The updating of the Shareholder Direction to support the transformation of TCH into an organization of excellence and responsive to customer service is the subject of a separate report from the City Manager.

7. Management of the Single-Family Homes

Putting People First made a number of recommendations concerning both the sale and management of single-family homes.

The Council-approved sale of homes is now underway as reported in the City Manager's report on the Ten-Year financing plan.

a. Management of Single-Family Homes

The report recommended the creation of a specialized TCH unit to manage the single-family homes. This was considered important as the homes were being managed by two administrative units responsible for both seniors housing and single homes.

In response, TCH is in the process of setting up a specialized single-family homes unit within the Asset Management division. In this way, TCH staff responsible for the daily maintenance and repair of these homes will report to one director rather than be split across several managers.

b. Diversification Strategy

Council requested TCH to develop options to maintain 564 single-family homes as affordable housing as part of a diversification strategy.

At the present time, TCH has decided to directly manage the remainder of the single-family homes within its portfolio.

Working with City staff, TCH has begun to explore the recommendation to sell up to 100 homes to residents under a home ownership initiative. It is anticipated that a small pilot program will be initiated in 2014 to test the economic viability of the conversion of homes from rental to ownership.

Depending on the results the pilot program could be expanded with down-payment assistance to tenants now that the federal government has announced the renewal of the down-payment assistance program through to 2019.

Putting People First also proposed TCH develop partnerships with non-profit housing providers, which could include participation in or devolution to a revocable Community Land Trust or opportunities with non-profit organizations to manage or purchase any of the retained single-family homes.

TCH has met with select non-profit groups to review the potential sale of additional properties at market value. TCH reports that the groups are not in a position to pay market value.

TCH does not see a Community Land Trust as a viable approach that would generate market revenues to address its capital backlog. Should Council wish to consider this matter further it may wish to direct City staff to undertake its own research and analysis into Community Land Trusts in other jurisdictions.

CONCLUSION

The City and TCH have taken significant steps in implementing the *Putting People First* report. This report seeks Council approval to continue moving forward toward a stable, secure future for TCH and its tenants.

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ATTACHMENT

Appendix A – Update on City Council Member Motions

APPENDIX A

UPDATE ON CITY COUNCIL MEMBER MOTIONS

Outlined below are updates from City staff on City Council motions that were referred to the City Manager for consideration:

- i. That City Council request the Toronto Community Housing Corporation to use a portion of the sale of the 55 homes to renovate and bring on-line 55 of the current 280 "uninhabitable" units.*

As of August 2013 TCH reports that 118 of the vacant units have been brought back on line and work is currently underway to bring an additional 41 units back on line by the end of 2013.

Of the remaining 121 vacant units, 84 have been approved for sale and TCH is reviewing options for the remaining 84, which may include redevelopment.

- ii. That City Council request the Toronto Community Housing Corporation to use a portion of the sale of the 55 homes to increase the rent supplement agreement fund as deemed appropriate by City staff.*

The use of proceeds from the sale of houses to fund new rent supplements would divert one-time revenue for funding capital backlog repairs and would also create an on-going operating pressure that would further reduce the availability of funds for capital repairs each and every year.

Given the priority to address the significant capital repair challenges within TCH, City staff recommend that all proceeds from the sale of the 55 single-family homes be targeted solely to address the capital repair backlog.

- iii. That City Council request the City Manager to report to the Executive Committee on allocating a portion of the development charges to the repair backlog of Toronto Community Housing communities throughout the City.*

In accordance with the Provincial Development Charges Act, the funding of building maintenance and repairs through development charges is not permissible.