



STAFF REPORT ACTION REQUIRED

EX8.4

Infrastructure Ontario Refinancing of Toronto Community Housing Mortgages Being Renewed in 2015

Date:	September 4, 2015
To:	Executive Committee
From:	City Manager and Deputy City Manager & Chief Financial Officer
Wards:	
Reference Number:	P:\2015\Internal Services\Cf\Ec15018Cf (AFS#21810)

SUMMARY

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

Pending confirmation of matching contributions from the federal and provincial governments, there is a need for additional funding to sustain the momentum of TCHC's capital repair program. Consistent with the interim report recommendation from the Mayor's Task Force on TCHC, City staff are recommending that the refinancing of TCHC mortgages be maximized in 2015. This will result in an increase in capital repair funding from \$29 million, as proposed in the Ten-Year Capital Financing Plan, to \$200 million. The additional \$171 million raised through refinancing will replace the \$128 million (\$64 million each) of Federal and Provincial funding originally anticipated in 2016 as part of the 10-Year Plan so that TCHC can still carry out their planned 2016 capital expenditures.

This report seeks approval from Council for a proposal developed by TCHC and Ontario Infrastructure and Lands Corporation ("IO") which would result in the refinancing of 12 TCHC properties with mortgages scheduled for renewal in 2015. Upon approval by Council, TCHC will proceed to finalize the transaction to receive mortgage refinancing totalling \$232 million. Of this total, \$32 million will be used to pay out the existing social housing mortgages coming to end of term this year. The balance of \$200 million represents incremental financing of which \$26.3 million will be restricted for investment

in future capital repairs within the pool of 12 refinanced properties and, \$173.7 million which will be invested to address capital needs throughout the entire TCHC 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 at current levels for the 12 properties for a new 30-year mortgage term. The extended mortgage subsidy funding has a total nominal value of \$177.2 million and a present value of \$100.4 million.

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

RECOMMENDATIONS

The City Manager and the Deputy City Manager & Chief Financial Officer recommend 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 term sheet attached as Attachment 1 to this report (the Term Sheet) between TCHC and IO for refinancing totalling \$232 million in order to address the renewal of 12 TCHC mortgages totalling \$32 million, as well as obtaining incremental financing of \$200 million (less transaction costs and legal fees);
 - b. approve the extension of TCHC's mortgage subsidy for 12 identified properties, 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 TCHC's Annual Report to Council, on the status and use of funding deposited to such special reserve;
 - c. authorize the Deputy City Manager & Chief Financial Officer or his delegate to execute on behalf of the shareholder an amendment to the agreement among the City, TCHC and IO which will provide for an amended City guarantee for the repayment of all principal and interest payable by TCHC to IO under the 2013, 2014 and 2015 financing agreements on conditions satisfactory to the Deputy City Manager &

Chief Financial Officer or his delegate and in a form approved by the City Solicitor.

2. City Council deem the foregoing guarantee to be in the interests of the City.
3. City Council, in its capacity as Service Manager under the Housing Services Act, 2011 (the HSA):
 - a. grant Service Manager consent to TCHC pursuant to section 162(2) of the HSA to mortgage those properties described in Appendix 1 of the Term Sheet that require Service Manager consent to secure the obligations of TCHC to IO described in the Term Sheet;
 - b. authorize the Deputy City Manager & Chief Financial Officer or his delegate to execute on behalf of the City as Service Manager an amendment to the agreement among the City, TCHC and IO which will provide for an amended City consent to the lender security over City subsidies payable with respect to the properties mortgaged in favour of IO under the 2013 and 2014 mortgage financing transactions by including the 2015 mortgaged properties described in the Term Sheet, on terms and conditions satisfactory to the Deputy City Manager & Chief Financial Officer or such delegate and in a form approved by the City Solicitor;
 - c. 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 HAS.
4. City Council consent pursuant to subsection 453.1(6) of the *City of Toronto Act, 2006* to any mortgage or charge given by TCHC to IO with respect to any of the properties described in Appendix 1 to the Term Sheet and that where required, the City Clerk provide a certificate, in registerable form, pursuant to subsection 453.1(9) of the *City of Toronto Act, 2006*.
5. City Council authorize the City Manager or the Deputy City Manager & Chief Financial Officer 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 Term Sheet, including, without limitation, amendments to the Operating Agreement between the City and TCHC.

Financial Impact

The Term Sheet developed between TCHC and IO proposes mortgage refinancing totalling \$232 million for 12 TCHC properties with mortgages scheduled for renewal in 2015. The mortgage refinancing includes \$32 million to pay out existing social housing mortgages, \$26.3 million for capital expenditure reserves for future capital repairs within each of the refinanced properties and the balance, \$173.7 million, less transaction costs and legal fees, represents new funding for state-of-good repairs throughout the TCHC portfolio.

As detailed in Attachment 1, the twelve TCHC properties will receive mortgage refinancing at a fixed interest rate for a 30-year term (approx. range 3.25% to 3.55% based on today's rates).

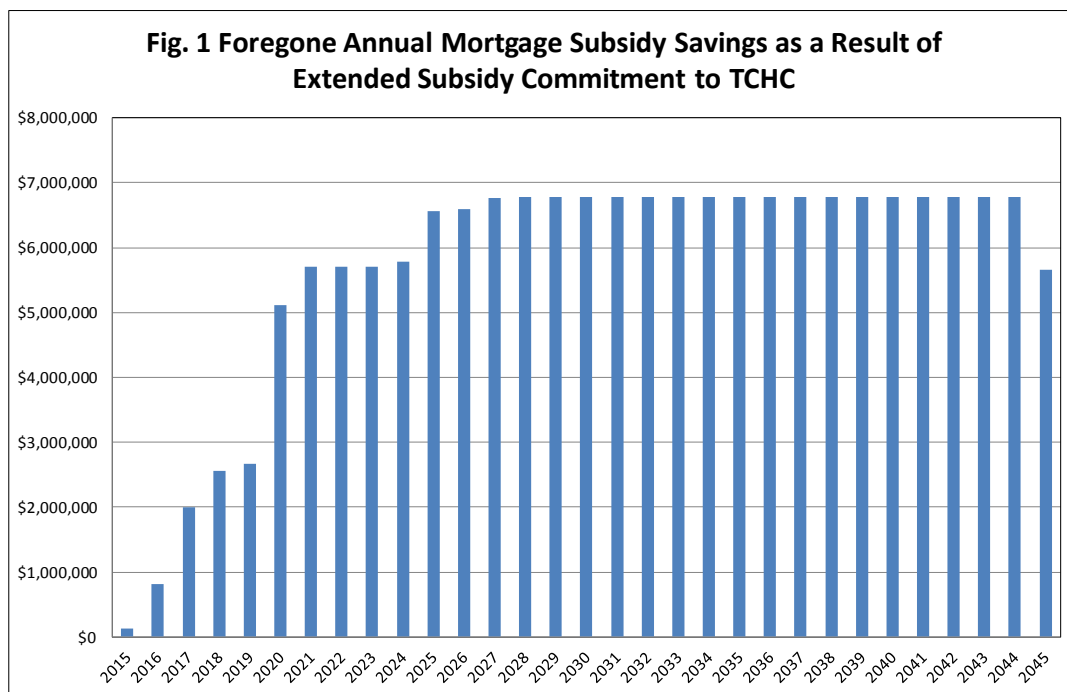
The recommendations in this report will have no immediate impact on the City's operating or capital budgets as no additional funding from the City is required by TCHC to meet their short-term funding obligations related to the refinanced properties. However, TCHC is extending its debt commitment beyond the maturity date of its current mortgages. TCHC is requesting that the City provide a corresponding extension of its existing mortgage subsidies for these properties to the new refinanced maturity date of November 1, 2045.

As detailed in Attachment 2, this additional mortgage funding commitment ranges from 19 to 30 years and, as shown in Figure 1, the impact on the City's Operating budget ranges from a low of \$0.135 million in 2015 to a high of \$6.8 million in years 2027 through 2044. These amounts represent savings that would have otherwise been realized by the City but are now being committed to TCHC as part of the mortgage refinancing.

The extended mortgage subsidy funding has a total nominal value of \$177.2 million and a present value of \$100.4 million.

The City's extended mortgage funding commitment does not represent an increase to 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 subsidies payable to TCHC for each City funded property would have been reduced under the terms of the City's Operating Agreement with TCHC.

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.



As a result of the proposed commitment to extend the term of the mortgage subsidies to TCHC, the proposed guarantee does not represent a further increase in the City's potential financial liabilities. The proposed commitment to TCHC to extend the existing mortgage subsidies for the mortgages being renewed in 2015 will provide TCHC with the funds necessary to make the necessary debt service payments for these mortgages.

The Deputy City Manager & Chief Financial Officer 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 which required renewal in 2013. This refinancing generated \$154.7 million in total financing, of which approximately \$82 million is available to address capital needs throughout the entire TCHC social housing portfolio.

<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 TCHC mortgages maturing in 2014 and 2015.

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

At that same meeting City Council approved an Amended and Restated Shareholder Direction to Toronto Community Housing Corporation:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX35.5>

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 mortgages on TCHC properties which required renewal in 2014. This refinancing generated \$49.7 million in total financing, of which approximately \$30.7 million is available to address capital needs throughout the entire TCHC social housing portfolio.

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

ISSUE BACKGROUND

The Toronto Community Housing (TCHC) 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 be supported equally by the three levels 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 TCHC's existing annual operating budget, providing an allocation from the City's Development Charge Reserve Fund for Social Housing and through additional refinancing of TCHC mortgages renewing in 2014 and 2015. The plan forecasts that an amount of \$153 million would be raised through mortgage refinancing in 2013, 2014, and 2015 as a component of the City's one-third contribution.

As funding support has not been forthcoming from the federal and provincial governments, City staff, consistent with the interim report recommendations from the Mayor's Task Force on TCHC, are recommending that mortgage refinancing for 2015 be maximized and all of the mortgages coming up for renewal in 2015 be refinanced for new 30 year terms. This approach will increase the funding available for capital repairs from \$29 million to \$200 million, an increase of \$171 million, and enable TCHC to sustain the momentum of their capital repair program through 2016

COMMENTS

TCHC has negotiated proposed terms with IO for the refinancing of the 12 properties for which mortgage renewals are required in 2015. Based on a detailed, updated assessment of these buildings and their associated revenues, IO and TCHC have determined that a total amount of \$232 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 TCHC portfolio as follows:

Mortgage Payouts

\$32.0 million of the total mortgage refinancing will be used to pay out existing mortgages on the 12 properties.

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 refinancing term, IO requires that TCHC set aside a capital expenditure fund equal to 4% of the gross income generated by each financed property.

In addition, \$26.3 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 financed 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 \$173.7 million of mortgage refinancing represents leveraged equity which TCHC can use to address its capital repair backlog. Unlike the restricted financing described above, TCHC has the flexibility to employ this funding throughout its portfolio to address its capital repair 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 capital repairs 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 TCHC as priority capital repairs. TCHC will be required to establish a segregated reserve fund for the \$173.7 million in new equity for capital repairs and to report back annually to Council on the use of the funds through TCHC's Annual Report to Council.

City Subsidy Funding to TCHC

The City's subsidy payments to TCHC are made in accordance with an Operating Agreement and one or more rent supplement agreements between the City and TCHC. TCHC'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 TCHC.

Upon approval by Council of the recommendations in this report, the City will extend the mortgage subsidy for the twelve 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 TCHC in accordance with the Operating Agreement between the City and TCHC.

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, TCH and IO which provided a City guarantee for the repayment of the principal and interest on the 2013 and 2014 mortgages. The Term Sheet 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 2015 mortgages.

Consents

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

Sole Shareholder

Council's shareholder relationship with TCHC is set out in the Amended and Restated Shareholder Direction. Under Section 7.4.1 (a), the approval of the Shareholder is required to permit TCHC 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 TCHC'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 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. The City of Toronto Act, 2006 permits the City Clerk to provide a certificate, in registerable form evidencing such consent, pursuant to subsection 453.1(9) of the *City of Toronto Act, 2006*.

Financial Advantages of the Proposed Mortgage Refinancing

TCHC has identified a number of key financial advantages in the proposed IO 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.
- IO is a unique lender as 30 year terms are not available through OCFRP and not generally available in the private markets.
- Provides TCHC 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 TCHC's social housing portfolio.
- The proposal improves the financial discipline of TCHC 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 of the Corporation ensures that each asset is financially evaluated to ensure that the financial outcomes will be viable over the long-term.

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SIGNATURE

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ATTACHMENTS:

Attachment #1: Infrastructure Ontario-TCHC Mortgage Refinancing Proposal (Term Sheet)

Attachment #2: Additional City Funding Commitment by Property

Attachment #1
Additional City Funding Commitment by Property
(Separate from Report)

ATTACHMENT #2				
ADDITIONAL MORTGAGE SUBSIDY FUNDING COMMITMENT BY PROPERTY				
Address	Annual City Funding for Mortgage Debt	Current Mortgage Maturity Date	Additional Years Mortgage Debt Servicing	Total Additional City Funding For Mortgage Debt
4000 Don Mills Rd	812,467	October 1, 2015	30	24,374,016
95 Wood Street	626,925	October 1, 2020	25	15,725,360
145 Mutual St	607,318	December 1, 2019	26	15,739,660
3179 Yonge Street	482,238	November 1, 2024	21	10,127,006
426 - 444 Coxwell Ave	38,344	October 1, 2019	26	1,000,145
10 Humberline Drive	700,840	December 1, 2019	26	18,163,448
176 The Esplanade/171 Front Street/111 Frederick (which includes townhouses 85-129 Frederick)	1,031,655	June 1, 2017	28	29,316,189
15 Scadding (includes 21- 35 Scadding and 4-52 Princess Street) Note 1	708,798	March 1, 2017	29	20,318,873
190 John Street	190,361	February 1, 2027	19	3,569,267
2765 Islington Ave	994,445	February 1, 2020	26	25,606,951
145 Elm Ridge	179,083	March 1, 2020	26	4,596,469
20 Sanderling Place	415,205	February 1, 2025	20	8,615,505
Totals:	\$ 6,787,679			\$ 177,152,887