



**STAFF REPORT
ACTION REQUIRED**

TCHC Refinancing through CMHC Prepayment Program

Date:	September 14, 2016
To:	Executive Committee
From:	Deputy City Manager, Cluster A Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2016\Internal Services\Cf\Ec16019Cf (AFS #23216)

SUMMARY

There are currently a number of long-term Canada Mortgage and Housing Corporation ("CMHC") mortgages on Toronto Community Housing Corporation ("TCHC") properties that were established in periods when mortgage interest rates were considerably higher than they are today. Until now, TCHC has not been able to refinance these mortgages without incurring substantial prepayment penalties.

However, in mid-July 2016, CMHC established the eligibility guidelines for a new program that will allow certain housing providers to pay out their long-term CMHC mortgages without penalty. TCHC and Shelter, Support and Housing Administration staff were recently informed that ten of the CMHC mortgages on TCHC properties, with an outstanding principal amount of \$23.0 million, have been approved for prepayment without penalty.

TCHC has negotiated refinancing terms with Ontario Infrastructure and Lands Corporation ("IO") that will result in a new 30-year term for these mortgages at the much lower interest rates that prevail today. By extending the repayment term, TCHC will be able to raise the \$23.0 million required to repay the existing CMHC mortgages as well as a further \$39.1 million in funding that will be used for capital maintenance work on the ten refinanced properties.

These ten properties do not currently receive mortgage subsidies from the City and TCHC is not requesting that mortgage subsidies be provided as part of the refinancing.

However, IO has required that the City provide a guarantee for repayment of all principal and interest payable by TCHC to IO under the proposed refinancing agreement.

Approval by the board of directors of TCHC of this refinancing has not yet been obtained. It is anticipated that the board will have considered this matter prior Council meeting on October 5th, 2016.

RECOMMENDATIONS

The Deputy City Manager, Cluster A and the Deputy City Manager & Chief Financial Officer recommend that:

1. Subject to all necessary approvals of the board of TCHC having been obtained, 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 substantially in the form attached as Attachment 1 to this report (the Term Sheet) between TCHC as "Borrower" and IO as "Lender" for refinancing totalling \$62.1 million in order to address the renewal of 10 TCHC mortgages ("Mortgaged Properties") totalling \$23.0 million, as well as obtaining incremental financing of \$39.1 million (less transaction costs and legal fees);
 - b. authorize the net amount of incremental financing be held in trust by the Lender invested for the Borrower within a separate account (the "**Capital Expenditure Investment Account**") for release to pay costs of major repairs and maintenance on the Mortgaged Properties as allocated by the Lender in Appendices 2 and 3 (the "**Cap-Ex Reserve Funds**") of the Term Sheet;
 - 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, 2015 and 2016 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 interest 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, 2014 and 2015 mortgage financing transactions by including the 2016 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 HSA;
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; and
 6. The Deputy City Manager, Cluster A and the Deputy City Manager & Chief Financial Officer to report directly to Council with respect to the decisions made by the board of Directors of TCHC with respect to the refinancing.

Financial Impact

TCHC has negotiated refinancing terms with Ontario Infrastructure and Lands Corporation ("IO") that will result in a new 30-year term for 10 mortgages that currently have an outstanding balance of \$23.0 million, a weighted average interest rate of 9.4%, and annual payments of principal and interest of approximately \$3.2 million.

The new mortgages with IO will benefit from the much lower interest rates that prevail today (approximately 3%) and by extending the repayment term, TCHC will be able to

raise the \$23.0 million required to repay the existing CMHC mortgages as well as a further \$39.1 million in funding that will be used for capital maintenance work on the ten refinanced properties.

These ten properties do not currently receive mortgage subsidies from the City and TCHC is not requesting that mortgage subsidies be provided as part of the refinancing. Therefore, the recommendations in this report will have no immediate impact on the City's operating or capital budgets.

However, IO has required that the City provide a guarantee for repayment of all principal and interest payable by TCHC to IO under the proposed refinancing agreement.

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 was made 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 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 was made available to address capital needs throughout the entire TCHC social housing portfolio.

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

At its meeting of September 30, 2015 Council adopted the proposed terms negotiated with IO for the refinancing by IO of a third tranche of mortgages which required renewal in 2015. This refinancing generated \$232 million in total financing, of which approximately \$173.7 million was made available to address capital needs throughout the entire TCHC social housing portfolio.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX8.4>

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 refinancing of TCHC mortgages.

CMHC Prepayment Program

CMHC has solicited applications for its Loan Prepayment Program from the social housing providers that fall within Section 26/27 of the National Housing Act. Projects funded through this program had fifty year mortgages which were typically locked in at high interest rates.

The total amount of prepayment penalties available to be waived in 2016 is \$50 million nationally. In order to be eligible for the program, applicants must be refinancing for one of the following reasons:

- Completing repairs to promote housing sustainability
- Creating new affordable housing units
- Maintaining/increasing the level of RGI units

Applications were due on August 2, 2016 and included Service Manager Consent to the refinancing and a commitment letter from a new lender. TCHC submitted applications to SSHA for Service Manager Consent for 35 projects, with mortgages that would otherwise incur a total pre-payment penalty of over \$80 million in the absence of this program. SSHA staff assessed the applications and Service Manager Consent was given for 24 projects which represented potential penalty waivers with a total value of over \$63 million. Service Manager Consent was conditional on Council consents and approvals of the terms and conditions established by the lender or lenders providing financing to Toronto Community Housing Corporation to prepay the mortgages.

CMHC assessed the applications and 14 of the 24 applications were found to be not eligible for the program because the loans are for buildings that fall within Section 43 of the National Housing Act (Public Housing). CMHC approved the remaining 10 properties for this program, which will result in the waiving of \$13.3 million in prepayment penalties.

COMMENTS

TCHC has negotiated proposed terms with IO for the refinancing of the 10 properties for which CMHC has approved a penalty-free prepayment. These terms will result in a new 30-year term for these mortgages at the much lower interest rates that prevail today (approximately 3%). By extending the repayment term, TCHC will be able to raise the

\$23.0 million required to repay the existing CMHC mortgages as well as a further \$39.1 million in funding that will be used for capital maintenance work on the ten refinanced properties.

Gross Income Capex 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, the terms negotiated with IO require that TCHC set aside a capital expenditure fund equal to 4% of the gross income generated by each financed property.

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 in the 2013, 2014 and 2015 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 mortgages renewed as part of the 2016 CMHC Prepayment Program.

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.

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SIGNATURE

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ATTACHMENT

IO Term Sheet for Proposed Refinancing