

## **Proposed TCHC Debt Management Policy and 2016 Infrastructure Ontario Mortgage Refinancing**

**Date:** November 17, 2016

**To:** Executive Committee

**From:** Deputy City Manager & Chief Financial Officer, Deputy City Manager Cluster A

**Wards:** All

### **SUMMARY**

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In November, 2013, City Council approved the Toronto Community Housing Corporation's ("TCHC") Ten-Year Capital Financing Plan. This plan identified the need for approximately \$2.6 billion of capital maintenance funding to bring building component failures down to a manageable level and avoid the need to close public housing units.

This plan was premised on the availability of equal funding from the City, the Provincial and the Federal governments. Over the first three years of the plan (2013-2015), the City has provided direct funding as well as mortgage subsidies and mortgage repayment guarantees that have resulted in a total of \$624 million of funding support for this plan.

After relying exclusively on City funding for the initial years, the plan assumed that funding from other orders of government would become available to fund the plan from 2017 onwards. However, neither the Federal or Provincial governments have provided any funding support for the TCHC Capital Financing Plan; nor have they made any commitments of future support.

TCHC has identified the potential for raising a further \$226.4 million for capital maintenance through the refinancing of a further group of mortgages that require renewal in 2016 and through a new loan on a recently completed building. In the absence of Federal and Provincial support, this financing is necessary to continue TCHC's capital maintenance program in 2017.

In accordance with the approach taken with the previous tranches of mortgage refinancing, TCHC has requested that the City provide an explicit repayment guarantee to the lender, Infrastructure Ontario and that the City extend its existing mortgage subsidies for the refinanced properties, at their current levels, for a further 15-30 years. Therefore, the gross annual impact of these subsidies on the City's operating budget will remain unchanged. However, as discussed in earlier staff reports, the Federal/Provincial funding that supports these City subsidies to TCHC is forecast to substantially diminish over time.

This report presents a proposed Debt Management Policy prepared by TCHC staff that sets out the appropriate uses for various forms of debt as well as criteria for assessing overall debt limits. One of the principal criteria set out in the Policy for permanent mortgage debt is that TCHC maintain a Debt Service Coverage Ratio ("DSCR") of 1.1 between TCHC's annual net operating cash flow and its annual debt service costs.

According to its 10-year Operating Budget forecast, TCHC that will meet this criteria in 2017. However, even with the requested mortgage subsidy extensions, TCHC is forecast to fall below this minimum DSCR beginning in 2018 because of the rapid growth in utility costs and TCHC's very limited ability to recover these increased costs from tenants.

This report nevertheless recommends that Council approve the requested financing. This approval will allow TCHC to fund the capital maintenance works that are necessary to avoid the near-term closure of additional units and to satisfy the City's mandated requirement to maintain a minimum stock of rent-gear-to-income housing units.

However, it is clear that substantial new measures will need to be implemented in order to ensure that TCHC's debt repayment commitments can be met and that future capital maintenance can be funded in the absence of funding support from other orders of government.

Long-term financial sustainability was one of the key challenges addressed by the Mayor's Task Force on TCHC, which published its final report in January, 2016. In July, 2016, Council directed staff to prepare a plan for implementing a number of key "Transformative Ideas" and recommendations provided by Task Force for TCHC and to provide Council with the financial and budget implications associated with this plan in Q2 2017. It is anticipated that this plan will incorporate steps for addressing TCHC's operating and capital maintenance funding pressures.

## **RECOMMENDATIONS**

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The Deputy City Manager Cluster A 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 sheets attached as Attachments 1 and 2 to this report between TCHC and IO (collectively referred to herein as the "Term Sheets"):
    - i) for refinancing totalling \$310 million in order to address the renewal of 32 TCHC mortgages totalling \$93.6 million, as well as obtaining incremental financing of \$216 million (less transaction costs and legal fees) on the terms and conditions contained in Attachment 1; and

- ii) financing a \$10 million loan on a property located at 180 Sackville St. on the terms and conditions contained in Attachment 2;
  
- b. approve the extension of TCHC's mortgage subsidy for the 32 properties identified in Attachment 1, based on the current monthly mortgage payment, for a period of 30 years following the transaction closing;

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 payment of all periodic principal and interest payments payable by TCHC to IO under the financing agreements authorized by Council in 2013, 2014, 2015 and 2016 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 the HSA to mortgage those properties described in Appendix 1 of the Term Sheet attached as Attachment 1 that require Service Manager consent to secure the obligations of TCHC to IO described in that 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 mortgage financing transactions authorized by Council in 2013, 2014, 2015 and 2016 by including the mortgaged properties described in the Term Sheets, on terms and conditions satisfactory to the Deputy City Manager and 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 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 the Term Sheets 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 transactions described in the Term Sheets, including, without limitation, amendments to the Operating Agreement between the City and TCHC.

## **FINANCIAL IMPACT**

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### **Refinancing Terms**

The Term Sheets developed between TCHC and IO propose mortgage refinancing totalling \$310 million for 32 TCHC properties with mortgages scheduled for renewal in 2016 and a new \$10 million loan for a recently completed TCHC building at 180 Sackville St. As summarized in Table 1 below, the total financing provides \$93.6 million to pay out existing social housing mortgages, \$72.2 million for capital expenditure reserves for future capital repairs within each of the refinanced properties and the balance, \$154.2 million, less transaction costs and legal fees, represents new funding for state-of-good repairs throughout the TCHC portfolio.

<b>Table 1 - Summary of Funding Proposed Through Infrastructure Ontario Financing (\$millions)</b>				
	Repayment of Existing Loans on Title	Capital Expenditure Reserve Fund for Refinanced Buildings	Equity Withdrawal for Repair and Maintenance of Overall TCHC Portfolio of Buildings	Total
Refinancing of 32 Mortgages	93.6	72.2	144.2	<b>310.0</b>
New Loan for 180 Sackville St.	NA	NA	10.0	<b>10.0</b>
<b>Total:</b>	<b>93.6</b>	<b>72.2</b>	<b>154.2</b>	<b>320.0</b>

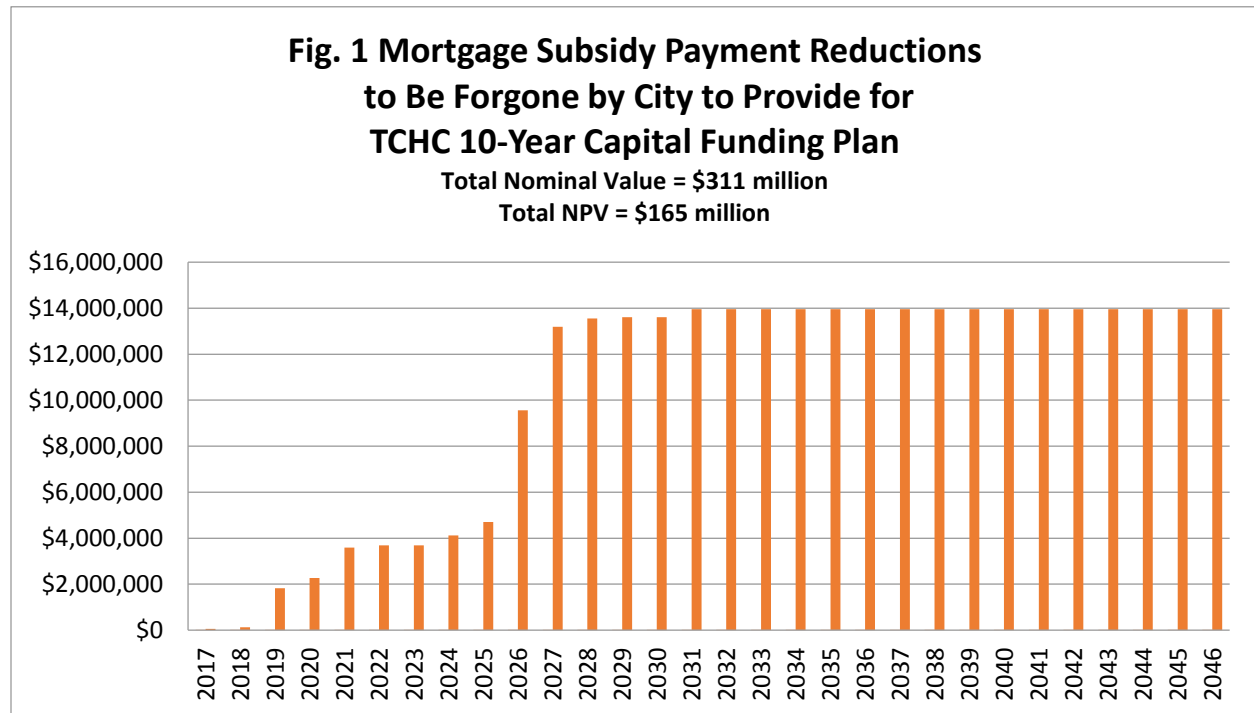
As detailed in Attachment 1, thirty-two TCHC properties will receive mortgage refinancing at a fixed interest rate for a 30-year term (approx. 3.5% based on today's rates). Attachment 2 provides the detailed terms for the new \$10 million loan for the 180 Sackville St. property.

### **Extension of City Mortgage Subsidies & Repayment Guarantee**

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 in early 2047.

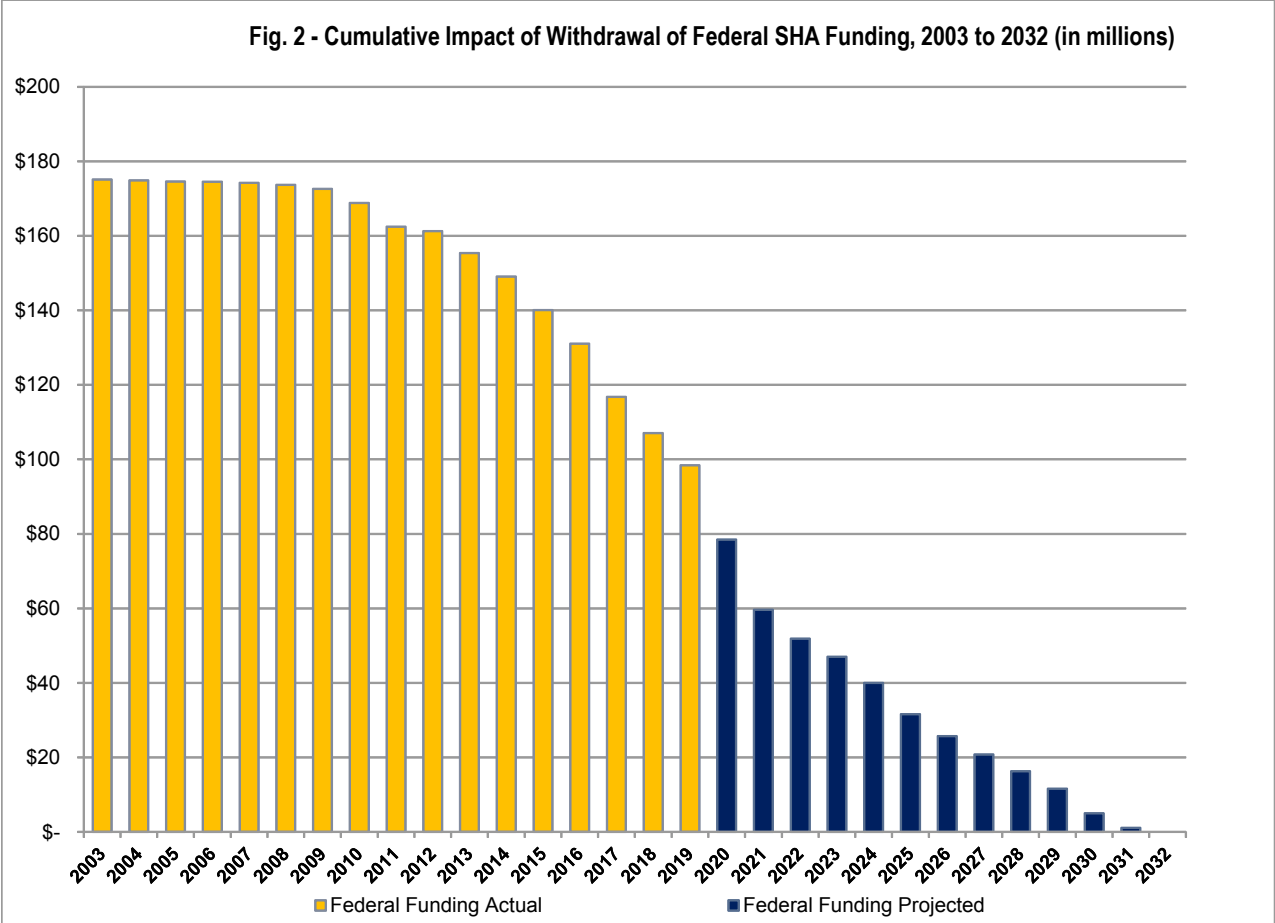
This additional mortgage subsidy funding commitment ranges from 15 to 30 years and, as shown in Figure 1, the annual impact on the City's Operating budget ranges from a low of \$56,000 in 2017 to a high of \$13.9 million in the years 2031 through 2047. The extended mortgage subsidy funding has a total nominal value of \$311 million and a present value of approximately \$165 million.



The extended mortgage subsidy commitment will not have an incremental impact on the City's gross operating budget but the Federal government has indicated that its current Social Housing Assistance funding, which supports the City's mortgage subsidy funding to TCHC, will continue to decline, as shown in Fig. 2, until this support is eliminated in 2033. Without a future renewal of this Federal funding support, the extension of the City's mortgage subsidy funding to TCHC will result in material future property tax impacts.

The terms negotiated with IO call for the City's commitment to be further secured through a specific guarantee to IO by the City for repayment of the principal and interest on the refinanced mortgages and on the new \$10 million mortgage for the TCHC building at 180 Sackville St.

However, the proposed extension of the City's existing mortgage subsidies on the refinanced properties will provide for approximately 80% of the funding required by TCHC to make the required payments on the new mortgages.



**TCHC Debt Management Policy**

This report presents a proposed Debt Management Policy prepared by TCHC staff that sets out the appropriate uses for various forms of debt as well as criteria for assessing overall debt limits. One of the principal criteria set out in the Policy for permanent mortgage debt is that TCHC maintain a Debt Service Coverage Ratio ("DSCR") of 1.1 between TCHC's annual net operating cash flow and its annual debt service costs

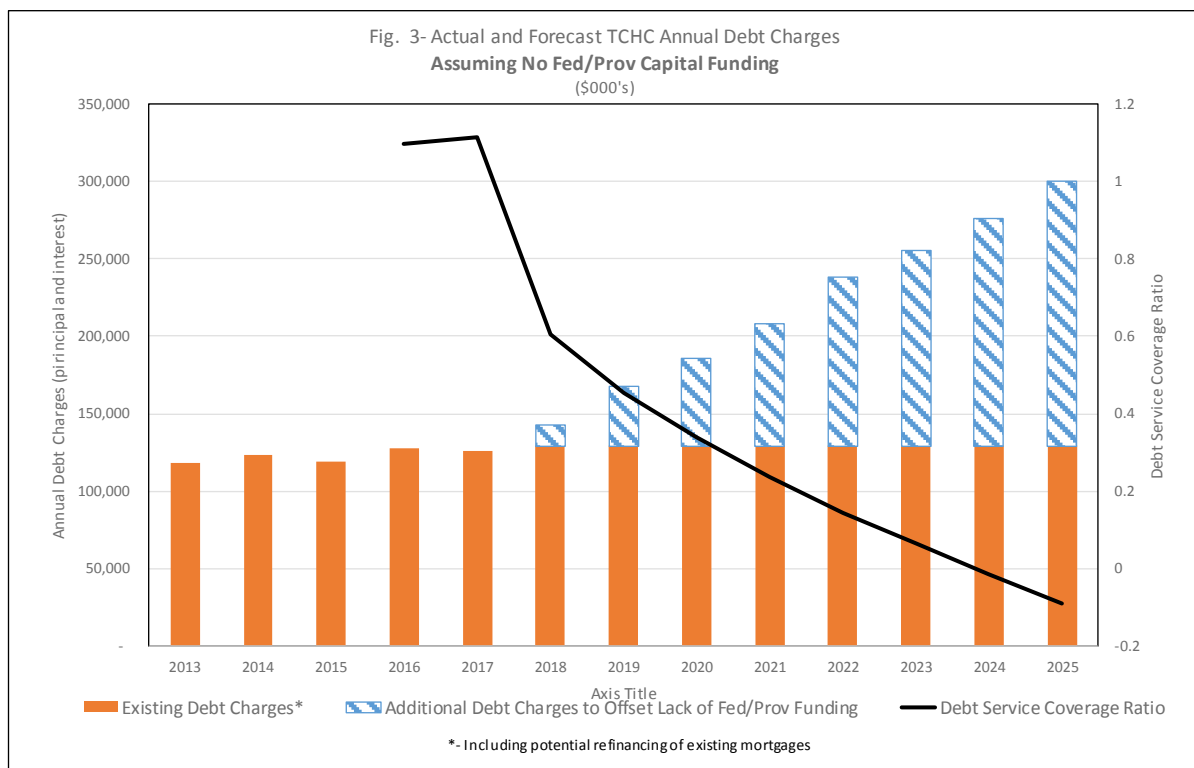
As shown in Fig. 3, TCHC's 10-year Operating Budget forecasts that TCHC will initially comply with the proposed policy by achieving this minimum DSCR in 2017. However, even with the requested mortgage subsidy extensions, TCHC will fail to maintain this DSCR beginning in 2018 because of the rapid growth in utility costs and an inability to recover these increased costs from tenants.

**Additional Debt Required to Replace Federal/Provincial Capital Funding**

In the absence of Federal and Provincial capital funding support, TCHC will face additional debt pressures in order to fund the 10-Year Capital Financing Plan. TCHC Proposed TCHC Debt Management Policy and 2016 Infrastructure Ontario Mortgage Refinancing

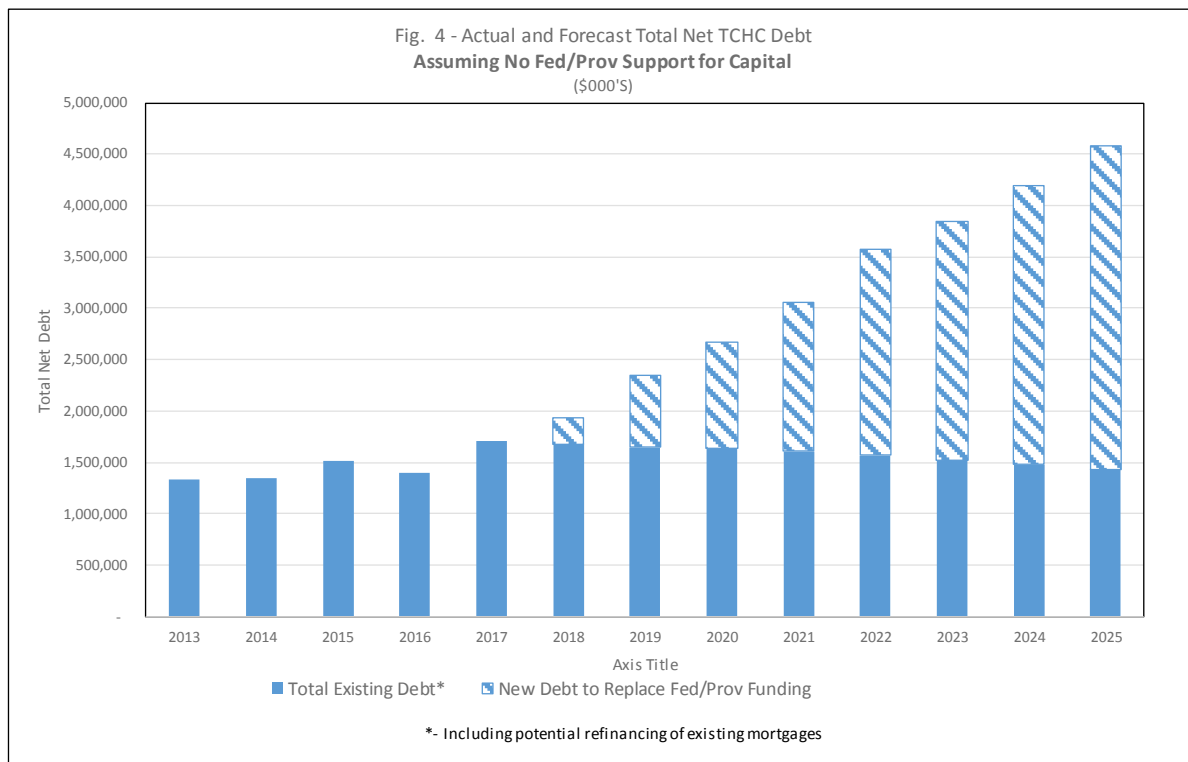
has indicated that there will be limited opportunities for further mortgage refinancing. Also, as shown below in Table 2 below, TCHC has redirected the \$54 million annual allocation intended for capital maintenance so that it can instead offset operating budget pressures.

Therefore, TCHC may have to raise the necessary additional funding through the issuance of regular debentures that the City would be required to fund through higher subsidies. The total new debt required over that period would be approximately \$3.1 billion. This will result in a forecast increase in TCHC's annual debt charges from \$127 million in 2016 to over \$300 million in 2025. In order to provide funding support to TCHC for the repayment of this additional borrowing, a total residential property tax increase of approximately 6% would be required.



In July, 2016, Council directed staff to prepare a plan for implementing a number of key "Transformative Ideas" and recommendations provided by Task Force for TCHC and to provide Council with the financial and budget implications associated with this plan in Q2 2017. It is anticipated that this plan will incorporate steps for addressing TCHC's operating and capital maintenance funding pressures.

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 \$93.5 million was made available to address capital maintenance needs.

<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.

<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 \$200 million was made available to address capital needs.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX8.4>

At its meeting of September 22, 2016, Executive Committee adopted the proposed terms for the refinancing by IO of ten CMHC mortgages. This refinancing generated \$62 million in total financing, of which approximately \$39.1 million will be made available for capital maintenance work on the ten refinanced properties.  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX17.13>

## **COMMENTS**

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### **2013 Ten-Year Capital Financing Plan**

The TCHC Ten-Year Capital Financing Plan adopted by Council in 2013 identified the total amount of capital maintenance work required to maintain a Facilities Condition Index (the value of outstanding capital maintenance requirements divided by building portfolio replacement value) of 10% in the overall TCHC building portfolio. This work corresponded to 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.

According to the proposed plan, the City's one-third share of this funding was to be raised through measures such as refinancing of TCHC mortgages, property tax exemptions, establishing a permanent allocation level for capital repairs from within TCHC's existing annual operating budget, and providing an allocation from the City's Development Charge Reserve Fund for Social Housing.

A fundamental assumption of the plan was that the City would provide the necessary capital funding in the early years of the plan and that the Federal and Provincial governments would provide support in later years.

Based on the original 1/3 allocation of 10-year plan costs, the City would have been responsible for a total of \$864 million in funding. As a result of increased mortgage refinancing, the City's total support to date, including the refinancing of high-interest CMHC loans approved by Council in November, 2016 (EX17.13), has been \$704 million. If the proposed \$310 million refinancing recommended in this report is approved, the City's total funding to date will increase to \$930.7 million. As shown in Table 2, this amount is forecast to increase to \$1.06 billion over the course of the current 10-year rolling plan period as a result of ongoing City support through property tax exemptions.

### **Proposed 2016 IO Financing**

TCHC has negotiated proposed terms with IO for the refinancing of the 32 properties for which mortgage renewals are required in 2016. Based on a detailed, updated assessment of these buildings and their associated revenues, IO and TCHC have

determined that a total amount of \$226.4 million can be raised through the refinancing and through a new \$10 million loan for a recently completed TCHC building at 180 Sackville St. 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***

\$93.6 million of the total mortgage refinancing will be used to pay out existing mortgages on the 32 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, \$72.2 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 \$154.2 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 \$154.2 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.

TCHC - 10 Year Capital Financing Plan  
Revised: Nov 18, 2016

Table 2 - TCH Ten-Year Capital Financing Plan

	Original 10-Year Plan													Original Plan Total	Rolling Plan Total	Grand Total
	(Actual) 2013	(Actual) 2014	(Actual) 2015	(Forecast) 2016	(Forecast) 2017	(Forecast) 2018	(Forecast) 2019	(Forecast) 2020	(Forecast) 2021	(Forecast) 2022	(Forecast) 2023	(Forecast) 2024	(Forecast) 2025			
<b>Capital Needs (\$ millions)</b>																
January 1st backlog of needs	862	914	896	1,022	1,195	1,301	1,278	1,351	1,363	1,276	1,084	1,098	1,144	862	1,022	862
Forecasted growth in capital needs (from following year)	121	200	327	424	401	279	414	341	198	110	133	163	114	2,814	2,577	3,224
Inflation on opening balance	-	-	-	20	24	26	26	27	27	26	22	22	23	176	242	242
Reduction due to sale/revitalization	(8)	(8)	(9)	(22)	(19)	(27)	(17)	(31)	(12)	(18)	(7)	(6)	(3)	(172)	(162)	(187)
Needs adjustment due to changes in engineering estimates		(86)	(33)											(119)	-	(119)
Reduction in future capital growth due to small scale repairs			(71)											(71)	-	(71)
Reduction due to capital spending (** below)	(60)	(123)	(88)	(250)	(300)	(300)	(350)	(325)	(300)	(310)	(133)	(133)	(133)	(2,407)	(2,534)	(2,806)
<b>Adjusted year end capital needs:</b>	<b>914</b>	<b>896</b>	<b>1,022</b>	<b>1,195</b>	<b>1,301</b>	<b>1,278</b>	<b>1,351</b>	<b>1,363</b>	<b>1,276</b>	<b>1,084</b>	<b>1,098</b>	<b>1,144</b>	<b>1,146</b>	<b>1,084</b>	<b>1,146</b>	<b>1,146</b>
<b>Year end Facilities Condition Index (FCI):</b>	<b>0</b>	<b>0</b>	<b>10.8%</b>	<b>12.4%</b>	<b>13.2%</b>	<b>12.8%</b>	<b>13.2%</b>	<b>13.1%</b>	<b>12.0%</b>	<b>10.0%</b>	<b>9.9%</b>	<b>10.4%</b>	<b>10.0%</b>	<b>10.0%</b>	<b>10.0%</b>	<b>10.0%</b>
<b>Capital Funding Sources (\$ millions)</b>																
<b>City/TCH Funding Sources</b>																
Annual Capital Funding (TCH Operating Budget)	50	61	65	54	-	-	-	-	-	-	-	-	-	230	54	230
Property Tax Exemption (Education Portion)	9	9	9	9	9	9	9	9	9	9	9	9	9	91	92	119
Development Charge Reserve Fund Allocation	10	-	-	-	-	-	-	-	-	-	-	-	-	10	-	10
Sale of TCH Single Family Houses Proceeds	12	30	10	12	10	-	-	-	-	-	-	-	-	75	22	75
TCH Mortgage Refinancing (Note 1)	93	31	200	266	-	-	-	-	-	-	-	-	-	590	266	590
Annual IO reserve contributions			2	2	4	4	4	4	4	4	4	4	4	28	37	39
City Loans Refinancing	-	33	-	-	-	-	-	-	-	-	-	-	-	33	-	33
<b>Total Annual City/TCHC Funding:</b>	<b>174</b>	<b>164</b>	<b>286</b>	<b>344</b>	<b>23</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>1,057</b>	<b>471</b>	<b>1,096</b>
<b>Capital reserve Draws(+)/Contributions(-)</b>	<b>(114)</b>	<b>(38)</b>	<b>(131)</b>	<b>(94)</b>	<b>(57)</b>	<b>47</b>	<b>65</b>	<b>16</b>	<b>(33)</b>	<b>31</b>	<b>120</b>	<b>120</b>	<b>120</b>	<b>(307)</b>	<b>336</b>	<b>53</b>
<b>Sub-total</b>	<b>60</b>	<b>127</b>	<b>156</b>	<b>250</b>	<b>(34)</b>	<b>60</b>	<b>78</b>	<b>29</b>	<b>(20)</b>	<b>44</b>	<b>133</b>	<b>133</b>	<b>133</b>	<b>750</b>	<b>806</b>	<b>1,149</b>
<b>Uncommitted Federal/Provincial Contributions</b>																
Uncommitted Federal 1/3 total nominal funding	-	-	-	-	167	120	136	148	160	133	-	-	-	864	864	864
Uncommitted Provincial 1/3 total nominal funding	-	-	-	-	167	120	136	148	160	133	-	-	-	864	864	864
<b>Total Uncommitted Annual Fed/Prov Funding:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>334</b>	<b>240</b>	<b>272</b>	<b>296</b>	<b>320</b>	<b>266</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,728</b>	<b>1,728</b>	<b>1,728</b>
<b>**Total Capital Spending:</b>	<b>60.00</b>	<b>126.55</b>	<b>156</b>	<b>250</b>	<b>300</b>	<b>300</b>	<b>350</b>	<b>325</b>	<b>300</b>	<b>310</b>	<b>133</b>	<b>133</b>	<b>133</b>	<b>2,478</b>	<b>2,534</b>	<b>2,877</b>
<b>TCHC Capital Reserve Balance (\$ millions)</b>																
Opening balance	-	114	154	287	385	447	407	348	337	375	350	235	119	-	287	-
Interest	-	2	2	4	6	7	6	5	5	6	5	4	2	43	49	53
Capital reserve contributions(+)/draws(-)	114	38	131	94	57	(47)	(65)	(16)	33	(31)	(120)	(120)	(120)	307	(336)	(53)
<b>Year-End Balance:</b>	<b>114</b>	<b>154</b>	<b>287</b>	<b>385</b>	<b>447</b>	<b>407</b>	<b>348</b>	<b>337</b>	<b>375</b>	<b>350</b>	<b>235</b>	<b>119</b>	<b>0</b>	<b>350</b>	<b>0</b>	<b>0</b>

Note

1. The TCHC mortgage refinancing in 2016 has not yet been approved by City 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. 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 32 identified properties, based on the current monthly mortgage costs, to a date 30 years from the closing of the loan transactions with IO. 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.

Not all of the properties receiving refinancing currently receive mortgage subsidies from the City. The requested extension of the existing mortgage subsidies will provide approximately 80% of the funding required by TCHC to make the required payments on the new financing.

As the mortgage subsidy levels will remain the same, there is no incremental gross budget impact on the City from the subsidy extension. There is instead a foregone budget savings as these subsidies would otherwise have ended when the original mortgages matured. On average the mortgages currently proposed for refinancing would have matured in the next 7 years.

There will also be a growing incremental *net* impact as the overall pool of Federal funding used by Shelter Support and Housing Administration (SSHA) to fund the housing subsidies is declining as shown in Fig. 2 above.

## **City Guarantee**

As part of its previous approvals for the IO refinancing agreements beginning in 2013, 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. 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 2016 mortgages.

## **Consents**

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

Proposed TCHC Debt Management Policy and 2016 Infrastructure Ontario Mortgage Refinancing

## **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 Council 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.

## **TCHC Debt Management Policy**

TCHC has provided a new debt management policy that addresses the appropriate use of borrowing as well as the determination of overall debt capacity. This policy has been drafted to comply with the Master Agreement between TCHC and its principal lenders.

One of the key criteria for total debt capacity is the minimum Debt Service Coverage Ratio ("DSCR"). This is a measure of the available cushion that TCHC has in terms of its ability to fund annual debt service costs using its available net operating cash flow. The TCHC debt policy establishes a target minimum value of 1.1 for the DSCR.

As shown in Fig. 3 above, TCHC will achieve the required DSCR in 2017 but is forecast to fall below 1 in 2018. However, the lower DSCR in 2018 is not caused by the increasing debt burden on TCHC because the requested extensions of the City mortgage subsidies will mostly offset the impact of the proposed mortgage refinancing.

As discussed in the June, 2016 Tenants First staff report, the reduced DSCR is primarily caused by negative net operating cash flows arising from a rapid growth in utility costs that cannot be fully recovered from tenants.

### **Short-Term Options for Addressing Debt Capacity Challenges**

According to TCHC, the only short-term option for improving the DSCR would be to reduce capital maintenance and redevelopment expenditures by deferring these projects.

However, based on the outcome of their most recent building condition assessment, TCHC forecasts that approximately 1,400 housing units will become uninhabitable in the absence of the proposed capital maintenance works.

### **Assessment of Longer-Term TCHC Debt Capacity**

As shown on Figs. 3 & 4 above, TCHC's debt commitments will increase sharply over the next ten years if no senior government funding contributions are forthcoming and TCHC has to fund the full cost of its capital maintenance program. As there will be limited opportunities for further mortgage refinancing, TCHC may have to raise the necessary funding through the issuance of regular debentures. The total new debt accrued over that period would be approximately \$3.1 billion. This will result in a forecast increase in TCHC's annual debt charges from \$127 million in 2016 to over \$300 million in 2025.

In order for the City to provide funding support to TCHC for the repayment of this additional borrowing, a total residential property tax increase of approximately 6% would be required.

### **"Tenants First" Plan - Implementing the Recommendations of the Mayor's Task Force on TCHC**

Long-term financial sustainability was one of the key challenges addressed by the Mayor's Task Force on TCHC, which published its final report in January, 2016. The Task Force noted that they believed that it was possible to solve TCHC's operating deficit through a combination of the following four actions:

- Moving from a 90/10% to a 70/30% ratio of rent-geared-to-income to market rent units
- Reducing utility costs
- Addressing social assistance disparity (i.e. changes in social assistance rent scales, maximum allowable utility cost recoveries etc.)
- Rationalizing community services such as community safety services

In July, 2016, Council directed staff to prepare a plan for implementing a number of key "Transformative Ideas" and recommendations provided by Task Force for TCHC and to provide Council with the financial and budget implications associated with this plan in Q2, 2017. It is anticipated that this plan will incorporate steps for addressing TCHC's operating and capital maintenance funding requirements.

## **CONTACT**

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## **SIGNATURE**

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Deputy City Manager & Chief Financial Officer

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Giuliana Carbone  
Deputy City Manager, Cluster A

## **ATTACHMENTS**

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

Attachment 2: Infrastructure Ontario-TCHC Loan Term Sheet for 180 Sackville St.

Attachment 3: Proposed TCHC Debt Management Policy