Debt Management Policy

Attachment 3

Policy Owner: **Finance**

Approval: Board of Directors

First Approved: TBD

Effective Date: TBD

Policy Statement

This Policy governs the management of Permanent Debt (defined below) that Toronto Community Housing Corporation ("TCHC") borrows, and the limits and conditions thereto.

TCHC is committed to achieving the lowest cost of funds when financing capital expenditure, based upon current capital market conditions. When making decisions regarding the financing of a capital expenditure through the issuance of Permanent Debt, the TCHC Board of Directors must be satisfied that the lowest cost alternative is utilized from a total cost of funds perspective.

This policy is written to allow TCHC to comply with its Master Covenant Agreement, an agreement made amongst its most significant lenders, and with other financing agreements, including those with Infrastructure Ontario.

TCHC seeks to maintain the highest possible credit rating. Whilst TCHC recognizes the external economic, natural or other events may affect its credit rating, it is committed to ensuring that actions within its control are prudent and necessary as they relate to issuance and management of short and long term debt.

Values

- **Equity and diversity**: TCHC is committed to ensuring that its lending will benefit all of its stakeholders in relation to its mission and strategic plan, so as to in turn recognize equity and diversity of its stakeholders.

- **Accessibility**: TCHC will raise financing that will allow it to continue and funding permitted, grow its accessibility capital expenditure programs.
- **Openness and transparency**: TCHC will be transparent, through its financial reporting on a quarterly basis, as well as bringing any additional permanent debt that is within limits as prescribed in this policy for TCHC Board of Directors for approval.
- **Responsiveness:** TCHC will respond to capital risk through prudently raising debt.

Scope

In Scope

- Permanent Debt.

Out of Scope

Temporary Debt.

This Policy applies to all TCHC staff.

1.1:1 Debt Service Coverage Ratio: Represents a ratio of net operating cash flow of a property in the TCHC portfolio or of TCHC in total divided by total debt service costs (principal and interest payments) of either a property or TCHC in total, as applicable;

Capital Budget: The annual capital budget as approved by the TCHC Board of Directors.

Capital Expenditure: An expenditure that is made to either create a new asset or extend the useful life of an asset.

Capital Financing: The utilization of Permanent Debt to fund required costs to fund a capital expenditure.

Construction Liens: Liens placed on an asset under development (a development project) to which TCHC must provide a guarantee on said development project.

Credit Rating: An annual rating provided by a third party (e.g., Standard and Poors) to assess the credit worthiness of TCHC.

Debt Maturities: Relates to the period over which Permanent Debt comes to end of term and must be repaid or refinanced.

Debt Service Costs: The total cash costs of servicing Permanent Debt (include interest and principal repayment).

Fair Market Value of Properties: To be determined by way of appraisal. In the absence of appraisals, to utilize assessment values from the Municipal Property Assessment Corporation ("MPAC").

Interest Derivatives and Interest Rate Hedging: Relate to the practice of utilizing derivative instruments associated with Permanent Debt (e.g., obtaining a pay fixed rate receiving floating rate derivative to convert floating rate debt to fixed debt).

Limited Recourse Liens: means a Lien against any asset or property of TCHC where the holders of the obligations secured by such Lien shall have no recourse to the all other assets of TCHC, in general, but only to the specified assets or property subject to such Lien to satisfy specific obligations.

Master Covenant Agreement ("MCA"): An agreement to which TCHC and its senior lenders are party, to which invokes homogeneous covenants on all TCHC Permanent Debt.

Net Operating Cash Flows: Relate to the net cash flows generated by a property in the TCHC portfolio, being its total operating revenues (including subsidies reasonably allocated to such property) less expenditures.

Normalized Revenue: Revenue adjusted for unusual or one-time occurrence of generated income or loss.

Operating Budget: The annual operating budget as approved by the TCHC Board of Directors.

Secured Lien: Permanent Debt or Temporary Debt that is secured by physical assets or properties of TCHC.

Sinking Fund: Is a fund accumulated over time by an entity in order to fund a repayment of long-term debt or future capital expenses.

Permanent Debt: Financial debt that is long-term in nature with a fixed term for which a financial institution or equivalent is a lender and it is anticipated that TCHC will not repay such debt within a period of three years.

Purchase Money Security Interest ("PMSI"): means any Lien created upon any personal property of a person to secure or securing the whole or any part of the purchase price of such property or the whole or any part of the cost of constructing or installing fixed improvements thereon or to secure or securing the repayment of money borrowed to pay the whole or any part of such purchase price or cost or any vendor's privilege or lien on such assets securing all or any part of such purchase price or cost, including, but not limited to, title retention agreements and capital leases.

Revenue: Income received during the period including all government subsidies and grants. Income includes income from operations as well as investment income. It excludes income from capital transactions. Government grants and subsidies excludes grants and subsidies for capital expenditures.

Temporary Debt: Financial debt that is not long-term in nature with a fixed term for which a financial institution or equivalent is a lender and it is anticipated that TCHC will repay such debt within a period of twenty eight (28) months.

Policy Details

Authority and Accountability

Capital markets require TCHC to have the ability to act on financing opportunities and/or changing market conditions on a timely and efficient basis in order to secure the best pricing and terms. Management will seek approval of the key terms of Permanent Debt issuances from the TCHC Board of Directors, in advance of finalizing the contractual arrangements associated with such Permanent Debt.

Permanent debt to be used only for Capital Financing

TCHC will not issue permanent debt obligations or use permanent debt proceeds to finance its operating budget.

TCHC will utilize debt for the acquisition, construction, renovating, repairing or remodeling of capital projects where the project cannot be funded from current operating revenues or other sources, and where the Chief Financial Officer and Treasurer considers it to be financially prudent to finance the project over the useful life of the asset.

This Policy assumes that TCHC will not grow its unit count significantly. If this assumption changes, this Policy may need to be revised.

Capital Financing From the Operating Budget

If economically feasible and determined to be prudent, TCHC will allocate funds from its operating budget to fund capital expenditures on an annual basis, which will have the effect of reducing the amount of required financing for capital expenditures.

Debt Limits

TCHC will ensure the ratio of: Secured Lien divided by Fair Market Value of Properties (excluding Construction Liens, Limited Recourse Liens, Purchase Money Security Interest, and Temporary Debt) is kept at 30% or less at all times. Secured liens represent debt that is secured by physical assets or properties of TCHC.

TCHC will adhere a maximum provision of $100 Million Construction Liens having a term not exceeding twenty eight (28) months. This means that at no point in time can TCHC guarantee more than $100 Million in utilized or drawn down financing that has Construction Liens to support any real estate projects undergoing construction or development.

Provided that TCHC will prudently enter into Permanent Debt for mortgages on properties, that it will need to demonstrate being able to achieve at least a 1.1 is to 1.0 Debt Service Coverage Ratio ("DSCR") which is an industry condition. This ratio is calculated as:

$$\frac{\text{Net Operating Cash Flows of the properties being refinanced or of TCHC in Total}}{\text{Debt Service Costs (interest and principal repayments) of either the Property or TCHC in Total}}$$

The debt limits are subject to various factors such as the debt requirements in the capital budget, new projects that may not be included in the approved capital budget but arise through unforeseen events, spending rates that affect capital project completion, the amount of unfinanced capital, and capital market conditions such as the level of interest rates.

Short-term Borrowing for Capital Purposes

Since it is TCHC's practice to temporarily finance its capital expenditures from working capital (or usage of Temporary Debt) until it acquires Permanent Debt, there are occasions when TCHC must borrow funds to finance working capital obligations on a short-term basis.

TCHC will enter into such short-term arrangements or utilize its line of credit to fund such short-term requirements. The short-term debt or Temporary Debt in question is not considered in the debt limit considerations discussed previously.

Credit Ratings

TCHC seeks to maintain the highest possible credit rating that can be achieved without compromising the delivery of services and programs through the adoption of prudent budgets and this debt management policy.

TCHC believes that it enhances its ability to issue debt in the global capital markets when the lowest cost of funds is achievable by being rated by an accredited rating agency, and provides greater assurances to its existing or prospective lenders of its credit worthiness.

TCHC recognizes that its credit rating is significantly influenced by the City of Toronto's support of its debt issuances, through such means as acting as a guarantor, approving such debt, and overall, its continued support. Garnering such City of Toronto support allows for lower debt service costs (through lower interest rates when it acts as an explicit or implicit guarantor). In this respect, TCHC Management will proactively ensure the City of Toronto's Chief Financial Officer is apprised of material debt management matters as such new debt issuances arise.

Long-term Financial Planning

To enhance the credit rating and prudent financial management, TCHC will conduct long-term financial planning that will disclose the amount of debt and its projected cost that will be required to finance capital expenditures over multiple years.

Debt Service Cost

Debt Service Cost will be funded from a combination of current period revenue, short-term borrowings including utilization of TCHC's line of credit, income from Investments, and through mortgages.

Sinking Fund

A Sinking Fund for any issued TCHC unsecured debenture will be established with an adequate financial plan to ensure that it can fully fund repayment upon maturity. A Sinking Fund may be funded by the City of Toronto subsidies restricted for this purpose, investment income as allocated under its Investment

Policy Statement, and through the adherence of maintaining residential properties originally funded by the unsecured debenture (allocated for such properties) to remain unencumbered; as a matter of fiscal prudence, excluding for greater certainty, commercial properties as a component and part of the property.

Debt Maturities

The allowable maximum term for debt issuance is 50 years or the useful economic life of the associated asset, whichever is less.

Debt Structures

Debt should be structured to achieve the lowest net cost of funds, given the constraint of debt maturities and current capital market conditions. To the extent possible, TCHC will structure its debt obligations to require repayment as soon as feasible so as to recapture its borrowing capacity for future use and minimize costs where possible.

Interest Derivatives and Interest Rate Hedging

TCHC will enter into interest derivatives and interest rate hedging on permanent debt when there are instances where it is deemed reasonable and prudent, and will bring such interest derivatives and interest rate hedging associated with such permanent financing to the TCHC Board of Director for approval.

Accessing Capital Financing Programs Offered by Other Levels of Government

When evaluating whether to participate in a loan or debt program being offered by the federal or provincial levels of government, the interest rate and terms will be compared to the City of Toronto’s all in cost of borrowing and the program must provide a competitive or lower cost of funds and correspondingly, competitive terms, in order to be considered. To the extent it is not competitive, additional strategic and feasibility considerations may be considered on an exceptional basis.

Monitoring and Compliance

TCHC is not subject to any legislation that explicitly provides for limits on debt and as per the Shareholder Direction, must seek City of Toronto's approval for any new debt.

The debt limits as indicated in this policy are as prescribed in external covenant agreements with lenders. As part of its financial reporting audit process, TCHC must report annually to its lenders that it is in compliance with covenants in those agreements. Continuing to provide such covenant compliance certificates will ensure adherence to this policy.

Related Policies and Procedures

Investment Policy Statement

Commencement and Review

Revision	Date	Description of changes	Approval
First approval:	TBD	New	Board of Directors
Revision #		n/a	
Last review:		n/a	

Next Scheduled Review Date: Two (2) years from last review date.