

City Funding Request for Regent Park Phase 3 - Rental Blocks 16 North and 17 North

Date: January 17, 2017

To: Budget Committee

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

Wards: All

SUMMARY

Toronto City Council first approved Toronto Community Housing Corporation's (TCHC) plan for the revitalization of Regent Park at its meeting in July 2003. This large scale initiative envisioned the replacement of over 2,000 ageing social housing units together with a mix of approximately 2,800 market units as a catalyst for the transformation of the neighbourhood and social inclusion. This revitalization would be staged over many years and phases.

The original business model for social housing revitalization was premised on developing market housing alongside social housing creating a mixed use community. Proceeds from sales of market housing, together with operating and capital maintenance savings and City contributions towards infrastructure, were expected to fund the revitalization in large part.

After substantial completion of the first two phases, the funding model has fallen short of its initial projections. According to TCHC, delays in timing of sales of market housing resulted in delays in the social housing redevelopment. Additional unexpected costs have arisen and costs in general have also increased. TCHC now requires additional funding from the City to take on more debt to complete the next phases of the revitalization project and return relocated tenants in a timely manner.

Blocks 16 North and 17 North are a component of Phase 3, consisting of 181 and 158 replacement units, respectively. According to TCHC, the unfunded costs for these projects are \$55.4 million and \$42.4 million, respectively, and a further \$9.9 million is required to complete the municipal infrastructure and site servicing requirements (\$107.7 million in total).

This report responds to a resolution of TCHC's Board of Directors that development of these projects be contingent on TCHC obtaining debt financing paid for by the City (or other levels of government). By agreeing to this request, City Council will be committing to \$107.7 million capital project with \$101.7 million in new indebtedness. A capital

contribution of \$6 million will be required in 2017, and payments of \$6 million annually thereafter for 30 years to repay the debt financing for these projects.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer and Deputy City Manager Cluster A recommends that:

1. City Council, in its capacity as Shareholder of Toronto Community Housing Corporation (TCHC):
 - a. approve, pursuant to subsection 7.4.1(a) of its Shareholder Direction, TCHC incurring additional indebtedness of up to \$101.7 million to fund the construction of rental blocks 16 North and 17 North as well as the costs associated with servicing and site works for Phase 3 of the Regent Park Revitalization (the "Loans"); and
 - b. 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 its lender(s) which will provide for an amended City guarantee for the payment of all periodic principal and interest payments payable by TCHC to its lender(s) for the Loans 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. direct the General Manager, Shelter, Support and Housing Administration to increase the Service Manager's subsidy to TCHC by the amount necessary to:
 - (i) make a \$6.0 million capital contribution to TCHC in 2017 towards the unfunded costs associated with Phase 3 of the Regent Park Revitalization; and
 - (ii) fund all periodic principal and interest payments payable by TCHC to its lenders for the loans for the balance of the unfunded capital costs, in an amount not to exceed \$6.0 million annually commencing in 2018 and for a term not to exceed 30 years; and
 - b. authorize the Deputy City Manager & Chief Financial Officer or his delegate to execute on behalf of the City its consent to lender security over the additional City subsidies authorized by the adoption of Recommendation 3 and all such other notices, consents, authorizations, approvals and agreements on behalf of the City in order to facilitate the transactions authorized by the adoption of these recommendations, on terms and conditions satisfactory to the Deputy City Manager & Chief Financial Officer or his delegate and in a form approved by the City Solicitor.

4. City Council:
 - a. increase the Shelter, Support and Housing Administration 2017 Operating Budget by the amount identified in Recommendation 3; and
 - b. fund the required project through a \$6.0 million direct capital contribution in 2017 and \$6.0 million in annual debt repayments thereafter, from increased MLTT revenues within the 2017 City Budget, with such funds raised to be allocated to the Shelter, Support and Housing Administration Operating Budget commencing in 2017 and for the following 30 years to fund the amount identified in Recommendation 3.

FINANCIAL IMPACT

TCHC has experienced significant challenges since its creation in 2002 through the amalgamation of a number of housing entities: CityHome, Metro Toronto Housing Company Limited and Metro Toronto Housing Authority. Financial issues have been growing over time due to a number of reasons including a funding model that is not sustainable, a significant state of good repair backlog, and a development/revitalization program that has fallen short of projections.

These issues and challenges are best summarized in the July 2016 report headed "Tenants First: A Way Forward for Toronto Community Housing and Social Housing in Toronto". <http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-94222.pdf>

During consideration of this above report, City Council directed staff to develop an implementation plan and report in Q2-2017 on a longer-term solution for TCHC's fiscal sustainability with recommendations for Council's consideration including financial and budget implications. Commencing construction of Blocks 16N and 17N is an urgent matter that needs to be considered in advance of this forthcoming report and needs to be considered within the 2017 City Budget.

Blocks 16N and 17N Funding Support Request

Phase 3 of the Regent Park Revitalization is currently projected to cost \$260.4 million, and which will see the replacement of 637 social housing units in four buildings, addition of new rental affordable housing, creation of a new 2.8 acre regional City athletic field, refurbishment of a skating rink, and new City roads and sidewalks. Blocks 27 and 28 are currently under construction.

TCHC is advising of a \$107.7 million funding shortfall for the remaining work for Phase 3 of the Regent Park Revitalization. The majority of this amount (\$97.8 million) is for construction of two rental buildings - \$55.4 million for the construction of 181 units in Block 16 North, and \$42.4 million for the construction of 158 units in Block 17 North. An additional \$9.9 million is also required for the remaining unfunded costs associated with

site works and municipal infrastructure. A summary of the construction costs for Phase 3 along with the funding sources is shown in Table 1.

TCHC will use its existing Credit Facility for construction financing and upon substantial completion will obtain take-out debt financing which will require repayments of approximately \$6.3 million annually for 30 years, to be funded by a commensurate increase in the City's subsidy to TCHC.

TCHC is seeking: (i) City Council approval to allow it to take on the additional indebtedness; and (ii) an increase in the City's subsidy to TCHC to pay for the debt servicing costs.

This report recommends that City Council approve this additional indebtedness, and fund the project through higher than expected MLTT revenues which have recently been identified in the 2017 City Budget, and specifically, provide \$6 million in 2017 as a direct capital contribution, reducing the amount of debt financing, and provide \$6 million annually in debt-service support to fund the increase in its subsidy to TCHC for the following 30 years.

Table 1. Phase 3 Business Plan	Block 16N 181 units	Block 17N 158 units	Block 27 276 units	Block 28 22 units	Municipal Infrastructure roads, services, park)	Site Works (demolition, remediation)	Development Costs , relocation, master planning)	Total
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Costs								
Costs (hard and soft costs)	54,489,875	46,463,660	75,859,489	7,004,792	21,139,495	46,625,452	4,400,000	255,982,763
Non-refundable HST	959,006	817,760	1,335,126	123,284	372,055	820,608	-	4,427,839
Sub-total	55,448,881	47,281,420	77,194,615	7,128,076	21,511,550	47,446,060	4,400,000	260,410,602
Funding Sources								
Affordable Rental Funding	-	4,910,000	13,510,000	-	-	-	-	18,420,000
City grants (site servicing, park)	-	-	-	-	7,328,147	-	-	7,328,147
Provincial grants (remediation)	-	-	-	-	-	30,749,260	-	30,749,260
Private grants (MLSE)	-	-	-	-	2,241,771	-	-	2,241,771
Market land sale proceeds	-	-	63,684,615	7,128,076	9,394,000	9,394,000	4,400,000	94,000,691
Sub-total	0	4,910,000	77,194,615	7,128,076	18,963,918	40,143,260	4,400,000	152,739,869
Remaining Shortfall	55,448,881	42,371,420	0	0	2,547,632	7,302,800	0	107,670,733

Total Financing:	
Direct Capital Contribution	6,000,000
New Debt	101,670,733
Total	107,670,733

The requested funding does not include any requested funds for Phases 4 & 5 of the Regent Park revitalization, which will be subject to a future business plan to be presented in late 2017. TCHC advises the preliminary estimate of the funding shortfall for Phases 4 & 5 is \$182 million. TCHC also advises of a potential funding shortfall of a further \$100+ million for the other approved revitalization projects, primarily related to the Lawrence Heights revitalization.

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

DECISION HISTORY

The decision history related to the Regent Park revitalization is lengthy. A few key decision reports are noted below.

City Council first considered the revitalization of Regent Park at its meeting of July 22-24, 2003. In that report, in its role as sole shareholder of TCHC, Council approved the principle of revitalizing the Regent Park community and directed staff to take a number of actions to plan for Regent Park's revitalization, including the setting up of a senior interdepartmental staff team to coordinate the development review and consideration of the TCHC redevelopment proposal.

<http://www.toronto.ca/legdocs/2003/agendas/council/cc030722/pof8rpt/cl002.pdf>

In 2008, the City and TCHC structured a 60/40 cost sharing arrangement for the delivery of hard infrastructure within the Regent Park redevelopment area. This was achieved via Council's adoption of the 2009 Capital Budget and the 2010-2018 Capital Plan.

On March 20, 2014, City Council considered the re-phasing of phases 2 to 5, and to update the budget estimates and cost assumptions.

<http://www.toronto.ca/legdocs/mmis/2014/te/bgrd/backgroundfile-66817.pdf>

Most recently, City Council considered the report "Tenants First: A Way Forward for Toronto Community Housing and Social Housing in Toronto", dated July 2016, which directed staff to develop an implementation plan and report in Q2-2017 on a longer-term solution for TCHC's fiscal sustainability with recommendations for Council's consideration including financial and budget implications.

<http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-94222.pdf>

COMMENTS

Site work for the Regent Park Revitalization Project began in 2007 and required 821 households to be relocated during Phases 1 and 2 while their existing rental units were demolished and replaced with new rental replacement units. Relocated families were advised by TCHC that they would have a right to a new unit when buildings were completed. Currently, approximately 400 displaced residents are waiting to return to Regent Park from Phases 1, 2 and 3 and another 100 families waiting to begin the relocation process to permit the demolition of the final two buildings in Phase 3.

In October 2014, TCHC presented their Phase 3 Anchor Business Plan (ABP). The revitalization objectives remained the same. The Phase 3 ABP outlined a TCHC Board-approved change in development strategy that would see TCHC exit its partnership with Daniels in the market component of development, and instead, sell Daniels serviced sites and use the proceeds to fund replacement social housing.

This new arrangement would reduce TCHC's exposure to market risk by securing land value upfront, and with funding in hand, allow TCHC to set its own timelines for the

development of the social housing component. However, this reduced risk arrangement also reduced the projected returns for TCHC, possibly contributing to a funding gap/debt requirement estimated at that time of \$120 million for Phase 3.

Rental Block 16 North and 17 North ABP

The 2014 ABP included an estimated cost of \$55.6 million for Block 16 and Block 16 North and an estimated cost of \$40.9 million for Block 17 North. The program for Block 17 North was subsequently adjusted upward to \$47 million with the inclusion of a higher number of units, higher construction costs due to a lower Canadian dollar, and increased project specifications due to the introduction of new TCHC Accessibility standards.

Part of the increase in cost of Block 17 will be offset by \$4.91 million in funding from the federal-provincial Investment in Affordable Housing (2014) Extension (IAH-E) program. The funding is for 33 affordable homes for families comprised of 8 – two bedroom homes and 25 – three bedroom homes. Rents will be set at 80% of average market rent. This will contribute to creating a healthy, mixed income community in Regent Park. The IAH-E program guidelines require that construction must start by April 21, 2017, 120 days from the execution of the Contribution Agreement or the Ministry may, at its discretion, withdraw and re-allocate the program funding. This in part contributes to the urgency in the City approving TCHC's request to incur additional indebtedness to complete Phase 3.

TCHC's 10-Year Revitalization Development Program

Attachment 1 to this report provides a summary of TCHC's 2016-2025 Development Program forecast for the six approved revitalization projects (and other associated development spending). The replacement cost of the subsidized housing is estimated at close to \$1.1 billion. The current estimated 10-year funding shortfall for these revitalization projects is \$293 million (inclusive of the current funding support request of \$107.7 million for Blocks 16 North and 17 North). This also includes a projected funding shortfall of \$182 million for Phases 4 & 5 of the Regent Park revitalization. The post 10-year plan shows an additional funding shortfall of \$100+ million, primarily related to the Lawrence Heights revitalization.

It should be noted that City Council has previously agreed to providing municipal infrastructure support (transportation and water works) in a 60%/40% City/TCHC sharing arrangement for Regent Park, at an estimated City contribution cost of approximately \$11 million, and at 100% for Lawrence Heights, at an estimated City contribution cost of approximately \$133 million.

TCHC Operating Budget Pressures and SOGR Backlog

In addition to the development/revitalization pressures, TCHC faces other financial pressures as a result of a growing operating budget shortfall due to flat revenues with rising operations costs and growing capital maintenance backlog. These other pressures severely constrain TCHC's ability to provide funding for the development program through its operating budget or by taking on additional debt.

As a result of a combination of static revenues and rapidly increasing operating costs, TCHC's annual operating budget pressures are expected to grow from the 2017 opening pressure of \$103 million to approximately \$261 million by 2025.

The TCHC Ten Year Capital Financing Plan adopted by Council in 2013 identified an estimated capital maintenance funding requirement of \$2.6 billion over a ten year period. The Plan proposed that the funding be supported equally by the three levels of government. In the absence of federal and provincial funding support, TCHC and the City have provided funding through measures such as refinancing of mortgages, property tax exemptions, TCHC operating budget allocations and providing an allocation from the City's Development Charge Reserve Fund. The City's funding to date has increased from an original 1/3 allocation of \$864 million to a current level of \$968 million. This amount is expected 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.

However, additional borrowing to fund the remaining balance of the capital maintenance backlog cannot be accommodated within the City's debt targets given the City's own limitations on debt servicing costs.

City Council, during consideration of the City's Immediate and Longer-Term Revenue Strategy in December 2016, identified several revenue options and tools, which if adopted, could in the longer term provide sustainable funding to make progress on addressing the extensive capital repair program for TCHC.

Tenants First: A Way Forward for Toronto Community Housing

As previously noted, during consideration of the above headed report in July 2016, City Council directed staff to develop an implementation plan and report in Q2-2017 on a longer-term solution for TCHC's fiscal sustainability with recommendations for Council's consideration including financial and budget implications.

CONTACT

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SIGNATURE

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ATTACHMENT

Attachment 1: TCHC's 10 Year Development Plan

Attachment 1 - TCHC's 10 Year Development Plan

TCH Development Forecast												
Amount in \$000's	(Forecast) 2016	(Forecast) 2017	(Forecast) 2018	(Forecast) 2019	(Forecast) 2020	(Forecast) 2021	(Forecast) 2022	(Forecast) 2023	(Forecast) 2024	(Forecast) 2025	Grand Total	
Rental replacement costs												
Regent Park Phase 2 and 3	59,367	115,025	75,804	22,131	1,829	-	-	-	-	-	274,156	
Regent Park Phase 4 and 5	-	-	-	325	3,786	36,786	77,381	20,743	18,017	36,837	193,873	
Lawrence Heights Phase 1	5,409	22,439	49,913	17,785	16,083	230	-	-	-	-	111,858	
Lawrence Heights Phase 2 to 4	-	-	-	46,166	13,549	9,174	9,427	9,686	9,952	33,230	131,184	
Alexandra Park	13,414	9,008	1,235	18,499	28,978	21,067	29,068	24,118	6,059	502	151,948	
Railway Lands	-	-	-	-	-	-	-	-	-	-	-	
Don Summerville	83	1,450	-	-	-	-	-	-	-	-	1,533	
New Development	1,500	2,000	-	-	-	-	-	-	-	-	3,500	
250 Davenport	11,544	4,081	333	333	111	-	-	-	-	-	16,403	
Allenbury Gardens	3,693	6,714	13,261	9,701	457	2	-	-	-	-	33,829	
Leslie Nymark	1,196	6,317	36,747	2,425	714	32	-	-	-	-	47,432	
	96,206	167,033	177,294	117,366	65,509	67,291	115,875	54,547	34,028	70,569	965,716	
											-	
Departmental Costs Capitalized	8,367	7,770	8,003	8,243	8,490	8,745	9,008	9,278	9,556	9,843	87,303	
Loan Interest Capitalized	349	349	349	349	349	349	349	349	349	349	3,490	
Development Costs	8,716	8,119	8,352	8,592	8,839	9,094	9,357	9,627	9,905	10,192	90,793	
											-	
Market equity investment											0	
Regent Park Phase 2	915	-	-	-	-	-	-	-	-	-	915	
Allenbury Gardens	8,330	3,037	2,433	1,583	-	-	-	-	-	-	15,383	
Leslie Nymark	1,656	5,859	2,861	477	-	-	-	-	-	-	10,853	
	10,900	8,896	5,294	2,060	-	-	-	-	-	-	27,150	
											0	
Development capital funding sources											0	
Equity Return	(14,565)	(9,942)	-	-	(5,392)	(5,040)	-	-	-	-	(34,939)	
Land sale	(29,067)	(34,752)	(20,143)	(54,266)	(85,168)	(77,850)	(23,769)	(32,899)	(31,835)	(25,761)	(415,510)	
Market condo profits	(994)	(13,492)	(16,394)	(18,665)	(33,381)	(20,529)	(7,238)	(19,316)	(1,803)	(15,923)	(147,734)	
Funding from City of Toronto	(6,570)	(4,076)	(15,800)	(17,901)	(18,792)	(14,583)	(11,978)	(11,444)	(15,575)	(21,183)	(137,903)	
Funding from Province of Ontario	(9,992)	(18,794)	(1,911)	(851)	(3,020)	-	-	-	-	-	(34,568)	
Affordable Housing Program	-	(12,623)	(3,705)	-	-	-	-	-	-	-	(16,328)	
Private and other funding*	(242)	-	-	-	-	-	(939)	(1,609)	-	-	(2,789)	
	(61,429)	(93,678)	(57,953)	(91,683)	(145,752)	(118,003)	(42,985)	(64,597)	(50,822)	(62,867)	(789,769)	
											0	
Net capital shortfall (excess)	54,392	90,371	132,987	36,335	(71,404)	(41,618)	82,247	(424)	(6,889)	17,893	293,890	