

2018 TCHC Mortgage Refinancing

Date: July 3, 2018
To: Executive Committee
From: Interim Chief Financial Officer
Wards: All

SUMMARY

This report recommends that Council:

1. Approve a proposal developed by TCHC and Ontario Infrastructure and Lands Corporation ("IO") which would result in the refinancing of seven TCHC properties and the mortgaging of an eighth property not currently mortgaged.
2. Approve the extension for one year of the City's guarantee for the repayment of principal and interest of the 5-year mortgages originally taken out in 2013 for two further TCHC properties (to allow time for the long term refinancing of these two properties to be established in 2019).

TCHC has used its line of credit to pay out the remaining \$19.3 million balance on the original mortgages for the first group of properties upon their renewal dates in 2017. At that time there was an opportunity to take advantage of Canada Mortgage and Housing Corporation's prepayment program to extinguish two of the high-interest-rate mortgages without paying any penalties. Subsequently, mortgage-refinancing terms for these properties have been finalized with Infrastructure Ontario.

The proposed refinancing of the first group of properties will generate \$76.5 million in financing, of which \$19.3 million will be used to replenish TCHC's line of credit. The balance of the financing will be used to fund urgent and high priority capital repair and maintenance at the eight properties (\$9.3 million) and on the broader TCHC portfolio of buildings (\$47.9 million).

This 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 7 properties for a new 30-year mortgage term. The extended mortgage subsidy funding has a total nominal value of \$76.2 million and a present value of \$41.6 million.

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

City Council previously approved loan repayment guarantees for the second group of properties in 2013 (EX29.2). TCHC took out 5-year loans, rather than long-term mortgages, when refinancing these properties in 2013 because of the expectation that these properties would be redeveloped or sold. These short-term loans will need to be renewed in November 2018.

It is anticipated that the permanent refinancing of these properties will be achieved in early 2019. TCHC will seek temporary financing for the interim period. This report recommends that the City's current guarantee of the repayment of principal and interest for the loans on these two properties be extended for one year to facilitate this temporary financing.

This report has been prepared in consultation with staff from the Shelter, Support and Housing Administration and TCHC.

RECOMMENDATIONS

The Interim Chief Financial Officer recommends 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 substantially in the form attached as Attachment 2 to this report (the Term Sheet) between TCHC as "Borrower" and IO as "Lender" for refinancing totalling \$76.5 million in order to address the renewal of 7 TCHC mortgages and the mortgaging of a further property ("Mortgaged Properties") totalling \$19.3 million, as well as obtaining incremental financing of \$57.2 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 well as capital repair and maintenance work in TCHC's portfolio of residential properties as allocated by the Lender in Appendices 2 and 3 (the "Cap-Ex Reserve Funds") of the Term Sheet;
 - c. Authorize the Interim 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, 2016, 2017, and 2018 financing agreements on conditions satisfactory to the Interim Chief Financial Officer and in a form approved by the City Solicitor; and
 - d. Approve the extension of TCHC's mortgage subsidy for the seven refinanced properties, based on the current monthly mortgage payment, until the end of 2048.

2. City Council approve the extension for one year of the City's guarantee for the repayment of principal and interest of the mortgages originally taken out in 2013 for two TCHC properties at 931 Yonge St. and 679 Queen's Quay (to allow for the long-term refinancing of these two properties to be established).

3. Subject to the satisfaction of the foregoing conditions, City Council authorize the Interim Chief Financial Officer or his delegate to execute on behalf of the shareholder

a. Amendments to the agreements among the City, TCHC and IO which will provide for:

i) City consent to the amended terms and conditions of Term Loan No. 1 described in the financing agreement between TCHC and IO dated October 18, 2013; and

ii) An amended City guarantee for the repayment of all principal and interest payable by TCHC to IO under the amended terms and conditions of Term Loan No. 1; on terms and conditions satisfactory to the Interim Chief Financial Officer or his delegate and in a form approved by the City Solicitor; or

b. A City guarantee for the repayment of all principal and interest payable by TCHC to an alternative lender under the terms and conditions of a refinancing of Term Loan No. 1 on terms and conditions satisfactory to the Interim Chief Financial Officer or his delegate and in a form approved by the City Solicitor.

4. City Council deem the foregoing guarantees to be in the interests of the City.

5. City Council, authorize the General Manager, Shelter, Support, and Housing Administration to:

a. Provide such Service Manager consents under the Housing Services Act, 2011 (the HSA) as are necessary to authorize the mortgage security to be provided to IO or other lender to secure all of the foregoing loans;

b. 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 attached Term Sheet; and

c. Provide the necessary notice to the Minister of Municipal Affairs and Housing pursuant to Section 163 of the HSA.

6. 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.

7. City Council authorize the City Manager or the Interim Chief Financial Officer or his delegate 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

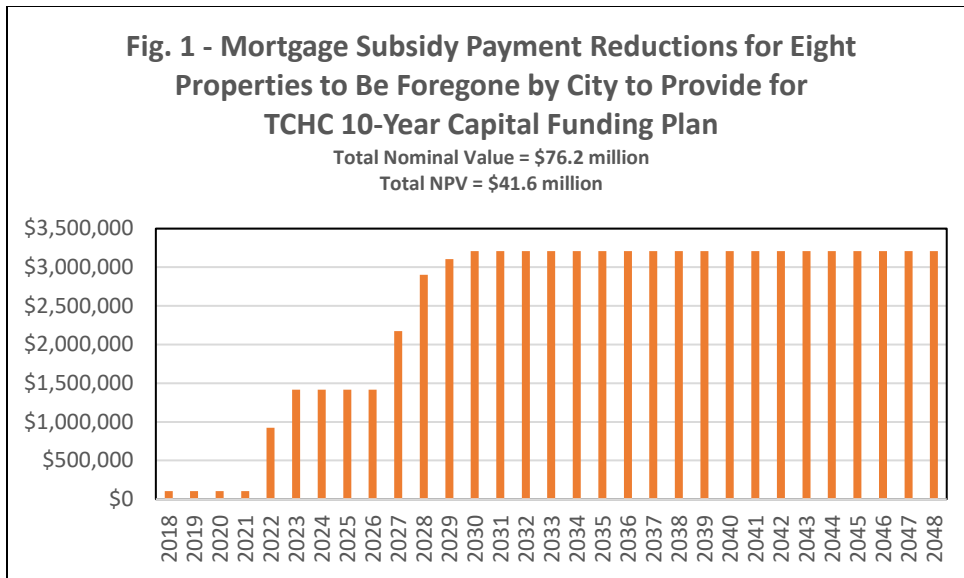
Financing of Eight Properties According to Attached Terms Negotiated with Infrastructure Ontario

TCHC has negotiated refinancing terms with Ontario Infrastructure and Lands Corporation ("IO") that will result in a new 30-year term for seven mortgages that TCHC extinguished at their renewal dates in 2017 and a new mortgage for an eighth property not previously mortgaged. The existing mortgages had an outstanding balance of \$19.3 million and an average interest rate of approximately 3.8%.

The new mortgages with IO will benefit from the lower interest rates that prevail today. By extending the repayment term, TCHC will be able to raise the \$19.3 million required to replenish its line of credit as well as a further \$57.2 million in funding that will be used for capital maintenance work on the eight properties (\$9.3 million) and TCHC's portfolio of residential properties (\$47.9 million).

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 2048.

As detailed in Attachment 1, 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 \$0.1 million in 2018 to a high of \$3.2 million in years 2030 through 2048. 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 \$76.2 million and a present value of \$41.6 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.

One-Year Extension of City Repayment Guarantee for Loans on Two TCHC Properties in late 2018

The extension of the repayment guarantees for these two properties will not result in an immediate financial impact on the City. A long-term financing strategy for these properties and others will be brought forward early in 2019, and could involve IO, or City debt, whichever is determined to be most advantageous at that time.

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>

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>

At its meeting of December 13, 14 & 15, 2016 Executive Committee adopted the proposed terms for:

- Refinancing totalling \$310 million in order to address the renewal of 32 Toronto Community Housing Corporation mortgages totalling \$93.6 million, as well as obtaining incremental financing of \$216 million
- Financing a \$10 million loan on a property located at 180 Sackville St.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.15>

COMMENTS

TCHC Ten-Year Capital Plan

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.

Although the Federal and Provincial governments have not made funding commitments that correspond to a 2/3 share of TCHC's 10-Year Capital Plan needs, they have announced a number of programs that will provide funding support for capital improvements at TCHC buildings. The Province, for instance, is expected to provide funding for energy efficiency improvements through the Ontario Green Fund.

In addition, it is anticipated that the City will also receive support through the Federal government's National Housing Strategy. On a countrywide basis the National Housing Strategy commits \$40 billion in spending over ten years (including matching funds from other orders of government). Program details are still forthcoming but this includes approximately \$22 billion available through the Co-Investment Fund and the Community Housing Initiative components. These components include low-interest loans and capital contributions, which will provide TCHC with opportunities to access to capital for both repairs and new construction from these components of the strategy.

TCHC Debt Management Policy

In addition to reporting on proposed mortgage refinancing, the December 2016 staff report (EX20.15) also presented the proposed TCHC Debt Management Policy.

The report indicated that TCHC would, based on its Operating Budget Forecast, fall below the minimum Debt Service Coverage Ratio established in the Policy in 2018 primarily because of the rapid growth in utility costs and TCHC's very limited ability to recover these increased costs from tenants.

However, the report still recommended that Council approve the proposed 2016 mortgage refinancing in order to allow TCHC to fund the capital maintenance works necessary to avoid the near-term closure of units and to satisfy the City's mandated requirement to maintain a minimum stock of rent-geared-to-income housing units.

The report emphasized 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.

Tenants First – Phase 1 Implementation Plan

In response to the June, 2017 report on the Tenants First Phase 1 Implementation Plan (EX26.2), Council directed staff to develop a sustainable permanent funding model for TCHC and this work is underway. The May, 2018 staff report on Implementing Tenants First (EX34.3) indicated that the City may have to fund the current wave of capital

repairs facing TCHC separately from the permanent funding model and that these funding requirements may not be fully accommodated within the City's debt ceiling.

Additional City Budget Funding Support

Through the City's 2017 Budget process, \$37.2 million was added to TCHC's operating subsidy to address pressures such as the increase in utility costs which were adversely impacting TCHC's debt service coverage ratio.

In addition, as part of the 2018 Budget the City has committed to provide \$200 million in debt funding to TCHC in 2018 (\$160 million) and 2019 (\$40 million) to address capital maintenance needs in order to avoid potential unit closures.

2018 TCHC Capital Maintenance Program

In 2018 TCHC has budgeted for \$300 million in capital maintenance work on its building portfolio. \$160 million of this amount will be funded through the City budget allocation discussed above.

TCHC has indicated that the balance of the required funding will be generated through the proposed \$76.5 million mortgage refinancing and from draws on TCHC reserves.

Proposed Refinancing

Financing of Eight Properties According to Attached Terms Negotiated with Infrastructure Ontario

TCHC has negotiated proposed terms with IO for the refinancing of the seven properties for which TCHC extinguished the original mortgages in 2017 and for the mortgaging of an eighth property not previously mortgaged. Based on a detailed, updated assessment of these buildings and their associated revenues, IO and TCHC have determined that a total amount of \$76.5 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

\$19.3 million of the total mortgage refinancing will replenish the TCHC line of credit used to pay out existing mortgages on the seven 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, \$9.3 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 Funding for the Capital Repair Backlog

The remaining \$47.9 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.

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 the rent-g geared-to-income (RGI) subsidy annually inflated by provincial cost indices. Mortgages, property taxes, and rent supplement funding are provided at actual costs.

Upon approval by Council of the recommendations in this report, the City will extend the mortgage subsidy for the seven identified properties, based on the current monthly mortgage costs, to the end of 2048. 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, TCHC, 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 eight properties.

This report also recommends that the City's current guarantee of the repayment of principal and interest for the loans on 931 Yonge St. and 679 Queen's Quay be extended for one year to facilitate TCHC's ability to secure temporary financing until permanent financing can be implemented.

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 consent 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 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):

- 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.
- Ability to lock-in at low interest rates and equivalent amortization periods of 30 years.
- IO is a unique lender as 30 year terms are not available through OCFRP.
- 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.

Future Direction in TCHC Financing

As discussed above, in 2018 \$160 million of funding for TCHC capital maintenance expenditures was provided through a City budget allocation. It is anticipated that a substantial portion of TCHC's capital maintenance needs will once again be funded through the City Budget in 2019. This approach will take advantage of the City's low cost of capital.

Mortgage refinancing through IO may also continue to be used in the future to generate funds for TCHC capital maintenance. TCHC and City staff will be negotiating with IO in order to ensure that interest rates on this financing are comparable to the interest rates realized on City of Toronto debenture debt.

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SIGNATURE

Joe Farag
Interim Chief Financial Officer

ATTACHMENTS

Attachment #1 - Summary of Existing Mortgage Subsidies for Properties Being Refinanced

Attachment #2 - IO Term Sheet for Proposed Refinancing

Attachment #1 - Summary of Existing Mortgage Subsidies for Properties Being Refinanced

ATTACHMENT #1				
ADDITIONAL MORTGAGE SUBSIDY FUNDING COMMITMENT BY PROPERTY				
Address	Annual City Funding for Mortgage Debt	Original Mortgage Maturity Date	Additional Years Mortgage Debt Servicing	Total Additional City Funding For Mortgage Debt (\$)
98 Cavell Ave.	568,102	2027	21	12,450,924
7 Coatsworth Cr.	308,424	2029	19	6,065,672
68 Walpole Ave.	625,404	2022	26	16,677,440
17-55 Bishop Tutu Blvd.	687,270	2022	26	18,269,928
790,800, 840 Eglinton Ave.	562,181	2027	21	11,805,801
102 Tyndall Ave.	353,365	2027	21	7,656,241
5-11 Wakunda Pl.	104,267	2017	31	3,232,277
3171, 3181 Eglinton Ave.	-	NA	NA	-
Totals:	\$ 3,209,013			\$ 76,158,282.7