

Moving Forward Together: Opportunities to Address Broader City Priorities in TCHC Revitalizations

Date: March 28, 2019
To: Board of Directors of Toronto Community Housing Corporation and Audit Committee
From: Auditor General
Wards: All

SUMMARY

This report presents the results of the Auditor General's audit of the redevelopment and revitalization activities of the Toronto Community Housing Corporation (TCHC). The objective of this audit was to evaluate the extent to which TCHC's revitalization program addresses the challenges of providing public social housing and contributes to city-building priorities.

TCHC revitalization initiatives are a significant undertaking. They offer the chance to plan and build a community starting from the ground up. The City and TCHC need to strategically align their priorities and desired outcomes for revitalizations and support their achievement with an adequate funding plan. This will not only ensure that existing social housing is replaced, but can also more effectively address other city-building priorities, such as increasing the supply of affordable housing.

The issues and recommendations discussed in this report can be categorized into three broad themes:

1. The City has an opportunity to address its key priorities within TCHC revitalizations, such as increasing the supply of affordable housing. Successfully addressing multiple city-building objectives through site redevelopment requires the City to coordinate key priorities, raise the visibility of the funding issues and ensure there is a plan to achieve overall desired outcomes. To do this, a broader, more integrated approach for the City as a whole – not for TCHC alone – is needed.
2. In recommending revitalization priorities and establishing funding strategies, TCHC and the City should work together to create a formal development strategy. They should also establish ways to measure the outcome-focused goals to be set out in the strategy and evaluate and report on outcomes achieved for each revitalization phase. Given the significant financial pressures it is facing, TCHC can support ongoing oversight and raise the visibility of the funding required from City Council and others by enhancing the transparency and timeliness of reporting throughout the span of revitalizations.

3. TCHC can further enhance processes and controls related to selecting its development partners.

Our audit makes 23 recommendations that will help the City and TCHC work together to achieve broader city-building objectives and will improve accountability for the outcomes of revitalizations. It will also help TCHC to enhance its procurement practices related to real estate transactions. Management has agreed to all our recommendations and has already taken steps to start implementing them.

Although other agencies and corporations were not within the scope of our audit, this report contains a number of findings and recommendations that may be relevant to them. This report should be forwarded to these agencies and corporations so that they may consider it and take any actions they deem necessary.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the City Manager, in consultation with the Chief Executive Officer, Toronto Community Housing Corporation (TCHC), to make recommendations to City Council regarding city-building objectives that will be addressed through TCHC revitalizations, and the related funding requirements to achieve those objectives, prior to proceeding with future revitalizations and/or phases that have yet to obtain planning approvals and Shareholder consent.

2. City Council request the City Manager, in consultation with the Director, Affordable Housing Office, and the General Manager, Shelter, Support & Housing Administration Division, as part of the City's strategy for addressing housing affordability, to:

a. evaluate efficient and cost-effective ways to increase the supply of affordable housing units with adequate consideration of broader social factors and public policy objectives;

b. make recommendations to City Council, in consultation with the Chief Executive Officer, Toronto Community Housing Corporation (TCHC), on whether more affordable housing units should be required in future TCHC revitalizations based on a site-by-site evaluation of financial and social implications.

3. City Council request the Chief Planner and Executive Director, City Planning, to:

a. review the Official Plan Policy 3.2.1.9(b) for appropriateness and practicality, and make recommendations to Council on any necessary amendments; and

b. ensure that the Official Plan Policy 3.2.1.9(b) (or any subsequent amendment) is applied consistently on all future large site development applications. Where applicants seek amendments from this policy, City Planning should clearly explain the rationale and analysis for the amendments, and provide alternatives for achieving new affordable housing in its reports.

4. City Council request the City Manager, in consultation with the Chief Executive Officer, Toronto Community Housing Corporation and other relevant stakeholders, to evaluate the impacts of requiring that new affordable housing be provided by developers in any real estate development transactions. Such evaluation should consider the financial implications and/or trade-offs to the City as a whole, as well as potential incentives and strategies that can make providing affordable housing more attractive to potential developers.

5. City Council request the Executive Director, Social Development, Finance & Administration, in consultation with the Chief Executive Officer, Toronto Community Housing Corporation (TCHC), to ensure that TCHC's long-term development capital and operating needs for revitalizations are considered as part of developing a long-term permanent funding model.

6. City Council request the City Manager to ask the Boards of CreateTO and Toronto Community Housing Corporation to ensure these organizations increase collaboration and consultation with a view to improving the function of each organization independently in the short-term. Such work should commence as soon as possible.

7. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to periodically review and benchmark its risk tolerance for development transactions with other relevant organizations including the City and CreateTO; and, recommend criteria for evaluating risk / return trade-off to ensure that future real estate transactions align with the City's risk appetite.

8. The Board request the Chief Executive Officer, Toronto Community Housing Corporation (TCHC), in consultation with the City Manager, to formalize TCHC's Development Strategy and report to City Council through the City Manager to seek input and endorsement thereof. The Strategy should:

- a. include clear revitalization program objectives and performance measures for future developments;
- b. include short-, medium-, and long-term goals that are outcome-oriented; and
- c. support overall city-building priorities, where possible.

9. City Council request the City Manager, in consultation with the Chief Executive Officer, Toronto Community Housing Corporation, to bring forth recommendations to clarify the Shareholder Direction to Toronto Community Housing Corporation with respect to the City's approval and ongoing oversight of revitalizations, specifically:

- a. the timing and scope of approvals, including objectives and priorities for the revitalization; and
- b. the level of detailed reporting required annually on project progress, capital budget variances, updated forecasts and adherence with the Council-approved strategic direction and principles, including barriers and challenges.

10. City Council request the City Manager, in consultation with the Chief Executive Officer, Toronto Community Housing Corporation, to report the outcomes (short, medium, and long-term) achieved at the completion of each phase of revitalization projects in order to demonstrate the overall financial and non-financial stakeholder impacts. Such reports be completed as soon as practicable following the completion of each phase of a project.

11. City Council request the Toronto Community Housing Corporation Board to report annually to City Council through the City Manager and the City's Chief Financial Officer on the long-term building repair and development capital plans, including funding sources and any unfunded amounts the City needs to include in its Capital Plan.

12. City Council request the City's Chief Financial Officer to ensure the City's 10-Year Capital Plan includes Toronto Community Housing Corporation's building capital repair and revitalization projects and identify shortfalls to be included in the overall city unfunded projects list. In addition, the City needs to identify any associated debt that needs to be included in the City's debt service targets.

13. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to ensure that all likely capital and operating costs and cost avoidances, be reasonably estimated and reported all together when recommending the business case and anchor business plans (including amendments if there are significant changes) for new revitalizations. Where costs cannot be estimated, but the budget may be impacted, then at minimum, such costs should be discussed qualitatively.

14. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to implement regular status reporting for each revitalization project. At minimum, the frequency and extent of such reporting should be based on thresholds developed for the following elements:

- a. total cost;
- b. spending to date;
- c. total committed funding;
- d. total unfunded requirements; and
- e. timeline projections.

15. The Board request the Chief Executive Officer, Toronto Community Housing Corporation (TCHC), to:

- a. implement negotiation protocols for soliciting and evaluating clarifications and improvements to terms in development partner proposals in order to ensure TCHC is obtaining proponents' best and final offers during the final round of negotiations; and

b. ensure protocols describe the documentation that needs to be prepared and retained.

16. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to ensure that the significant negotiated terms, and the financial impacts, are fully described and compared when recommending a development partner for future projects.

17. The Board request the Chief Executive Officer, Toronto Community Housing Corporation (TCHC), to:

a. ensure the financial terms of both initial and final offers are analyzed and evaluated on a discounted cash flow basis to reflect the timing of cash flows and TCHC's cost of capital; and

b. ensure key assumptions and underlying estimates are documented and retained.

18. The Board request the Chief Executive Officer, Toronto Community Housing Corporation (TCHC), to ensure that TCHC's final profit share reflects any necessary adjustments for construction costs of the retail space purchased by the development partner.

19. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to use certified appraisals to determine the fair market value of the land prior to marketing revitalization opportunities to potential proponents.

20. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to ensure that terms of reference for market analyses and/or appraisals is documented and retained.

21. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to enhance the Procurement Policy to address the specific processes and procedures relevant to real estate transactions. Such policy enhancements should be implemented as soon as possible.

22. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, to retain sufficient and appropriate documentation in order to adequately support development related decisions.

23. City Council request the City Manager to forward this report to other major agencies and corporations for their review and consideration of the relevance of the recommendations to their respective organizations.

FINANCIAL IMPACT

The implementation of recommendations in this report will provide for a greater focus on enabling broader City priorities to be achieved through future redevelopment projects on

Toronto Community Housing Corporation sites. The financial impacts resulting from implementing the recommendations in this report are not determinable at this time.

DECISION HISTORY

In 2017, the Auditor General began the first of a planned series of audits in areas that fall along the housing continuum. Specifically, an audit focused on the redevelopment and revitalization activities of the Toronto Community Housing Corporation was included in the Auditor General's 2017 Audit Work Plan:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.AU7.7>

This series of ongoing and upcoming audits in areas that fall along the housing continuum is timely as the City continues to move forward with developing its new housing and homelessness action plan for the next ten years. The current audits included in the Auditor General's Work Plan can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU1.7>

COMMENTS

A high level summary of the key audit findings are provided in the one-page Audit at a Glance.

The attached audit report provides the Board of Directors of Toronto Community Housing Corporation, Audit Committee and members of Council with the detailed audit results and recommendations together with management's response. Management has agreed to all 23 recommendations.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1: Moving Forward Together: Opportunities to Address Broader City Priorities in TCHC Revitalizations