



## Auditor General's Report

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

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Auditor General

**AUDITOR  
GENERAL**  

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## Executive Summary

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**Audit objective was to evaluate TCHC's revitalization program**

This first audit, in a series of audits related to housing opportunities, is a review of redevelopment and revitalization activities of the Toronto Community Housing Corporation (TCHC). TCHC's revitalization program aims to leverage the value of its lands in order to replace aging buildings and keep the building capital repair backlog from increasing. TCHC uses the proceeds generated from the sale of lands, as well as through private sector development partnerships, to replace, renovate, or repair the existing social housing stock in specific communities.

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.

***Housing Opportunities Toronto: An Affordable Housing Action Plan 2010-2020* guiding the City's actions across the housing continuum**

In 2009, the City approved its first *Housing Opportunities Toronto: An Affordable Housing Action Plan 2010-2020* which provided a city-wide roadmap for actions guiding the work of the many divisions and agencies that have a role in delivering housing and homelessness policies, programs and services. The Action Plan set the direction for the City to take steps to address a range of challenges faced by residents across the housing continuum: from homelessness to permanent housing.

**In 2017, the Auditor General began the first of a planned series of audits in areas that fall along the housing continuum**

In 2017, the Auditor General began the first of a planned series of audits in areas that fall along the housing continuum. This series of ongoing and upcoming audits<sup>1</sup>, included in the Auditor General's Work Plan, is timely as the City continues to move forward with developing its new housing and homelessness action plan for the next 10 years.

**TCHC is the largest social housing provider in Canada**

**TCHC's mandate is to provide clean, safe, well-maintained social housing**

TCHC provides approximately 59,000 housing units to low and moderate income tenants. The City's mandate for TCHC is "*to provide clean, safe, well-maintained, affordable and subsidized rental housing in a state of good repair to low and moderate income households*".

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<sup>1</sup> Ongoing and upcoming audits in the Auditor General's 2019 Work Plan include operational reviews of the Shelter, Support & Housing Administration Division and the Affordable Housing Office, both of which have key roles in delivering policies, programs, and services that directly impact on the housing continuum. The 2019 Work Plan can be found at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.AU1.7>

**\$3.4 billion in capital requirements, \$2.3 billion of which is unfunded**

However, TCHC faces serious challenges in maintaining and improving the physical condition of its more than 2,100 buildings that are, on average, over 40 years old. As part of the 2019 budget, staff reported that TCHC needs \$3.4 billion over the next 10 years to support its state of good repair backlog and requirements of current phases of revitalizations. More than half of this (\$2.3 billion) is unfunded.

**The City is currently developing a permanent funding model for TCHC**

In implementing *Tenants First*, the City is developing a permanent funding model for TCHC's operating and capital needs. In the interim, the City approved \$107.7 million in 2017 to be funded over 30 years, and a further \$79.2 million for 2018 and 2019 for TCHC to continue with current phases of Council-approved revitalization projects.

### **What we found and recommend**

**Revitalizations are an opportunity to address broader city-building priorities**

This audit included a review of a sample of revitalization phases underway within Regent Park, Alexandra Park, and Lawrence Heights. These three communities cover 85 per cent of rent-geared-to-income (RGI) units within the six major revitalization projects underway.

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.
2. 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.

The following are our key observations related to these themes.

### ***1. Revitalization: An Important City-Building Opportunity***

**It is challenging for TCHC to balance multiple priorities within its funding constraints**

TCHC's primary focus for the revitalizations is on delivering its mandate to maintain or replace the existing social housing stock.

It has been a challenge for TCHC to balance multiple priorities – its mandated responsibilities, local ward priorities, and city-building objectives as a whole – all within its funding constraints. As a result of expecting TCHC to largely fund revitalizations itself, the City as a whole may be missing out on opportunities to strategically and cost-effectively address broader city-building priorities through TCHC's revitalization program.

**Successfully addressing city-building objectives requires a broader, more integrated approach**

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.

**Affordable housing, a key priority for the City, should be addressed in revitalizations**

For example, increasing the supply of affordable housing is a key priority for the City. In addition to replacing or refurbishing existing social housing units, revitalizations provide a natural opportunity for the City to consider and address affordable housing objectives.

Through the ongoing revitalizations at six TCHC sites, 405 new affordable rental units and 240 new affordable ownership housing units will be built – the vast majority in Regent Park. Very little new affordable housing has been created in the other five revitalization projects currently underway elsewhere in the City.<sup>2</sup>

The lack of additional capital funding from the City or other sources is cited by TCHC as one of the reasons that TCHC has not included affordable housing in current revitalizations.

**Coordinating desired outcomes when developing TCHC sites**

To maximize broader City-wide outcomes that can be achieved as part of developing TCHC sites, the City needs to ensure that all necessary programs, services, and financial strategies are coordinated; thus, supporting TCHC's revitalization projects through to their completion and enabling the City to take advantage of opportunities to address other housing supply challenges.

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<sup>2</sup> Apart from these revitalizations, TCHC advised that another 747 new affordable rental units have been built – mostly on vacant land transferred to TCHC in the West Don Lands and Railway Lands. The focus of our report is not on these projects, but on revitalizations of existing TCHC communities.



Going forward, the City should play a key role in driving revitalization priorities to take advantage of synergies, particularly given that the City and TCHC must make difficult decisions on how to allocate limited funds and the increasing likelihood that certain revitalization projects will continue seeing costs increase and may require more funding.

**An integrated funding strategy is needed**

The City should be responsible for establishing a funding strategy to achieve such desired outcomes.

## ***2. Enhancing Oversight, Accountability and Transparency***

**TCHC's development strategy should be endorsed by the City**

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.

**Evaluate and report on outcomes achieved for each revitalization phase**

Furthermore, TCHC should report on the outcomes achieved through the revitalizations on a phase-by-phase basis, increasing the timeliness in which information is provided to TCHC's Board and to City Council in order to both support management and to hold management accountable for results.

**More timely and transparent reporting is needed to support ongoing oversight and raise the visibility of funding requirements**

A specific area where accurate, timely, and transparent reporting is needed is with respect to the long-term financial impacts throughout the span of the revitalizations. This is particularly important because TCHC currently forecasts a funding shortfall of \$173.8 million (from 2018-2035) to complete all remaining phases of ongoing revitalization projects, \$142.6 million of which is attributed to Regent Park.

**City's long-term fiscal planning should reflect TCHC's capital funding needs**

Historically, City Council has received for information TCHC's 10-year capital budget for building repairs on an annual basis. It only began receiving TCHC's long-term capital funding requirements for revitalizations as part of the 2018 budget. Prior to this, TCHC covered capital funding shortfalls related to revitalizations itself.

While recent Budget Notes indicate that more than half (\$2.3 billion) of TCHC's \$3.4 billion in capital requirements over the next 10 years is unfunded, we also noted that the City's current 10-Year Capital Plan does not include the total long-term capital costs and funding required for both TCHC's revitalizations and state of good repair backlog. The Budget Notes highlight that "*...the significant capital funding shortfall for TCHC cannot be fully accommodated within the City's debt targets given the City's limitations on debt servicing costs.*"

### ***3. Enhancing Procurement Practices***

#### **TCHC can improve certain procurement practices**

We have identified four areas where TCHC can further enhance its processes and controls for selecting its development partners:

1. Implementing formal negotiation protocols and explaining significant negotiated business terms more fully to the Board
2. Performing a comprehensive evaluation of proposed and final business terms using a robust financial model
3. Using certified appraisals for land valuation
4. Developing policies and procedures specific to real estate transactions, including document retention requirements

#### **Relevance to other agencies and corporations**

Although other agencies and corporations were not included 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.

#### **Conclusion**

#### **23 recommendations to leverage opportunities from revitalizations**

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 with an adequate funding support plan to more fully leverage revitalization opportunities. 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.

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.

#### **Moving forward together**

This report and its recommendations is not intended to deter progress on the current and ongoing revitalization phases, but rather to ensure that City Council and the TCHC Board have as much information as possible when making decisions about future revitalizations.

Implementing the recommendations will help the City and TCHC to work together to look at a revitalization project in a comprehensive manner and plan for positive change over the long-term.

The Auditor General will issue a separate letter to management detailing other less significant issues that came to our attention during the audit. In addition, work on certain matters arising from this audit is ongoing and may be reported upon separately in the future.

We would like to express our appreciation for the co-operation and assistance we received from management and staff of TCHC and the City, including:

- TCHC's Development, Facilities Management, and Finance Units
- City Planning, Affordable Housing Office, Shelter, Support & Housing Administration Division, Social Development, Finance & Administration Division, and Real Estate Services Division



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## Background

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**TCHC is the largest social housing provider in Canada**

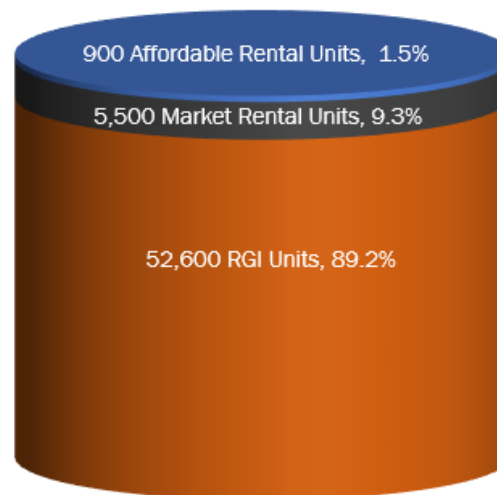
Toronto Community Housing Corporation (TCHC) is a wholly-owned subsidiary of the City of Toronto (the City). It is the largest social housing provider in Canada and the second largest in North America.

**TCHC provides approximately 59,000 housing units, 89% are RGI tenants**

TCHC provides housing to about 110,000 low and moderate income tenants in approximately 59,000 housing units. As shown in Figure 1, about 89 per cent of TCHC tenants pay rent-geared-to-income (RGI). The rest pay affordable or market rent rates.

A glossary of commonly used terms throughout this report is included as Exhibit 1.

Figure 1: Composition of Housing Units in TCHC Communities



Source: Toronto Community Housing Corporation

### Governance

**Social housing is a shared responsibility of all levels of government**

Social housing is a shared responsibility of the Federal, Provincial and Municipal governments.

**The City is Toronto's legislated service manager for housing matters**

In Toronto, the City is the designated service manager under the *Housing Services Act, 2011* (HSA). As the service manager, it is the City's role, "in accordance with its housing and homelessness plan, to carry out measures to meet objectives and targets relating to housing needs within the service manager's service area".

**TCHC administers RGI assistance on behalf of the City**

The HSA allows the City, as service manager, to contract its responsibility for administering RGI assistance to other organizations. TCHC administers the RGI assistance program for its tenants under an Operating Agreement with the City of Toronto.

**A Shareholder Direction sets out the relationship between TCHC and the City**

The City is also TCHC's sole Shareholder. A Shareholder Direction sets out the relationship between TCHC and the City, and outlines the fundamental principles that govern TCHC's business. It also sets out high-level objectives and expected accountability to the City, including TCHC's mandate, scope of responsibility, and reporting requirements.

**TCHC's mandate is to provide clean, safe, well-maintained, affordable and subsidized rental housing**

TCHC's overall mandate, as set out in its Shareholder Direction, is *"to provide clean, safe, well-maintained, affordable and subsidized rental housing in a state of good repair to low and moderate income households"*.

In support of this mandate, TCHC may engage in activities, such as:

- Developing new affordable and subsidized rental housing, including the revitalization and redevelopment of TCHC lands and buildings
- Facilitating the development of affordable ownership housing through the revitalization and redevelopment of its lands and buildings

**TCHC is accountable to City Council**

As specified in the Shareholder Direction, TCHC is accountable to City Council through presentation of its business plans, annual reports and audited consolidated financial statements.

#### **State of TCHC Building Portfolio**

**TCHC's 2,100 buildings are a \$10 billion asset**

TCHC owns more than 2,100 buildings, which represent a \$10 billion public asset.

**Aging buildings and funding pressures have led to significant capital needs**

TCHC faces serious challenges in maintaining and improving the physical condition of its buildings. TCHC's buildings are, on average, over 40 years old. Aging buildings and funding pressures have resulted in a growing backlog of capital investment needed to achieve a state of good repair.

**TCHC had \$2.6 billion in capital repair requirements for a 10-year period (2013-2022)**

In November 2013, City Council unanimously approved *A Ten-Year Capital Financing Plan for TCHC*<sup>3</sup>. The report identified 10-year capital repair requirements of \$2.6 billion (2013-2022). This amount excluded the estimated \$215 million capital repair backlog for buildings within approved revitalization projects.

The financing plan called for equal one-third funding commitments from TCHC and the City, the Provincial government, and the Federal government to address the backlog of capital repair needs. To date, neither the Federal nor the Provincial governments have confirmed their commitment to providing a full one-third share of funding.

The City also continues to follow up with the other levels of government, asking them to join in a conversation regarding how they can play a financial role in the revitalizations.

**This requirement has grown to \$3.4 billion – of which \$2.3 billion is unfunded**

The 2019 Budget Notes for the Shelter, Support & Housing Administration Division indicates that TCHC's 10-year capital requirements (2019-2028) has grown to \$3.4 billion. This is needed to support TCHC's state of good repair backlog and requirements of current phases of revitalizations<sup>4</sup>. There is a funding gap of \$2.3 billion.

***Tenants First* aims to address TCHC's financial sustainability**

In July 2016, City Council approved the report, *"Tenants First: A Way Forward for Toronto Community Housing and Social Housing in Toronto"*, and directed staff to develop a long-term solution for TCHC's fiscal sustainability.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.11>

In implementing *Tenants First*, the City recognized that (emphasis added):

*"Providing TCHC with tools and resources to be a successful and innovative social housing landlord will be a multi-year process and **will require continued commitment of City Council and the attention of other levels of government**".*

**City is currently exploring a permanent capital funding solution for TCHC**

The City is currently exploring a permanent capital funding solution for TCHC, including funding from the *National Housing Strategy* announced by the Federal Government in November 2017.

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<sup>3</sup> *A Ten-Year Capital Financing Plan for Toronto Community Housing (2013-2022)*, <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.ex35.4>

<sup>4</sup> TCHC's \$3.4 billion in capital requirements does not include funding shortfalls related to future phases of ongoing revitalizations, including Regent Park Phases 4 and 5 and Lawrence Heights Phases 2 through 4.

## Why Revitalization

**Revitalizations fund the replacement of existing housing stock through the sale of land**

TCHC's revitalization program uses proceeds generated from the sale of land, as well as through private sector development partnerships, to replace, renovate, or repair the existing social housing stock within the community being redeveloped.

**It is widely recognized that revitalization initiatives provide an important city-building opportunity**

In October 2012, City Council endorsed the report *Putting People First, Transforming Toronto Community Housing*. The report recognized that (emphasis added):

*"The **revitalization** of social housing communities **should remain a key focus given the age** of the former Ontario housing buildings and the social and economic benefits of these initiatives."*

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX23.4>

**An interdivisional committee was formed to expedite TCHC development**

As a result, an interdivisional steering committee was formed to review and expedite TCHC development opportunities. In November 2013, that committee reported to Council that (emphasis added):

*"**Revitalization initiatives provide an important city-building opportunity** by improving the quality of life of TCHC residents while physically transforming former public housing neighbourhoods into mixed-income, mixed-use communities."*

**Revitalizations are an opportunity for social and economic change**

TCHC's revitalization initiatives provide an opportunity for social and economic change by:

- creating mixed income, mixed use communities
- attracting investment in the form of new or improved amenities like parks and community facilities
- providing job and training opportunities for tenants
- creating opportunities for affordable home ownership

**Each revitalization is a significant undertaking that faces unique complexities**

These revitalization initiatives are significant and long-term undertakings. Each project requires careful planning, relocating tenants, demolishing and replacing existing housing, and redesigning a community from the ground up. Unique social, environmental, logistical and financial complexities must be considered for each project, and even for individual phases within a project.

**Six projects currently underway will revitalize approximately 4,800 TCHC RGI units and create 12,800 new market units**

TCHC has six revitalization projects with construction underway at:

- Regent Park
- Alexandra Park
- Lawrence Heights
- Leslie Nymark
- Allenbury Gardens
- 250 Davenport

**There must be at least as many RGI units after a revitalization as before**

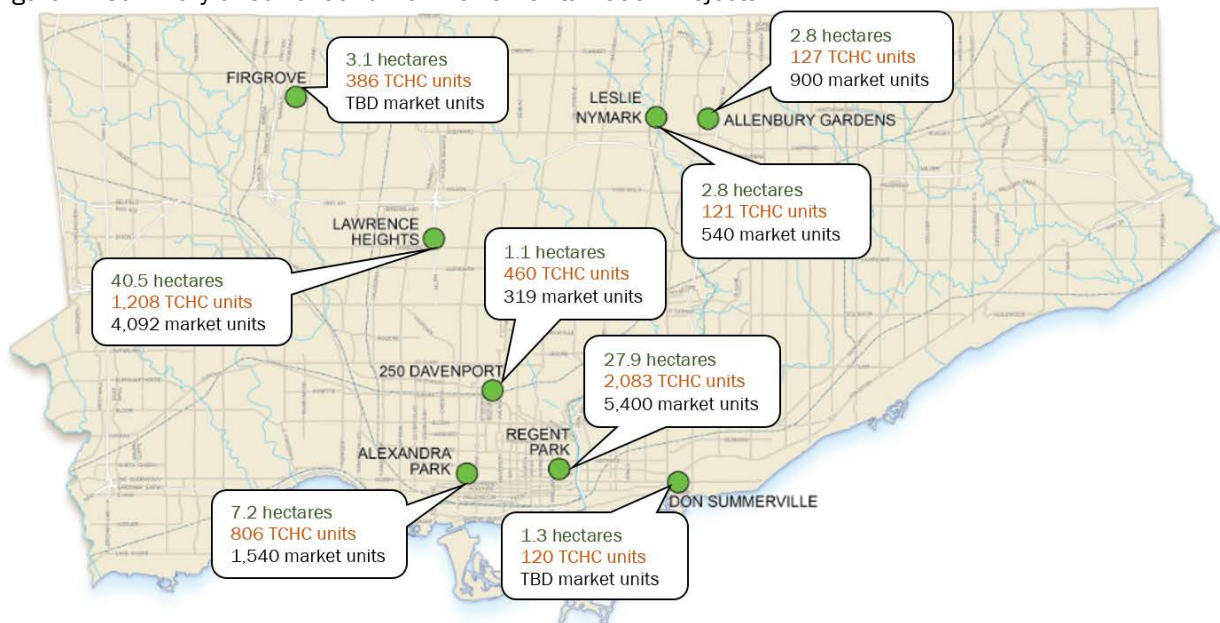
Each project is required to fully replace the number of social housing units that will be demolished – this means there must be at least as many RGI units after the revitalization as before. In total, these projects will replace or refurbish approximately 4,800 existing TCHC RGI rental units and create 12,800 new market units.

This audit focused on a sample of revitalization phases underway within Regent Park, Alexandra Park, and Lawrence Heights. These three communities cover 85 per cent of RGI units within the six revitalization projects underway.

TCHC is also moving forward with two new projects at Don Summerville and Firgrove-Grassways.

Figure 2 shows the location, size, and number of RGI and market units for each revitalization project.

Figure 2 - Summary of Current and New TCHC Revitalization Projects



Source: Toronto Community Housing Corporation

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# Audit Results

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This section of the report contains the findings from our audit work followed by specific recommendations.

## A. Revitalizations: An Important City-Building Opportunity

### A. 1. Aligning Revitalization and City-Building Objectives

**TCHC is focused on maintaining or replacing existing stock**

TCHC's primary focus for the revitalizations is on delivering its mandate to maintain or replace the existing social housing stock. Its three key objectives for revitalization are:

**TCHC's revitalization objectives include reducing repair backlog, generating revenue, and creating economic opportunities**

- modernizing TCHC's housing through new construction and intensification, thus reducing the repair backlog
- generating additional revenue to pay for revitalization and shifting some of the financial risk to other partners
- creating jobs and boosting the economy, including employment, training, and scholarships for tenants

**Balancing many priorities within funding constraints has been a challenge**

It has been a challenge for TCHC to balance multiple priorities – its mandated responsibilities, local ward priorities, and city-building<sup>5</sup> objectives as a whole – all within its funding constraints. Where TCHC primarily focuses on its mandate and redevelopment objectives, the City as a whole may miss out on opportunities to strategically and cost-effectively address broader city-building priorities, such as increasing the supply of affordable housing.

**Revitalizations are an opportunity to address city-building priorities**

Successfully addressing these objectives through TCHC site redevelopment requires a broader, integrated approach, moved forward directly by the City.

**The City should play a key role in setting the priorities and the related long-term financial plan**

The City should play a key role in setting the priorities that will be addressed on TCHC redevelopment sites. In turn, the City should work out the long-term financial plan to achieve its desired outcomes.

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<sup>5</sup> “City-building” refers to enabling of City priorities and pursuing opportunities in the public interest and the community's long term socio-economic interest. Examples of city-building objectives that can be met through redevelopment projects include requirements of other City programs and services, as well as greater access to transit, parks and open spaces, community services and facilities, and affordable housing opportunities.



Since revitalizations have the potential to impact multiple programs and service areas of the City, the funding of the revitalization projects should be considered as part of the budgeting process for the City as a whole and not just TCHC alone.

Bearing in mind the impact these projects have on the lives of TCHC's tenants, these collaborative efforts need to be done as expeditiously as possible.

**Recommendation:**

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.**

## A. 2. Leveraging New Developments to Address Affordable Housing Objectives

**645 new affordable housing units will be built over a period of 30 years – largely in Regent Park**

In addition to replacing or refurbishing existing social housing units, 405 new affordable rental units and 240 new affordable ownership housing units will be built over a period of 30 years, as part of the ongoing development at six TCHC revitalizations sites<sup>6</sup> – the vast majority (96 per cent) in Regent Park. As summarized in Table 1, three other sites will collectively include eight new affordable rental units and 17 new affordable ownership units. Two other in-progress revitalizations do not include any new affordable housing.

Table 1 – Number of New Affordable Housing Units Secured to date in Current Revitalization Projects

| <b>Affordable Unit Type</b> | <b>Regent Park</b> | <b>Alexandra Park</b> | <b>Lawrence Heights</b> | <b>Allenbury Gardens</b> | <b>Leslie Nymark</b> | <b>250 Davenport</b> | <b>Total</b> |
|-----------------------------|--------------------|-----------------------|-------------------------|--------------------------|----------------------|----------------------|--------------|
| Affordable Rental           | 397                | 8                     | 0                       | 0                        | 0                    | 0                    | 405          |
| Affordable Ownership        | 223                | 10                    | 3                       | 4                        | 0                    | 0                    | 240          |
| <b>Total</b>                | <b>620</b>         | <b>18</b>             | <b>3</b>                | <b>4</b>                 | <b>0</b>             | <b>0</b>             | <b>645</b>   |

Source: Compiled from information sources reviewed throughout the audit

<sup>6</sup> Apart from these revitalizations, TCHC advised that another 747 new affordable rental units have been built – mostly on vacant land transferred to TCHC in the West Don Lands and Railway Lands. The focus of our report is not on these projects, but on revitalizations of existing TCHC communities.

**More funding is needed to meet for affordable housing targets**

The City's current allocation of funding for affordable housing, together with funds from other levels of government, is not sufficient to meet its affordable housing targets.

**Lack of funding is one of the reasons TCHC has not included more affordable housing in revitalizations**

The lack of additional capital funding from the City or other sources is cited by TCHC as one of the reasons that TCHC has not included affordable housing in current revitalizations.

Through the Social Infrastructure Fund / Investment in Affordable Housing Program, the Federal and Provincial governments have together funded up to \$150,000 of the cost to construct each affordable rental housing unit included in TCHC's ongoing projects. TCHC funds the balance of the \$180,000<sup>7</sup> needed to construct the units.

**Increasing affordable housing is a City priority**

Increasing the supply of affordable housing is a key priority for the City. This is an example of a city-building goal that can be addressed through TCHC revitalizations which benefits the City as a whole.

**TCHC revitalizations are an opportunity to strategically address housing supply challenges**

Similarly, the City can leverage TCHC revitalizations to strategically address other housing supply challenges, such as:

- adding units to replace TCHC RGI units from its other sites that are at risk of being closed permanently due to poor state of good repair
- addressing decreases in supply of non-TCHC RGI and rent supplement units across the system due to expiring operating agreements with other housing providers
- increasing the availability of other supportive and/or transitional housing

However, addressing housing supply challenges through TCHC revitalizations may have cost-benefit impacts<sup>8</sup> on other City priorities.

**The City needs to find additional ways to fund affordable housing priorities**

To inform its decisions on whether the City should address its housing supply challenges through future TCHC revitalizations while creating balanced mixed-use and mixed-tenure communities, the City needs to find other ways to fund the costs to build and operate any new units.

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<sup>7</sup> The average construction cost of an affordable rental housing unit within a TCHC revitalization project is \$330,000 per unit. This includes hard and soft construction costs, as well as land site servicing costs.

<sup>8</sup> For example, increasing affordable housing may impact density available for other uses, capital and ongoing operating funding requirements, other local and city-wide planning priorities, etc.

Examples of actions the City can take to further advance affordable housing priorities (or any other supply challenges along the housing continuum) through revitalizations include:

1. Assessing cost-effective ways to expand affordable housing
2. Applying the City's Official Plan requirements to prioritize affordable housing
3. Incentivizing developers to include affordable housing

Our observations in these areas are detailed further in the sections that follow.

**City needs to assess costs and benefits of expanding affordable housing stock within TCHC compared to other alternatives**

1. Assessing Cost-Effective Ways to Expand Affordable Housing

The City needs to assess whether or not investing in new affordable housing within TCHC redevelopment projects presents a more cost-effective means of expanding the affordable housing stock.

This evaluation should consider both the cost to construct the affordable housing and any ongoing net operating income or cost to the City/TCHC.

The additional information can help prioritize the allocation of City funds to support an increase in supply and, in particular, to determine whether it is more efficient and cost effective for the City to invest in the construction and operation of additional affordable units within TCHC redevelopment sites compared to other alternatives.

We note that the operations of the Affordable Housing Office, including the administration of Provincial/Federal funds for construction of new affordable housing, was not within the scope of this review but is included in the Auditor General's 2019 Annual Work Plan.

**City is not fully leveraging Official Plan tools**

2. Applying the City's Official Plan Requirements to Prioritize Affordable Housing

The City is not fully leveraging the tools provided by the Official Plan to advance its overall affordable housing targets in large developments with a change in density or height.

The Official Plan makes new affordable housing the first priority where increased height or density is sought on large sites

For example, the Official Plan policy 3.2.1.9(b) for “large sites<sup>9</sup>” states (emphasis added):

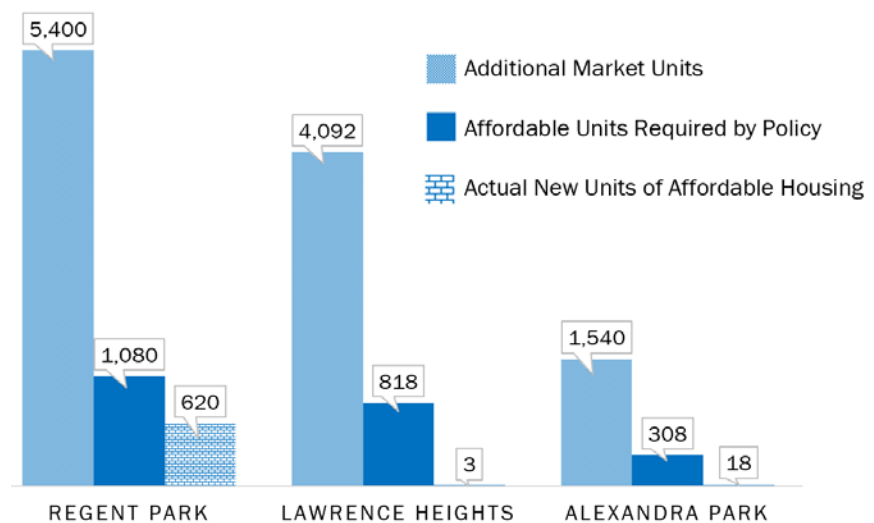
*“in accordance with and subject to Section 5.1.1 of this Plan where an increase in height and/or density is sought, **the first priority community benefit** will be the provision of 20 per cent of the additional residential units as **affordable housing**.”*

This includes purpose-built affordable rental housing, affordable ownership housing, land for affordable housing and/or cash-in-lieu.

Regent Park, Lawrence Heights, and Alexandra Park are considered large sites where the Policy applies

TCHC’s Regent Park, Lawrence Heights, and Alexandra Park redevelopments are considered “large sites”, and each have been approved for increased heights and densities. However, in all cases, as shown in Figure 3, the 641 actual affordable housing units that will be included in these revitalizations only represent about 29 per cent of the over 2,200 units that otherwise would have been required under the Official Plan policy. None of these new units are a result of the application of this policy.

Figure 3 - Number of New Affordable Housing Units Secured in TCHC’s Large Site Revitalizations Compared to Official Plan Policy



Source: Compiled from information sources reviewed throughout the audit

Policy amendments were not clearly explained in City Planning reports

The planning reports for these sites did not clearly highlight the “large site” policy requirements or explain the reasoning for the policy amendment. The reports only indicated that new affordable housing would be “encouraged”, but did not provide alternative commentary or recommendations for achieving new affordable units.

<sup>9</sup> A “large site” is a development site that is generally greater than five hectares in size.

**The large sites policy has not been applied throughout the City**

It should be noted that this Official Plan policy has also not been applied in other non-TCHC large site developments across the City. City Planning advised that the affordable housing requirements have typically been superseded by other city-building considerations, such as:

- other higher priority local community needs (for example, the construction of a community centre)
- the social considerations of an appropriate mix of social housing and market units and the associated financial impacts

Given the City's limited application of the large sites policy, a review of the current policy is needed in order to make it more effective.

A review of the operations of the City Planning Division was not within the scope of this review but is included in the Auditor General's 2019 Annual Work Plan.

**City should consider additional developer incentives and financial implications thereof**

### 3. Incentivizing Developers to Include Affordable Housing

To encourage developers to include affordable housing in future developments, the City should consider whether to provide additional incentives and the financial implications thereof. Typical considerations could include, but not be limited to:

- accepting lower than market value for the sale of land
- allowing more density within principles of good planning (density bonusing)
- imposing fees where affordable housing units are not provided

The use of these kinds of incentives have direct and indirect costs, whether in the form of a loss of fees and charges levied, or a foregone revenue stream like property taxes, or reduced proceeds from the sale of City-owned land.

**Increased affordable housing requirements potentially reduce proceeds – meaning less funding is available for replacing existing social housing units**

For example, should the City require new affordable housing to be provided as part of any real estate sale transaction or joint development, such a requirement has the potential to reduce land sale proceeds to below market value and/or TCHC proceeds from profit sharing. Lower proceeds means less funding to replace existing social housing units. Consequently, the City, in consultation with TCHC and other levels of government, must have a plan in place to fund any shortfall resulting from the impacts to land sale proceeds, as well as any future capital and net operating deficit (if any) related to new units added to the housing stock.

**Recommendations:**

- 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.**



### A. 3. Funding the Redevelopment of TCHC Properties to Support the City's Desired Outcomes

**Most revitalization projects were meant to be self-financing**

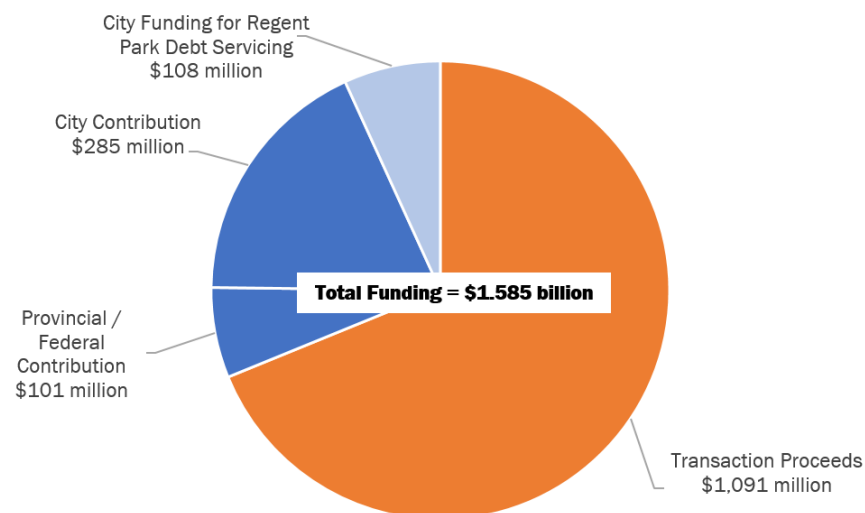
The original principle underpinning the redevelopment of TCHC lands was that most projects would be funded in large part by proceeds from land sales, profit sharing, and savings from improved building operations. TCHC also anticipated that equity, mortgage re-financing and savings from improved building operations would help fund the capital costs.

#### Not all TCHC Revitalizations are Self-Financing: Regent Park And Lawrence Heights Require Additional Funding

**Transaction proceeds and other contributions from the City, Provincial and Federal governments fund approximately 82 per cent of total project costs**

As of mid-2017, transaction proceeds, TCHC debt financing for Regent Park (serviced with City funding), and other government contributions from the City, Provincial and Federal governments are expected to provide \$1.585 billion, or approximately 82 per cent of total project costs, as shown in Figure 4 below.

Figure 4 - Funding Breakdown for Current TCHC Revitalizations



Source: TCHC/Financial Planning, 2018 Capital Budget submission

**Shortfalls either need to be addressed by TCHC itself or by additional contributions from the City or other funders**

As of mid-2017, the total costs to TCHC for the six current revitalization projects is expected to be over \$1.9 billion. Therefore, there is an overall expected funding shortfall of nearly \$350 million. TCHC has covered funding shortfalls of approximately \$176 million itself. Any remaining amounts will either need to be addressed by TCHC through its own debt borrowing and/or operating funds, or by additional contributions from the City. A breakdown of the project costs, funding, and the shortfalls (if any) for each revitalization is included in Exhibit 2. The shortfalls largely relate to two projects: Regent Park and Lawrence Heights.

**Changes over time have resulted in the funding model falling short**

Many variables and changes in expectations have contributed to the funding model falling short. For example, real estate market conditions and escalating costs have changed since initial expectations were made, some more than 10 years ago. TCHC also no longer considers operating cost reductions as a source of financing, as these have not been regularly tracked or monitored.

**TCHC expected the City to make contributions to subsidize certain capital costs**

#### Certain Projects Need Significant Government Contributions

In order to proceed with the revitalizations of Regent Park and Lawrence Heights, TCHC expected the City or other levels of government to make significant contributions to subsidize certain capital costs related to infrastructure, site servicing and affordable housing.

**Transaction proceeds fund less than half the development costs**

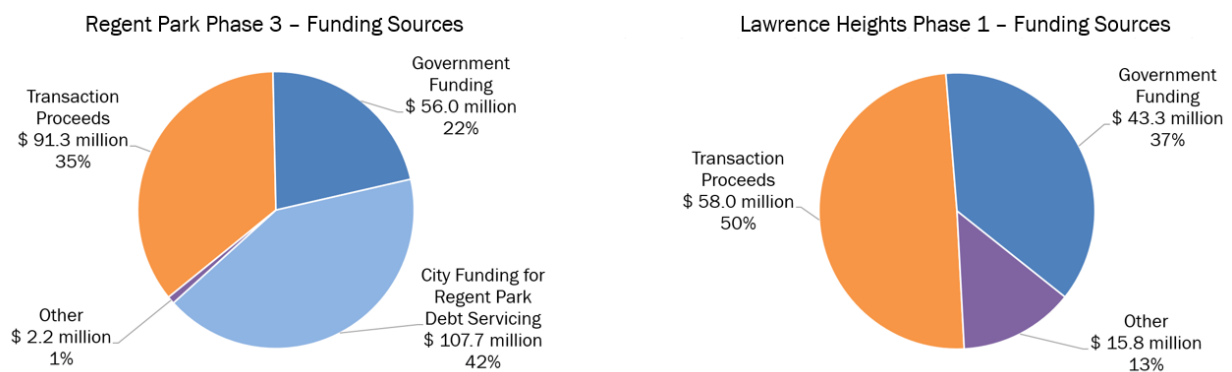
Specifically, the funding sources for the phases of these two revitalization projects that we reviewed (Regent Park Phase 3 and Lawrence Heights Phase 1) are shown in Figure 5.

- On average, less than half of TCHC's development costs are financed through land sales and profit sharing. Transaction proceeds mainly cover the hard and soft construction costs of the replaced RGI units and a portion of the cost of new affordable housing units.
- About one-third of TCHC's revitalization costs for these two phases are covered by anticipated funding from the City and other levels of government. These amounts are specifically designated for municipal infrastructure, site remediation, and the construction of new affordable units, community facilities or public spaces when provided.

**Revitalization of Regent Park and Lawrence Heights depends on significant government funding**

Additionally for Regent Park Phase 3, the City approved \$107.7 million in funding over 30 years to service TCHC debt.

Figure 5 - Overall Breakdown of Funding Sources



Source: TCHC/Financial Planning, 2018 Capital Budget submission

Permanent Funding Model that Includes Long-Term Capital and Operating Impacts of Revitalizations is Critical

**Revitalizations have been constrained by limited funding**

What has been accomplished to date has largely been constrained by the funding that has been made available by the City and other stakeholders.

**No stable, long-term source of capital funding**

The January 2017 report to City Council, *City Funding Request for Regent Park Phase 3 – Rental Blocks 16 North and 17 North*, highlighted:

*“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”.*

**Achieving desired redevelopment outcomes requires funding**

As discussed in Section A.1, the City needs to consider which programs and services should be cost-effectively included in redevelopments. Maximizing outcomes that can be achieved for the City as a whole, as part of developing TCHC sites, requires more funding than is generated through land sales and profit sharing alone.

**City to coordinate a funding strategy**

The City should be responsible for establishing a funding strategy for each redevelopment. This includes coordinating the services and programs provided by (and funded through) various City Divisions, as well as TCHC’s own projections for what can be covered through transaction proceeds. A coordinated financial framework would enable the City to better support the redevelopment of TCHC properties.

**Difficult decisions must be made on how to allocate limited funds for TCHC’s competing priorities**

Still, we note that given competing priorities for the City to address the extensive capital infrastructure requirements across the City, as well as the increasing likelihood that certain revitalization projects will continue seeing costs increase and may require more funding, the City and TCHC must make difficult decisions on how to allocate limited funds – between moving forward with new revitalizations (or even phases of revitalizations) that replace or refurbish aging RGI units as well as address other city-building priorities, and addressing the urgent capital repair needs in the remaining 54,000 units (or 92 per cent) in TCHC’s non-revitalization sites.

**City should include financial impacts of revitalizations in TCHC’s long-term funding model**

City staff have advised us that a long-term permanent funding model, including operating and capital, is being developed in response to *Tenants First* and will be presented to Council in late 2019. Such a funding model should contemplate and prioritize the long-term capital and operating impacts of revitalizations.

**Recommendation:**

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.**

**A. 4. Integrating TCHC Development Activities with the City-Wide Real Estate Strategy**

**Establishing a City-wide development strategy is a key activity of a centralized real estate delivery model**

In 2016, City Council approved, in principle, the direction to move to a centralized service delivery model for real estate. Establishing a City-wide development strategy is a key activity of the transformation that newly formed realty agency, CreateTO, is tasked with. TCHC, as well as Toronto Hydro, are excluded from the initial three-year incubation period (2018-2020) for CreateTO.

**TCHC continues to move forward with its own development activities independently from CreateTO**

In the meantime, independently from CreateTO, TCHC continues to move forward with its development activities under its existing mandate to address the condition of its housing portfolio.

**Development principles for TCHC sites should be consistent with other City properties**

Each development site is unique and requires careful planning to achieve a balance of specific social, economic and environmental needs and priorities of the local community. While CreateTO has a mandate to focus on achieving broader city-building priorities by leveraging underutilized City properties, TCHC's focus is on maintaining its own existing RGI housing stock. Consequently, the development principles for TCHC sites may not be fully consistent with approaches for other City properties nor fully aligned with the direction of the City-wide Real Estate Strategy.

**Increasing collaboration can improve the function of both CreateTO and TCHC**

Still, it is reasonable to expect that TCHC and CreateTO increase collaboration on practices and approaches to development and city-building, with goals of improving the function of each organization and developing a more integrated approach to planning and executing future redevelopment work of TCHC sites.

**Setting risk tolerance levels is an area that can be aligned**

An example of an area where consistent approaches can be adopted is in setting the risk tolerance associated with structuring development transactions.

**TCHC currently prioritizes lower risk over returns**

Over the years, TCHC's development work has been guided by an evolving framework. In 2003, the first phase of the Regent Park revitalization was largely uncertain; therefore, TCHC accepted more risk – with a transaction that relied almost fully on uncertain proceeds from the sale of market units.

Since 2012, the structure of TCHC's development transactions has shifted towards limiting its upfront financial investment and transferring risk to others. For example, by the third phase of the Regent Park revitalization, the potential for higher returns from profit participation was contemplated, but the lower risk associated with a straight land sale transaction was preferred by TCHC's Board. Lower-risk transactions tend to result in lower returns. Even so, TCHC advised that its development decisions continue to be guided by the preference for limiting risk.

We understand that the risk tolerance of any organization is likely to change over time. However, given the long-term nature and scale of revitalization projects, TCHC should periodically consult or benchmark with other relevant organizations, including the City and CreateTO, on an appropriate risk tolerance level, and ensure that criteria for evaluating the risk-return trade-offs consider the risk appetite of the City as a whole.

**CreateTO and TCHC can review certain areas for potential synergies**

CreateTO and TCHC should review other areas where they can work together on a more integrated basis. We recognize TCHC's unique knowledge and experience in working through challenges of redeveloping sites that remain occupied by social housing tenants. However, TCHC and CreateTO should consider leveraging or pooling resources for development planning, as well as integrating processes to identify development partners and to negotiate transactions.

**Recommendations:**

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.**

## B. Enhancing Oversight, Accountability, and Transparency

### **Minimal reporting back to City Council once revitalization approved**

City Council must provide its prior approval in order for TCHC to proceed with its revitalization projects. City Council approved the multi-phased multi-year Regent Park revitalization early on. For subsequent revitalization projects, City Council approved the projects closer to the planning approvals stage.

While some revitalizations can span over 20 years and can include two or more phases, TCHC is not required to get Council's approval of each phase of a revitalization even though the principles and objectives for the revitalization may evolve and Council priorities may change over time. Lawrence Heights is the only revitalization requiring City Council approval of a financial strategy prior to each phase proceeding<sup>10</sup>.

### **B. 1. Establishing an Outcome-Focused Development Strategy**

#### **Strategy documents set out broad principles, goals, objectives**

Over the years, various strategy documents have set out broad principles, goals, objectives, or actions for TCHC's revitalizations, including:

- Long-Term Real Estate Portfolio Strategy, 2003
- Real Estate Asset Investment Strategy, 2008
- Putting People First: Transforming Toronto Community Housing, 2012
- Various Community Management and Strategic Plans (from 2005-2016)
- 2019-2022 Strategic Plan

#### **Performance measures for the revitalizations are high-level and limited**

Key performance indicators included in these documents have generally been limited to:

- milestones for the progress of revitalizations
- the number of TCHC units committed to in revitalization communities

#### **A formalized development strategy should clearly define both TCHC's and City's desired outcomes**

None of these strategy documents clearly define or describe TCHC's and the City's desired short-, medium-, and long-term outcomes they want to achieve through revitalizations and related measures of the achievement of these outcomes. Without this, TCHC and the City may miss opportunities to take action to improve upon outcomes.

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<sup>10</sup> At the time of shareholder consent to proceed with the Lawrence Heights revitalization in 2010, a key outstanding item was a financial strategy to address the additional community and hard infrastructure required to revitalize the community as outlined in the Lawrence-Allen Revitalization Plan.



**It is important to establish ways to measure success in achieving outcomes**

Examples of outcomes that TCHC may want to achieve through revitalizations may include:

- reduced capital repair backlog
- reduced operating costs
- increasing tenant employment, training, and scholarship opportunities
- increased accessibility within buildings
- increased tenant satisfaction or tenant engagement index
- increased community safety

Examples of outcomes that the City may want to achieve through TCHC revitalizations may include:

- increased accommodation of City priorities
- increased consideration of City programs and services that can be incorporated into revitalization plans
- increased planning and development fee income
- increased parkland dedications or cash-in-lieu of parkland
- increased annual property tax revenue
- increased funding from other levels of government for affordable housing

**Outcomes should be measurable**

When setting out desired outcomes for the revitalizations, TCHC and the City should also establish appropriate ways to measure their success, with associated dollar amounts, numbers or percentages, where relevant.

**Long-term social impacts and city-building benefits may be non-quantifiable but are equally important**

Equally important are the non-quantifiable long-term outcomes and social impacts, many of which are the ultimate objectives of revitalization. Benefits such as increased social and economic opportunities, improved quality of life, and other city-building benefits, should also be evaluated. These may be difficult to quantify in monetary value, but they add significant value to TCHC's tenants, the surrounding community, and to the City as a whole.

**Evaluating revitalization outcomes is complex**

We appreciate that certain types of outcomes may be influenced by factors beyond TCHC's or the City's control and may be difficult to measure. Working together to create a formal development strategy with specific measurable goals will help TCHC and the City to evaluate the complex outcomes of future revitalization projects for the City as a whole in terms of both financial and non-financial impacts (outputs / outcomes) and whether the strategy is achieving its intended outcomes.

TCHC should also consult CreateTO in developing its plans and metrics to ensure consistency with the City-wide development strategy.

**Recommendation:**

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.

## **B. 2. Supporting the City's Oversight of Revitalizations**

**Formal reporting to City Council is not sufficient**

TCHC staff have a number of communications and meetings with staff in various City Divisions through all stages of the revitalizations. However, in our view, the limited reporting to City Council on the revitalizations is not sufficient to support adequate oversight of TCHC's overall adherence to strategic direction and/or principles for the revitalizations, a revitalization's progress, and future requirements and challenges.

Enhance the Ongoing Updates in Annual Reports

**Annual updates provide very high-level information**

As a condition of most revitalization decisions, City Council has directed TCHC to report annually, through its Annual Report, on the status of revitalizations and community impacts resulting from revitalizations.

The Annual Reports we reviewed provided high-level updates on construction starts, completions and tenant occupancies, community economic development highlights, and affordable home ownership opportunities achieved to date.

**Annual reporting does not include important details on project progress and financial performance**

The reports did not include important details related to overall project progress such as changes to the underlying principles or ability to meet those principles. We also expected to see, but did not find, ongoing performance measures such as total project cost, total committed funding, total unfunded requirements, total spending to date, and timeline slippages. Further discussion about ongoing reporting to City Council in the context of TCHC's long-term capital financing plan is included in Section B.3.

**City should provide more direction on reporting requirements**

Given the scope of each project, the City needs to provide more direction on the frequency and level of information and reporting it requires to have adequate oversight of the strategic direction and principles of revitalization projects as different phases of the projects progress. This is particularly important where funding shortfalls are expected.

**Timelier and more transparent reporting will better support City Council in its oversight role**

Improving the timeliness and transparency of reporting to City Council on barriers and challenges that limit TCHC's ability to meet revitalization objectives will allow City Council to take a more proactive oversight role and provide direction as appropriate.

Ensure the Actual Outcomes Achieved are Reported on a Timely Basis

**Outcomes are only reported when revitalizations are complete**

TCHC advised that it will report on the outcomes of revitalizations after all phases are completed. Due to the long-term nature of each revitalization, TCHC has not performed a comprehensive evaluation of any of the projects we reviewed during our audit. Waiting for all phases in a revitalization to be complete before evaluating outcomes is a missed opportunity to learn from each phase of a project. In the interim, the Board receives reports at the completion of each rental building. Such reports have typically included an overview of the operational performance and financial results compared to the approved building budget.

**Evaluating and reporting outcomes should be on a phase-by-phase basis**

TCHC should evaluate and report to Council on the outcomes achieved to date, including the financial aspects on a phase-by-phase basis, beginning with Regent Park Phase 2 and Alexandra Park Phase 1, when completed.

For example, for the revitalization phases we reviewed, examples of overall financial and non-financial stakeholder impacts achieved are:

- In terms of financial proceeds for the selected transactions we reviewed, TCHC has obtained fair market value for the lands it has sold. (Observations on the process for obtaining market valuations are discussed separately in Section C.3). However, this is not the sole financial objective. Even with transaction proceeds at fair market value, two out of the three revitalizations we reviewed will not be self-financing. (Observations on the reporting of the long-term financial impacts of the revitalizations is further discussed in Section B.3.)

- TCHC will also receive different forms of community economic development benefits from private development partners. This includes employment, training and education opportunities, and contributions towards community centres and other public spaces, which are tracked and reviewed by TCHC. Many of these community benefits are specified within the contracts that we reviewed. Examples are:
  - 10 per cent of all job opportunities are filled by TCHC tenants and \$1.0 million contribution towards Social Infrastructure Investment Fund in Regent Park Phase 3
  - \$3.5 million in employment and training opportunities and \$0.5 million contribution towards a TCHC scholarship fund in Lawrence Heights Phase 1
  - 150 jobs valued at \$35,000 per year and more than \$2.0 million for training, education and placement programs in Alexandra Park Phase 2
  - \$0.145 million and \$0.5 million contribution towards construction of community facilities at Regent Park Phase 3 and Alexandra Park Phase 2, respectively
- TCHC advised that its revitalization projects have contributed over \$100 million towards the City in the forms of development charges, section 37 contributions, planning application fees, building permit fees, engineering and inspection fees, and cash in lieu of parkland.

#### **Recommendations:**

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.

### B. 3. Improving Transparency of Development Activities within the Long-Term Capital Plan

**TCHC's long-term development capital budget has not been presented to Council**

Reporting to City Council on the long-term financial impacts throughout the span of the revitalizations needs improvement. While City Council receives TCHC's 10-year capital budget for building repairs on an annual basis, it only began receiving TCHC's long-term capital funding requirements for revitalizations as part of the 2018 budget. Prior to this, TCHC covered capital funding shortfalls related to revitalizations itself.

**City's current 10-Year Capital Plan does not reflect the total long-term capital costs and funding required for TCHC's revitalizations and state of good repair backlog**

While recent Budget Notes indicate that more than half (\$2.3 billion) of TCHC's \$3.4 billion in capital requirements over the next 10 years is unfunded, we also noted that the City's current 10-Year Capital Plan does not reflect the total long-term capital costs and funding required for both TCHC's revitalizations and state of good repair backlog. The Budget Notes highlight that *"...the significant capital funding shortfall for TCHC cannot be fully accommodated within the City's debt targets given the City's limitations on debt servicing costs."*

#### City's Capital Plan Should Reflect the Total Capital Costs and Funding Required from the City for Revitalizations

**City requires complete information on TCHC's unmet needs to appropriately allocate capital funds**

The funding TCHC needs for both its building repairs and revitalizations should be included in the City's long-term Capital Plan so that the City can appropriately allocate funding to meet capital needs across the City and its agencies and corporations within its debt targets.

**\$173.8 million in additional funding is needed to complete all phases by 2035**

As of mid-2017, TCHC forecasted a total funding shortfall of \$173.8 million to complete all remaining phases of ongoing revitalization projects by 2035. Table 2 below summarizes the forecasted net cash flow shortfall (surplus) to complete each current revitalization project, including ongoing and future phases not yet underway.

Table 2 - Forecasted Net Cash Flow Shortfall (Surplus) by Project (In \$millions)

| Revitalization Community                   | Net Cash Flow Shortfall (Surplus) |               |                 |
|--|-----------------------------------|---------------|-----------------|
|  | 2018-2019                         | 2020-2035     | Total 2018-2035 |
| Regent Park, Phases 2-5 <sup>11</sup>      | (24.2)                            | 166.8         | 142.6           |
| Lawrence Heights, Phases 1-4 <sup>11</sup> | 24.8                              | (0.5)         | 24.3            |
| Alexandra Park, Phases 1-2                 | 6.9                               | (19.3)        | (12.4)          |
| 250 Davenport                              | 0.3                               | (38.1)        | (37.8)          |
| Allenbury Gardens                          | 19.9                              | (31.2)        | (11.3)          |
| Leslie Nymark                              | 35.3                              | (41.1)        | (5.8)           |
| <b>Sub-total</b>                           | <b>\$63.0</b>                     | <b>\$36.6</b> | <b>\$99.6</b>   |
| Capitalized Departmental Costs             | 16.2                              | 58.0          | 74.2            |
| <b>Total</b>                               | <b>\$79.2</b>                     | <b>\$94.6</b> | <b>\$173.8</b>  |

Source: TCHC/Financial Planning, 2018 Capital Budget submission. The shortfalls are identified in red.

**\$79.2 million was added to the 10-Year Capital Plan to fund TCHC revitalizations as part of the 2018 budgeting process**

It was only as part of the City's 2018 budgeting process that a portion of this shortfall was included in the City's 10-Year Capital Plan. Through the Shelter, Support & Housing Administration Division's 2018 budget, the City added \$79.2 million to the Capital Budget. This provided funding for TCHC to continue with current phases of all Council-approved revitalization projects in 2018 and 2019.

Prior to this, the City's 10-Year Capital Plan did not include any amounts related to the anticipated shortfalls for TCHC revitalizations.

**Funding gap grew due to cost increases, funding not being fully realized, and changes in risk**

The shortfalls are the result of many factors, many of which could have been forecasted qualitatively, if not quantitatively, and transparently reported on a timelier basis to City Council. Some of the reasons for the growing funding gap from the original financial plans, as explained by TCHC, include:

- significantly increased construction costs within the industry
- additional costs associated with planning, zoning, environmental remediation, tenant priorities, and new accessibility standards
- expected government funding not fully realized

<sup>11</sup> Expected shortfalls are for remaining phases which have not yet started. The forecasted net shortfall for Regent Park Phases 4 and 5 is \$182 million. The forecasted net shortfall for Lawrence Heights Phases 2 through 4 is \$29 million.



- operating savings initially anticipated as a source of funding are difficult to and have not been regularly tracked, thus no longer considered a source of funding
- changes in real estate market risk during the long-term nature of each project

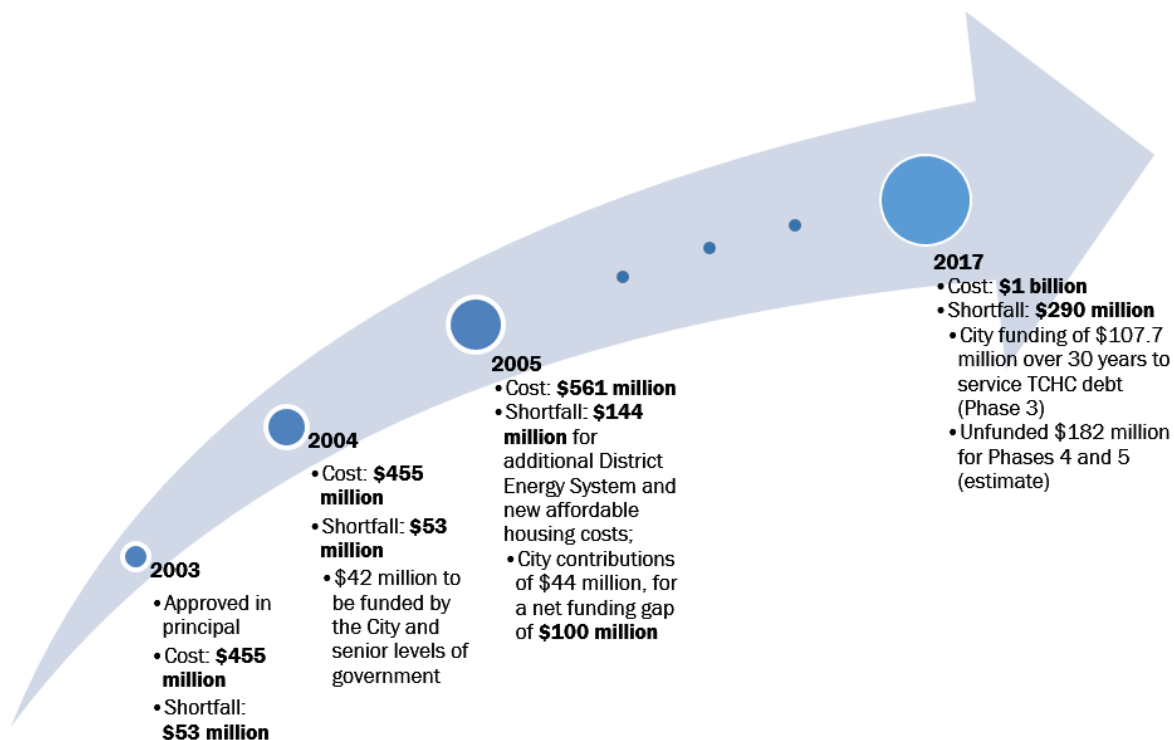
We have not assessed the completeness or accuracy of TCHC's forecasts of the total revitalization costs (which includes future phases not yet underway). TCHC advised that these forecasts were last updated in 2017. Exhibit 4 shows the forecasted total revitalization expenditures and funding sources by project.

#### Need for More Frequent Reporting of Life-To-Date Financial Information and Projected Project Costs

#### **Minimal financial reporting on Regent Park after revitalization approval**

We noted that when City Council approved the multi-phase revitalization of the Regent Park community in 2003, it was already known that it would not be self-financing. However, TCHC only reported to City Council at infrequent intervals on the growing shortfall in funding for Regent Park revitalization as summarized in Figure 6.

Figure 6 - Financial Costs and Shortfalls for Regent Park Revitalization Reported to Council (2003 – 2017)



Note: We did not identify any further financial reporting to Council between 2005 and 2017, regarding the life-to-date costs for the Regent Park revitalization.

**City Council informed of the amount of the funding shortfall three years after the Board**

TCHC staff reported in-camera to the Board in 2014 that the expected funding shortfall to complete Phase 3 of the Regent Park Revitalization was \$120.8 million. This shortfall was also communicated to the City's Chief Financial Officer around the same time. However, it would be three more years before an updated estimate was reported publicly to City Council.

As part of the City's 2017 budget process, TCHC submitted a City funding request of \$107.7 million over 30 years to service TCHC debt needed to complete Phase 3, and, at the City's request, provided further information on how the original funding model had fallen short of projections. At the same time, City Council was also informed of an additional shortfall of \$182 million estimated for Phases 4 and 5.

**Projected cost for Regent Park revitalization more than doubled since 2003 to over \$1 billion**

TCHC explained in its letter to the City's Chief Financial Officer how the projected cost for the Regent Park revitalization had more than doubled from the initial projection of over \$450 million in 2003 to over \$1 billion by 2017. The letter is attached as Exhibit 3 to this report.

This was the only instance we found where City Council was provided with life-to-date financial information for a particular revitalization project.

**Annual progress report is needed for major projects**

This example highlights the need for additional annual reporting on major projects, especially on TCHC's multi-year, multi-phased revitalizations because they have significant financial, social and economic impacts that span many years.

**Auditor General has previously identified the need for additional reporting to Council on major projects**

It is not the first time the Auditor General's Office has identified this issue. In the 2012 report Mid-Term Review of the Union Station Revitalization, the Auditor General stated that:

*"For projects of this magnitude, additional reporting would improve the information provided to Council allowing for more proactive oversight of the project. Otherwise, within the current reporting mechanisms, a clear picture of the potential for delays and over-expenditures will not be evident until much later on in the project's life".*

#### **Recommendations:**

- 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.

#### B. 4. Enhancing Information to Enable the Board to Oversee the Project Finances

**Project finances are presented in different reports rather than in one consolidated view**

##### A More Complete Picture of Revitalization Costs Should be Presented

The business case, anchor business plans and amendments (for a phase and for individual rental buildings), and annual capital and operating budgets contain different pieces of information related to each revitalization.

Information presented to the Board, through a number of different reports over time, includes:

- development capital costs
- ongoing capital and operating repairs and maintenance costs needed for existing rental buildings until they are replaced or refurbished
- avoided building capital repair costs and operating efficiencies expected to be achieved through revitalizations once units have been demolished and replaced.

The Board may benefit from receiving a consolidated view of all this information, in order to have a complete picture of the business case and total projected costs associated with the revitalization at the outset of the project and/or phase, as well as when circumstances change.

**We were unable to verify the reasonableness of certain information reported to the Board**

We noted that, in some cases, documents supporting the basis for reported amounts were not retained and staff turnover limited management's ability to answer our questions on how certain projections were derived; therefore, we were unable to verify their reasonableness.

We also noted TCHC was inconsistent in including financing and internal overhead costs in the anchor business plans. However, there was no explanation in the Board reports why these types of costs were included in some cases but not in others.

**Regular updates provide accountability and oversight**

**A 10-year development budget supports long-term fiscal planning and helps identify and address future capital funding needs**

More Regular Reporting to the Board is Needed

Financial accountability and oversight of complex projects requires regular updates on the budgeted and actual expenses, sources of funds, timelines, and any foreseeable material changes.

The long-term nature of development projects requires a view of future capital needs to understand the full impact of revitalization costs to TCHC over the long-term. TCHC's annual budgeting process provides a consolidated view of the annual expenses and funding sources for all the development projects. While the Board did not receive a 10-year development capital budget prior to the 2018 budget, it received periodic updates that included the high level total budgets for the current phases. These reports did not include forecasted budgets (and related shortfalls, if any) for future planned phases.

Providing information that is more fulsome and on a regular basis, particularly when additional costs may be likely, may help identify project risks and transparently highlight potential shortfalls in a timely manner. This will allow the Board to proactively find ways to mitigate such risks and address those long-term challenges to ensure that funding does not become a barrier to the completion of revitalization projects.

**Recommendations:**

- 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.**

## **C. Enhancing Procurement Practices**

### **Continuously improving processes over time**

During our audit, we identified four areas TCHC can further enhance its processes and controls for selecting its development partners:

1. Implementing formal negotiation protocols and explaining significant negotiated business terms more fully to the Board
2. Performing a comprehensive evaluation of proposed and final business terms using a robust financial model
3. Using certified appraisals for land valuation
4. Developing policies and procedures specific to real estate transactions, including document retention requirements

We did note TCHC has made continuous improvements in certain of these processes over time.

### **C. 1. Implementing Formal Negotiation Protocols**

#### **TCHC mostly uses NRFPs to select its revitalization development partners**

TCHC has selected development partners for its revitalizations through a number of different methods, mostly through open requests for proposals and in two instances, a sole-source to the incumbent developer. These are summarized in Exhibit 5.

Where TCHC has engaged in a competitive process to select its development partner, this has typically been through a two-stage Negotiated Request For Proposal (NRFP) process. The first stage involves an evaluation of the proposed terms in response to the requirements of the NRFP, and often includes an interview of and/or presentation by the highest-scoring proponents. The second stage involves a negotiation process to seek clarifications and improved terms that will benefit TCHC. Following negotiations, the final terms of the offers are re-evaluated and the winning proponent is identified.

**No formal negotiation protocols, but process is transparent**

TCHC has not established formal negotiation protocols. However, the negotiation process is transparently set out in the call document, giving TCHC significant flexibility to negotiate any aspect of a proposal to select a development partner. Both NRFP samples that we reviewed were overseen by a fairness monitor. In both instances, the fairness monitors were satisfied with the fairness and transparency of the process.

**Formal protocols can improve consistency**

Still, greater transparency and clarity can be achieved by establishing formal negotiation protocols in order to ensure TCHC is obtaining proponents' best and final offers during the final round of negotiations.

Two examples we noted during our review where formal protocols may improve consistency in negotiation practices are:

- *Time given to proponents to respond varied but rationale was not documented.* In one sample, two of the top three proponents had two weeks to respond whereas the third proponent had one week to respond to proposal clarification letters.
- *Requests for improved business terms were not always consistent.* While we understand that each proposal is unique, instances where TCHC requested improvements to certain terms from one bidder, but not the others, included:
  - Retail space – one proponent was formally asked to purchase the space, the other two were not.
  - Community and economic development terms – the proponent who scored the lowest in this criteria was not asked to improve its offered terms even though a request for improvement was made of another proponent.

**Documentation of final negotiations should be improved**

We were unable to verify certain parts of the negotiation process due to the limited documentation available. In one case, the documentation of final negotiations and analysis of final offered terms was not available. TCHC staff were unable to find the documentation of the final negotiations that took place, financial analyses of any changes to the proposed or negotiated terms, or the impact to the final evaluation. TCHC advised that the individuals who performed the financial analyses and were involved with the negotiations have since left the organization.

**Improvements have been made in more recent NRFPs**

The examples highlighted above are from earlier NRFPs. More recent examples that we reviewed showed improvements to the negotiation process.

The Board should be provided with sufficient information to understand how the negotiations impact the final evaluations and recommendation, if any. In one of the sampled transactions we reviewed, significant negotiated terms, and the financial impacts thereof, were not fully described in the report to the Board.

**Recommendations:**

- 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.**

## **C. 2. Performing a Comprehensive Evaluation of Business Terms**

**NRFPs are designed to encourage innovative ideas**

TCHC's Negotiated Request For Proposal (NRFP) process for selecting development partners are designed to be open and to encourage thoughtful and innovative partnership structures that would best meet TCHC's revitalization priorities.



**Financial analysis must be robust to ensure objectivity**

The fluidity and flexibility of the NRFP criteria inherently adds subjectivity to the evaluation. Therefore, the financial analysis model and cost estimation assumptions must be robust in order to ensure that the financial terms of varying proposed structures are evaluated as objectively as possible.

A robust financial model should include all the key business terms that have a financial impact, such as construction costs, land value, other profits as well as payment schedules (timing of cash inflows / outflows) and appropriate discount rates.

**The analysis and its key assumptions should be documented**

The business terms should also be presented to the Board in a clear and fulsome manner, inclusive of significant assumptions, when comparing the proponents. This is particularly critical when Management recommends a proposal that scores lower on an overall basis according to the evaluation criteria and the financial returns would be significantly less than Management's expectation.

In one of our samples, we noted the following examples that highlight the importance of documenting and performing a comprehensive financial analysis in support of the impact on the net proceeds to TCHC:

- The staff report to the Board presented the financial terms at face value, which suggested that both of the top two proposals would result in positive net proceeds to TCHC. The comparison of proceeds did not reflect the timing of cash flows. Furthermore, based on our analysis<sup>12</sup>, both proposals would result in negative net proceeds to TCHC (on a discounted cash flows / net present value basis) when taking into account TCHC's cost of capital.

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<sup>12</sup> Of note, in this example, no documentation was retained by TCHC to evidence that any financial analysis was performed. In the absence of any documented financial analysis, we analyzed the proposed business terms taking into consideration the timing of cash flows (i.e., when payments and proceeds would be received and equity contributions would be made). Based on our analysis, there would be no change to staff's recommended development partner.

- During negotiations, TCHC agreed to sell the retail space in the private market buildings to the developer at a price that was lower than the estimated value of the space in the developer's proposal. TCHC advised us that the decision to accept the offer was to eliminate future business risk of selling and/or leasing the retail space. This decision aligned with the Board's low risk tolerance. Financial analysis and the justification for this decision was not documented or retained in TCHC's files. Further, this was not presented to the Board.

Additionally, selling the retail space was premised on the value being net of construction costs. With construction now underway, we have observed that costs related to the retail space are not being tracked separately. Therefore, we asked TCHC to seek clarifications on:

- 1) whether the retail space construction costs are included in reported total project costs; and,
- 2) whether adjustments are needed to remove them when calculating the final profit allocations.

TCHC's cost consultant confirmed that estimated total retail space-related construction costs of approximately \$4.75 million have been included in the overall project costs to date. The cost consultant further confirmed that adjustments will be made when the final overall project costs are available. As a result, TCHC's proceeds from profit sharing will be adjusted up by 25 per cent of the total retail space-related construction costs.

**TCHC has made improvements**

We found TCHC's evaluation of financial terms had improved in a more recent project.

#### **Recommendations:**

- 17. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, 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.

### C. 3. Using Certified Appraisals for Real Estate Transactions

**TCHC used market analyses to inform their assessment of land values**

In the revitalization phases that we reviewed, TCHC's land valuations were based on market analyses performed internally or by a third-party consultant. The consultant analyzed recent land transactions and provided a summary of comparable transactions for TCHC's consideration.

**Certified appraisals determine land value in accordance with prescribed standards and methodology**

The market analyses performed are not certified real estate appraisals of the value of subject lands which are determined in accordance with prescribed standards and methodology. The process and steps taken for an appraisal are generally more extensive and formal to determine the fair market value of properties.

**Terms of reference for external analyses should be retained**

Furthermore, in the samples we reviewed, copies of the terms of reference for the external market analyses could not be found. Such terms of reference, including engagement purpose, scope of work, management assumptions and estimates, should be retained because management's direction and/or conditions given for the valuation/appraisal are relevant considerations that can impact the determination of the value of the lands.

**City relies on appraisals when determining market value of lands**

City Real Estate Services staff confirmed that the City relies on appraisals rather than market analyses for determining market value of lands for different municipal purposes. Based on previous Auditor General audits, we understand that Build Toronto had similarly used formal appraisals to determine the fair market value of properties.

In order to have a coordinated approach to City-wide real estate valuation, TCHC should use certified appraisals for valuing its land, consistent with the practices of the City's Real Estate Services Division and CreateTO.

#### **Recommendations:**

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.

#### C. 4. Developing Policies and Procedures for Real Estate Transactions

**No formal policies and procedures for real estate transactions**

TCHC's current procurement policy does not apply to the sale or purchase of real property. However, TCHC generally has used Negotiated Request For Proposal processes to identify and select its development partners as described in Section C.2 and Exhibit 5.

Still, many of the process-related observations noted during the audit are due to the lack of standard policies and procedures specific to real estate transactions.

**Support for procurement decisions should be documented and retained**

In addition, certain documentation to support these processes were not available for our review. Given the long-term nature of revitalization projects and staff turnover, it is important to ensure that decisions are well supported and appropriately documented. Such documents should be retained according to TCHC's document retention policies.

Examples where documentation was not always available were:

- financial analyses of business terms, including assumptions used (e.g. discount rates)
- final negotiations with top proponents
- original and final evaluation score sheets, with explanatory comments for changes in scores
- terms of reference for work done by external consultants, such as market analyses

Management advised that it recognizes the importance of having policies and procedures to guide their development work, as well as the need to maintain adequate documentation going forward. In developing formal policies, TCHC should consult with the City to understand and potentially leverage any of their existing policies and procedures related to real estate development.

**Recommendations:**

- 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.**

#### **D. Relevance to Agencies and Corporations**

**Findings in this report may be relevant to other agencies and corporations**

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 to address broader city priorities, to enhance oversight, accountability and transparency, and to improve procurement practices.

The City Manager should share relevant audit recommendations with other City agencies and corporations. Management staff in each of these organizations should review the issues and recommendations in this report, consider the relevance to their respective organizations, and provide any necessary reports to their governing body.

**Recommendation:**

- 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.**

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## Conclusion

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### **23 recommendations to leverage opportunities from revitalizations**

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 with an adequate funding support plan to more fully leverage revitalization opportunities. This will not only ensure that existing social housing is replaced, but can also address other city-building priorities, such as increasing the supply of affordable housing.

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.

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## Audit Objectives, Scope and Methodology

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### **Audit included in the 2017 Work Plan**

The Auditor General's 2017 Audit Work Plan included a review of redevelopment and revitalization activities of the Toronto Community Housing Corporation.

### **Audit objective was to evaluate TCHC's revitalization program**

The objective of this audit was to evaluate the extent to which TCHC's revitalization program addresses the challenges of providing public social housing. The audit assessed how TCHC maximizes land value through development partnerships and how its revitalization program contributes to city-building priorities.

### **A review of current revitalization projects**

This audit focused on activities of a sample of current revitalization projects underway within Regent Park, Alexandra Park, and Lawrence Heights during the period from 2012 through 2018, but also included some development partner agreements executed prior to this specified period.

A review of TCHC's construction contract management practices related to the revitalization, as well as its processes for managing the capital repair program, were not included within the scope of this audit. Work related to these areas may be considered for a future Auditor General Work Plan.

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## Audit methodology

Our audit methodology included the following:

- review of the City of Toronto's Shareholder Direction to Toronto Community Housing Corporation and the Operating Agreement Between the City of Toronto and Toronto Community Housing Corporation
- review of TCHC's strategic plans, annual reports and audited financial statements
- review of TCHC's policies and procedures
- interviews with TCHC staff from the Development, Facilities Management, and Finance Units
- discussions with staff from the following City divisions, agencies, and corporations:
  - City Planning Division
  - Affordable Housing Office
  - Shelter, Support & Housing Administration Division
  - Social Development, Finance & Administration Division
  - Real Estate Services Division
  - CreateTO
- review of documents and records for a sample of revitalization projects, including:
  - staff reports to City Council and the TCHC Board of Directors and related meeting minutes
  - documents, proposals, analyses, agreements, reports, budgets
  - interview with a fairness commissioner
  - other related records
- evaluation of management controls, procedures, and practices
- review of various internal and external reports, including past Auditor General reports on TCHC and on other major capital projects
- other procedures as considered appropriate



**Limitations to our audit**

Our findings and conclusions were based on the information available at the time the audit was completed. In some cases,

- management could not locate the information we requested
- staff turnover limited management's ability to answer our questions

**Compliance with generally accepted government auditing standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Exhibit 1 – Glossary of Terms

Commonly used terms throughout this report are described below.

|  |  |
|--|--|
| <b><i>Affordable Housing</i></b>   | Includes both Affordable Ownership and Affordable Rental Housing. Affordable Housing does not include social housing or subsidized housing for the purposes of this report.  |
| <b><i>Affordable Ownership Housing</i></b>   | Home ownership at market rates supported by down payment assistance loans.   |
| <b><i>Affordable Rental Housing and Affordable Rent</i></b>  | This type of rent is set at or below Average Market Rent (AMR) for comparable units as reported annually by the Canada Mortgage and Housing Corporation (CMHC). For TCHC, affordable rent is typically set at 80 per cent of AMR.  |
| <b><i>Average Market Rent (AMR)</i></b>  | The average of monthly rents paid for of other rental accommodation as published by the CMHC. For 2017, the AMR across all 17 zones in Toronto was \$1,296. <sup>13</sup>  |
| <b><i>Market Unit</i></b>  | <p>Market Unit, in the context of this report, means a residential or other unit within a new building to be constructed by a development partner that is intended to be sold, (or leased, or occupied), for an expected profit. These may include townhouse units, condominium units, or retail space.</p> <p>A "Market Unit" is different than "Market Housing" or "Market Rent"<sup>14</sup> housing units which are units within TCHC buildings that are rented at the same or slightly lower rents as charged by private landlords in the area. Market Rent units are not subsidized.</p> |
| <b><i>Rent Geared to Income (RGI) Housing and RGI Rent (also Social housing, Subsidized housing)</i></b> | <p>Housing units rented out to low income tenants at rates tied to tenants' incomes. RGI is used interchangeably with social housing, subsidized housing for the purposes of this report.</p> <p>RGI Rent is rent paid for subsidized housing. In most cases, RGI Rent is set to be 30 per cent of gross monthly household income, before taxes and deductions.<sup>15</sup></p> <p>(This is also sometimes referred to as “deeply affordable housing”.)</p>   |

<sup>13</sup> <https://www.toronto.ca/community-people/community-partners/social-housing-providers/affordable-housing-operators/current-city-of-toronto-average-market-rents-and-utility-allowances/>

<sup>14</sup> <https://www.torontohousing.ca/residents/your-tenancy/Pages/Types-of-rent.aspx>

<sup>15</sup> <https://www.toronto.ca/community-people/employment-social-support/housing-support/rent-geared-to-income-subsidy/>

## Exhibit 2 – Overall Expected Shortfall (Surplus) to TCHC for Current Revitalization Projects (In \$millions)

A breakdown of the project costs, funding, and the shortfalls (if any) for each revitalization is included in the following table. The shortfalls largely related to two projects: Regent Park and Lawrence Heights.

| Revitalization Project          | TCHC's Total Project Cost <sup>16</sup> | Total Project Funds | Project Funds as a % of Project Costs | Net Shortfall (Surplus) |
|---------------------------------|---|---------------------|---------------------------------------|-------------------------|
| Regent Park (excluding Phase 1) | 773.8                                   | (547.0)             | 71%                                   | 226.8                   |
| Lawrence Heights                | 751.5                                   | (706.8)             | 94%                                   | 44.7                    |
| Alexandra Park                  | 169.3                                   | (167.6)             | 99%                                   | 1.7                     |
| Allenbury Gardens               | 64.7                                    | (67.3)              | 104%                                  | (2.6)                   |
| Leslie Nymark                   | 52.9                                    | (49.3)              | 93%                                   | 3.6                     |
| 250 Davenport                   | 12.4                                    | (47.0)              | 379%                                  | (34.6)                  |
| <b>Sub-total Project Costs</b>  | <b>\$1,824.6</b>                        | <b>(\$1,585.0)</b>  | <b>87%</b>                            | <b>\$239.6</b>          |
| Capitalized Departmental Costs  | \$110.2                                 | -                   | n/a                                   | \$110.2                 |
| <b>Total Project Costs</b>      | <b>\$1,934.8</b>                        | <b>(\$1,585.0)</b>  | <b>82%</b>                            | <b>\$349.8</b>          |

Source: TCHC/Financial Planning, 2018 Capital Budget submission

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<sup>16</sup> This does not include costs related to market units.

### **Exhibit 3 – Letter from Greg Spearn, (former) President and Chief Executive Officer, Toronto Community Housing Corporation headed “Rationale for Regent Park Funding Request to City Council (February 9, 2017)”**

As part of the City’s 2017 budget process, TCHC provided the following letter to explain how the original funding model had fallen short of initial projections for the Regent Park revitalization.

The letter can also be accessed at:

<https://www.toronto.ca/legdocs/mmis/2017/cc/bgrd/backgroundfile-101361.pdf>

Toronto Community  
Housing Corporation  
931 Yonge Street  
Toronto, ON  
M4W 2H2

Attachment 1 -



February 9, 2017

Roberto Rossini  
Deputy City Manager & Chief Financial Officer  
Toronto City Hall,  
7<sup>th</sup> fl. E., 100 Queen St. W  
Toronto, ON M5H 2N2

Dear Mr. Rossini,

**RE: Rationale for Regent Park Funding Request to City Council**

Please accept this letter to provide some history, context and clarity in support of Toronto Community Housing’s (TCH) request for funding to support the costs associated with completing Phase 3 of the Regent Park Revitalization. We hope you find it helpful in support of answering the request at Executive Committee meeting February 7, 2017; specifically EX22.2ac, Motion 5b from Councillor James Pasternak.

TCH is presently halfway through the redevelopment of the country’s largest public housing community of 2,083 social housing units on 69 acres. The Regent Park Revitalization is being undertaken in five phases. Currently, the first phase is complete, the second phase will be complete in early 2018, and the third phase is expected to be completed in 2019/20. Phases 4 and 5 will follow in the future (generally the strip on the south side of Gerrard Street between Parliament and River St.).

The business plan approved by TCH’s Board of Directors in April of 2003 and subsequently endorsed by City Council in July of that same year, estimated the Regent Park revitalization would cost \$454.8M over 15 years with funding sources totaling \$402.2M. This demonstrated a shortfall of \$52.6M which is mainly attributed to infrastructure costs. The plan was premised on replacing all existing rent-geared-to-income units (RGI) and adding 2,500 market units for a total of just over 4,500 units. TCH anticipated the project to be financed through proceeds from land sales, savings from reduced expenditures for capital repairs, mortgage financing and TCH equity contributions. Infrastructure and community facilities costs were anticipated to be funded by the City or other levels of government.

TCH issued a Request for Proposals (RFP) to launch Phase 1 in 2005. A developer partner was selected and an outside fairness advisor was retained to oversee the process. Through

subsequent due diligence, TCH and the potential partner could not come to terms and the award was cancelled. With the authority of the TCH Board of Directors, a second RFP was held in late 2005. Again, the RFP process was presided over by an outside fairness advisor to ensure transparency. The second RFP process resulted in the selection of the Daniels Corporation as the successful proponent.

In Phase 1, TCH undertook significant financial risk and acted as banker to constructing the market projects. The approach was to build the condominium projects first and then sell them; TCH received little in the way of land value from the development partner but received most of the condominium project's return from profit, which is only realized at the completion of a building, including all condo unit sales. At that time, and after the failed RFP process, it was felt that TCH had to undertake this risk in order to attract a private-sector partner, given that the market viewed the area as having little land value. TCH also assumed all of the costs of the new municipal infrastructure as well.

Between 2004 and 2009, TCH reported regularly to its Board of Directors on the projected revenues and costs of the revitalization. By 2008/09, the estimated costs for the overall revitalization had increased to over \$700 million due to: increases in construction costs, costs of building well over 400 new affordable rental units for which TCH received only half of the capital cost, implementing LEED standards, offsite land acquisition costs, and adjustments to expected recoveries for demolition. Sources of funds also increased to approximately \$600 million, with half of that coming from TCH long term debt financing. TCH issued two corporate debentures to fund the TCH equity contribution in Regent Park (and in other projects) at the time.

The overall strategy was also adjusted to contemplate a district energy system for the entire site, develop TCH replacement buildings offsite, secure additional funding to allow for a mix of incomes within TCH buildings, enhance affordability by providing home ownership, and eventually to reconfigure blocks to take advantage of funding opportunities to create a second, large park space. TCH also evolved its tenant relocation process and continued to engage with the community.

By 2010, TCH began developing the Phase 2 lands. In Phase 2, TCH is taking less risk, as the market projects are able to be financed by traditional lenders (except for the first market building) and the majority of the condominiums have been or will be pre-sold prior to construction start. In this phase, TCH does not receive any up front value for the land and only realizes proceeds from the market development once the projects are complete. This exposure to market risk has allowed TCH to generate greater returns for the business plan but it also means that the success of the project is reliant on the continuing strong performance of the Toronto condominium market. Beginning in Phase 2 and continuing in Phase 3, the City of Toronto has agreed to fund 60 percent of the cost of municipal infrastructure. Items such as streetlights, street trees and enhanced boulevard treatments are not included in the cost-sharing agreement. Presently, the final two market buildings in Phase 2 are expected to open this year (having been pre-sold), and the final TCH rental building either at the end of 2017 or early 2018.

Over time and through the rezoning process, the density in Regent Park has increased to approximately 7,800 units thereby allowing for an increase in market units to augment the business plan and to allow for additional new TCH rental units to be built in the form of affordable rental units not contemplated in the original plan.

In 2013, the TCH Board asked staff to seek ways to better limit market risk exposure for the Phase 3 lands. As a result, TCH has negotiated a market land sale to the developer partner and has no participation in condominium sales or market risk. The land value is secured up front and will be realized regardless of market performance. However, by taking less risk, TCH realizes less returns and a larger funding gap is identified.

The shift in the business model is also expected to accelerate the pace of development and reduce the time TCH tenants spend offsite waiting to return to new buildings. For example, site work for the revitalization began in 2007. Phase 1 was complete in 2011 and included the development of 770 rental units over four years (193 units per year). Phase 2 relocation began in 2010 and is anticipated to be completed in 2018, with the development of 428 rental units over eight years (54 units per year). The Phase 3 implementation plan involves the development of 637 rental units over five years (128 units per year) and is intended to ensure that long relocation times are minimized.

Presently, the projected costs for the entire revitalization (all five phases) have increased to just over \$1 billion. The increase is largely due to the increase in construction costs, changes to the building code requirements, and increases due to factors associated with inflation. As mentioned earlier, costs related to constructing the new affordable rental units have also increased project costs.

The redevelopment of Regent Park also makes significant contributions to the neighbourhood and city as a whole. The project will now see approximately 5,400 market units and 2,400 TCH rental units (in a combination of rent-geared-to-income and affordable rental units). This includes three TCH rental buildings completed offsite in locations very close to Regent Park. TCH is also responsible for replacing spaces for support agencies previously located on the Regent footprint and by the end of Phase 3, we will have constructed spaces for all of these agencies or provided land. Additionally, introducing market variety will further contribute to the mixed income model envisioned for the community in a combination of condominium buildings, senior's rental and private market rental buildings, as will the affordable rental units in the new TCH buildings. Moreover, the project introduces new recreational and cultural facilities: a 6 acre City park, 2.8 acre athletic grounds, aquatic centre, new community centre, and an arts and cultural centre; new buildings for local agencies and providers that serve Regent Park residents such as the Christian Resource Centre, Dixon Hall, and Parents for Better Beginnings; introduces new services such as: the Sumac Health Centre, Toronto Birth Centre, RBC, Fresh Co, and George Brown college; and finally, adds numerous new City roads and streetscapes to improve pedestrian access through the community.

A portion of the Councilor's motion asked "how the model has fallen short and what is needed to get the Regent Park Revitalization project back to its original projections." The answer to that question is two-fold. First, the project has evolved significantly since it started 13 years ago, so it will not return to its original projections; it is a different revitalization with a host of new features not originally contemplated. Second, a robust analysis has not yet been completed for phases 4 and 5 to make clear what the final shortfall may be; that will be subject to further work in consultation with the TCHC board and city staff.

I hope the above summary provides some insight into the history and rationale for adjustments to the Regent Park Revitalization plan which have occurred since its inception. While I can appreciate the 'ask' to the City appears to be sudden, the funding shortfall had always been expected at some point. Until now, the project has been funded largely through TCHC resources.

The success of Regent Park has made possible strong partnerships with the private sector in five other TCHC communities in the city that are providing new, replacement energy efficient housing for more than 4,500 families at significantly reduced costs and material savings on extensive repairs to buildings that have essentially aged out. In addition, those communities will also enjoy enhanced services in mixed income revitalized and renewed neighbourhoods. This is city-building at its best.

Sincerely,

A handwritten signature in blue ink, appearing to read "Greg Spearn", written over a horizontal line.

Greg Spearn  
President and Chief Executive Officer  
Toronto Community Housing Corporation



## Exhibit 4 – Total 2018-2035 Cash Flow Forecast for Current Revitalization Projects (in \$millions)

The following table shows TCHC's forecasted total revitalization expenditures and funding sources by project, including ongoing and future phases not yet underway.

| Revitalization Community            | Net Cash Flow Shortfall (Surplus) |               |                 |
|-------------------------------------|-----------------------------------|---------------|-----------------|
|                                     | 2018-2019                         | 2020-2035     | Total 2018-2035 |
| Expenditures                        | 130.1                             | 360.2         | 490.3           |
| Funding Sources                     | (154.3)                           | (193.4)       | (347.7)         |
| <b>Regent Park, Phases 2-5</b>      | <b>(24.2)</b>                     | <b>166.8</b>  | <b>142.6</b>    |
| Expenditures                        | 63.6                              | 659.6         | 723.2           |
| Funding Sources                     | (38.8)                            | (660.1)       | (698.9)         |
| <b>Lawrence Heights, Phases 1-4</b> | <b>24.8</b>                       | <b>(0.5)</b>  | <b>24.3</b>     |
| Expenditures                        | 24.3                              | 110.0         | 134.3           |
| Funding Sources                     | (17.4)                            | (129.3)       | (146.7)         |
| <b>Alexandra Park, Phases 1-2</b>   | <b>6.9</b>                        | <b>(19.3)</b> | <b>(12.4)</b>   |
| Expenditures                        | 0.3                               | 0.1           | 0.4             |
| Funding Sources                     | 0.0                               | (38.2)        | (38.2)          |
| <b>250 Davenport</b>                | <b>0.3</b>                        | <b>(38.1)</b> | <b>(37.8)</b>   |
| Expenditures                        | 32.4                              | 0.0           | 32.4            |
| Funding Sources                     | (12.5)                            | (31.2)        | (43.7)          |
| <b>Allenbury Gardens</b>            | <b>19.9</b>                       | <b>(31.2)</b> | <b>(11.3)</b>   |
| Expenditures                        | 43.3                              | 0.1           | 43.4            |
| Funding Sources                     | (8.0)                             | (41.2)        | (49.2)          |
| <b>Leslie Nymark</b>                | <b>35.3</b>                       | <b>(41.1)</b> | <b>(5.8)</b>    |
| <b>Sub-total</b>                    | <b>\$63.0</b>                     | <b>\$36.6</b> | <b>\$99.6</b>   |
| Capitalized Departmental Costs      | 16.2                              | 58.0          | 74.2            |
| <b>Total</b>                        | <b>\$79.2</b>                     | <b>\$94.6</b> | <b>\$173.8</b>  |

Source: TCHC/Financial Planning, 2018 Capital Budget submission

## Exhibit 5 – Development Partner Selection Methods by Revitalization

TCHC has selected development partners for its revitalizations through a number of different methods: mostly through open request for proposals and in two instances, a sole-source to the incumbent developer.

| Revitalization            | Selection Year | Request for Expression of Interest | Public Request For Proposal | Sole Source   |
|---------------------------|----------------|------------------------------------|-----------------------------|---|
| Regent Park Phase 1       | 2006           |                                    | ✓                           |   |
| Regent Park Phase 2       | 2008           |                                    |                             | Sole sourced to the development partner for Phase 1 |
| Regent Park Phase 3*      | 2013           |                                    |                             |   |
|                           |                |                                    |                             |   |
| Leslie Nymark             | 2010           | ✓                                  | ✓                           |   |
|                           |                |                                    |                             |   |
| Alexandra Park Phase 1    | 2012           | ✓                                  | ✓                           |   |
| Alexandra Park Phase 2*   | 2016           |                                    | ✓                           |   |
|                           |                |                                    |                             |   |
| Allenbury Gardens         | 2012           | ✓                                  | ✓                           |   |
|                           |                |                                    |                             |   |
| 250 Davenport             | 2013           |                                    | ✓                           |   |
|                           |                |                                    |                             |   |
| Lawrence Heights Phase 1* | 2013           | ✓                                  | ✓                           |   |

\*A review of development partner selection was included in the audit sample.

## Appendix 1: Management's Response to the Auditor General's Report Entitled: "Moving Forward Together: Opportunities to Address Broader City Priorities from TCHC Revitalizations"

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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree  |
| Comments/Action Plan/Time Frame:  |
| <p><b>CITY:</b><br/>The TCHC Revitalization Framework report going to the Planning and Housing Committee's April meeting will make recommendations regarding city-building objectives that will be addressed through TCHC revitalizations, as well as the related funding requirements to achieve those objectives. This will be a report from SDFA with input from SSHA and City Planning.</p> <p><b>TCHC:</b><br/>Report to Council should be at a stage where the details have been developed enough to determine what the funding sources/uses will be. There needs to be a recognition that TCHC has an obligation to notify tenants first and seek approval from TCHC's Board before any discussion at Council is had. SSHA and the Tenant's First team are currently drafting a new shareholder consent protocol which is anticipated to be presented to Council in April.</p> |

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 housing 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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:   |
| <p><b>CITY:</b><br/>Management agrees with the recommendation. Good city building requires providing a range of housing opportunities in TCHC revitalizations, where financially feasible. This includes social housing units, affordable rental units and market units.</p> <p>It essential to also consider a number of non-financial factors when deciding where to build affordable housing across the city, whether in TCHC or other communities. This includes, but is not limited to, addressing inequality and alleviating the effects of poverty by providing a range of housing opportunities to Toronto residents across the entire city.</p> |

In terms of the evaluation of whether to include affordable rental units within TCHC revitalizations, Management suggests that this be considered on a site-by-site basis with input from several City divisions including, but not limited to, City Planning, the Affordable Housing Office, Shelter, Support & Housing Administration (SSHA), Social Development Finance & Administration (SDFA) and Financial Planning

**TCHC:**

City Council Motion CC1.3 directs the City Manager to report back on the development of a policy where TCHC will provide new affordable housing as part of new developments. TCHC will work with the City Manager and those identified in this recommendation on if and how affordable housing will be incorporated in to future revitalization opportunities.

**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.

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**CITY:**

The Provincial Government is considering amendments to the *Planning Act* and the Provincial Policy Statements which may have an impact on the existing Official Plan policies.

City Planning will be reviewing the Official Plan housing policies in the context of any upcoming legislative changes which may result in changes to Policy 3.2.19(b) (Time Frame: 2020)

City Planning will incorporate more detailed analysis and rationale in development application reports to provide more fulsome detail on the rationale and analysis for proposed amendments to the policy on each revitalization site. (Time Frame: 3<sup>rd</sup> quarter 2019)

**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.**

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**CITY:**

Management agrees with the recommendation. As part of the consultations on the Toronto Housing Strategy 2020-2030, the City will consult with the development community and other relevant stakeholders to assess possible implications of requiring that new affordable housing be provided by developers in real estate sale transactions plus get suggestions on additional measures to incentivize affordable housing development.

Management will report on this item through the Housing Plan 2020-2030 report to be considered at Council in November, 2019

**TCHC:**

TCHC typically procures a developer partner before development approvals are in place. To implement this recommendation, TCHC will have to be informed prior to the procurement process on how much new affordable housing the redevelopment is expected to deliver so that it can be factored in to the evaluation of the RFP. In considering whether new affordable housing should be provided by TCHC and its partners, funding for those units as identified in this report will need to be considered.

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.**

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**CITY:**

The permanent funding model will be considered by Council in Q3 2019 in line with the 2020 budget process.

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.**

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**CITY:**

The TCHC Revitalization Framework report going to the Planning and Housing Committee's April meeting will make recommendations to ensure these organizations increase collaboration and consultation.

**TCHC:**

TCHC has already begun working with CreateTO and City Planning on the evaluation of future revitalization opportunities.

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.**

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**TCHC:**

We accept this recommendation and agree that benchmarking Toronto Community Housing Corporation's risk tolerance for real estate and development transactions with other public sector

entities such as Infrastructure Ontario and CreateTO, along with the City of Toronto will ensure TCHC is aligned with what others are doing in the sector.

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.

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**TCHC:**

We accept the recommendation. We will develop a plan through 2019 in consultation with CreateTO on the City Wide Strategy and report to TCHC Board and City Council in 2020, subject to when the City Wide Strategy is finalized.

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.

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**CITY:**

The TCHC Revitalization Framework report going to the Planning and Housing Committee's April meeting will make recommendations that clarify the Shareholder Direction to Toronto Community Housing Corporation with respect to the City's approval and ongoing oversight of revitalizations.

**TCHC:**

Through 2019, TCHC will meet with the City to determine the breadth of reporting to City Council, and develop a template for that reporting.

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.**

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:<br><br><b>CITY:</b><br>The TCHC Revitalization Framework report going to the Planning and Housing Committee's April meeting will outline a plan to report the outcomes achieved at the completion of each phase of revitalization projects.<br><br><b>TCHC:</b><br>We accept this recommendation and will report beginning with Regent Park Phase 2 and Alexandra Park Phase 1 when they are completed. |

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.**

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:<br><br><b>TCHC:</b><br>We accept with this recommendation and it has already been implemented as part of the annual City budgeting process. |

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.**

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:<br><br><b>CITY:</b><br>As part of the 2020 Budget and going forward, the City will include any building repair and revitalization project shortfalls in the overall City unfunded project list. Through the Interim Funding Strategy 2018-2019, the City has committed to cover the shortfall for those revitalization projects that are in-flight and already approved by Council. Any future consideration for funding "New" Revitalization projects can only be considered when the project plan is approved by Council (appropriately identified as an action in rec# 9 & 10) which should be developed in a manner to avoid any funding shortfall.<br><br><b>TCHC:</b><br>We accept with this recommendation and have already begun including this starting with the 2018 City Budget process. TCHC will continue working with City Finance to ensure 10-year capital shortfalls for revitalization, are included, specifically for Regent Park and Lawrence Heights which |



are considered inflight and approved by Council. City funding for new revitalization projects, if any, will presented to TCHC's Board of Directors and City Council for approval.

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.

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**TCHC:**

Capital cost avoidances will be reasonably estimated and will be presented to the TCHC Board of Directors when new revitalization business cases are considered. There is little to no operating cost avoidances with labour for revitalizations as building staff are typically redeployed to other buildings during construction.

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.

Management Response: ☒ Agree ☐ Disagree

Comments/Action Plan/Time Frame:

**TCHC:**

We accept this recommendation, noting that we already do annual reporting. We will ensure any items outlined in this recommendation that are not already included, will be added.

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 Toronto Community Housing Corporation 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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree  |
| Comments/Action Plan/Time Frame:<br><br><b>TCHC:</b><br>We accept this recommendation and will formalize the process in a protocol in the near term.<br><br>In recent developer partner procurement processes, we have improved on the negotiation process and documentation and this will be formalized in a protocol. |

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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree  |
| Comments/Action Plan/Time Frame:<br><br><b>TCHC:</b><br>This has already been implemented as evidenced in more recent developer partner procurement processes. If the intent is to ensure the negotiation is well documented, TCHC accepts this and will work towards improving its records retention on future negotiations. |

17. The Board request the Chief Executive Officer, Toronto Community Housing Corporation, 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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:<br><br><b>TCHC:</b><br>We accept and have already implemented these recommendations. While TCHC is able to discount payments for land based on the timing of payments, we typically receive our business terms in current dollars, as it is not an industry practice to future value costs. |

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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree           |
| Comments/Action Plan/Time Frame:   |
| <b>TCHC:</b><br>We accept and have removed these costs related to the retail space from the business plan. |

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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:   |
| <b>TCHC:</b><br>We accept and have already implemented this recommendation. We are also formalizing this requirement in a Development Division protocol. |

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.

|  |
|--|
| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:   |
| <b>TCHC:</b><br>We accept and have already implemented this recommendation. We are also formalizing this requirement in a Development Division protocol. |

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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree |
| Comments/Action Plan/Time Frame:   |
| <b>TCHC:</b><br>We accept and will enhance the procurement policy in the near term.              |

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.

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| Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree   |
| Comments/Action Plan/Time Frame:<br><br><b>TCHC:</b><br>We accept and have already implemented this recommendation. We are also formalizing this requirement in a Development Division protocol. |

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.

|   |
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| Management Response: <input checked="" type="checkbox"/> Agree <input checked="" type="checkbox"/> Disagree |
| Comments/Action Plan/Time Frame:<br><br><b>CITY:</b><br>Report should be shared, as appropriate.            |

**AUDITOR  
GENERAL**  

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**TORONTO**