CityHousing Hamilton Corporation

Refinancing of 500 MacNab

Date:	June 22, 2017
Report to:	CityHousing Hamilton Corporation Shareholders

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Chief Executive Officer/
Secretary

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Subject: CityHousing Hamilton Corporation (CHH)
CHH Mortgage Refinancing for 500 MacNab
(Report #17018)

RECOMMENDATION

i) That, in accordance with the terms of the Shareholder Direction from the City of Hamilton to CityHousing Hamilton Corporation approved June 13, 2012, the City, in its capacity as sole shareholder approve the refinancing of 500 MacNab as set out in Document 1 and under the conditions described in this report.

Tom Hunter,
Chief Executive Officer/Secretary

EXECUTIVE SUMMARY:

CityHousing Hamilton Corporation (CHH) has identified a need for significant capital repairs and deferred maintenance work to be undertaken on many of the social housing projects within the portfolio. The level of funding from on-going subsidies and from existing capital repair programs are insufficient to complete the work. The historical low interest rates currently available present an opportunity to refinance existing properties to generate additional monies to fund part of this work.

CHH has applied to Canada Mortgage and Housing Corporation (CMHC) and other conventional lenders like Infrastructure Ontario (IO) to refinance 500 MacNab. The Social Housing mortgages for 500 MacNab were paid in full in 2015 and currently this property has no outstanding debt.

CMHC and IO continue to offer long-term, stable borrowing rates (i.e. 2% for 15 years for CMHC and approximately 3.67% for 30 years for IO), eliminating the risk of fluctuations in interest rates over the amortization of the loan.

The intention of refinancing is to leverage the equity in the existing asset to generate capital that will be applied towards the repair of 500 MacNab. CHH is contemplating a deep energy retrofit (i.e. Passive House) to this residential tower building that would be one of the first in North America and showcase affordable housing within the West Harbor. This can be accomplished by amortizing the project for a period to 30 years at a fixed rate of interest for the duration of the loan. The amount of loan required for the Passive House refurbishment is approximately $7,770,000 after expected grants. If the CHH Board opts for a more traditional renovation model the amount of financing will be approximately $4,550,000.

The extended obligation is consistent with the City of Hamilton's obligation as Service Manager under the Housing Services Act, 2011 (HSA) to provide and maintain over 10,000 units of rent geared to income housing on an ongoing basis (Rent Geared to Income Service Level Standards). CHH is responsible to provide 5,832 of the RGI units, with the balance of the RGI units spread across the other housing providers in the City.

Approval and recommendations will result in no additional tax levy and Housing Services Division will continue to pay the Rental Subsidy to assist the residents of CHH with their rent.

BACKGROUND

CHH is the largest provider of subsidized housing in the City of Hamilton with over half of the total social housing stock. The City of Hamilton is the sole shareholder of the corporation that manages these assets of over 720 million dollars. As a non-profit corporation that is owned by the City of Hamilton, CHH is governed by a Board of Directors composed of members of City Council, community volunteers and residents.

CHHs' residents include some of Hamilton's most vulnerable citizens. Families fleeing domestic violence have first priority for placement. Over 3,700 households are seniors; almost 2,100 households are residents who qualify for the Ontario Disability Support program or Ontario Works Program; and almost 3,800 children, 12 years old and under, live in CHH communities. The quality and security of CHH housing has a direct impact on the quality of life for over 14,000 residents.

The City of Hamilton, the Province of Ontario and the Federal government have all invested in construction, acquisition and maintenance of the social housing that constitutes CHH. CHH has an aging and diverse housing portfolio with approximately 7,100 housing units in over 1200 properties. The housing stock consists of apartment buildings, row housing, single family houses, semi-detached houses and commercial space. Within our portfolios are some of the oldest social housing stock in the province. On average, the buildings are more than 35 years old.

In 2011, Building Condition Assessments (BCAs) were completed on most of the CHH buildings. It was identified that a substantial capital infusion was required to upgrade the buildings at an estimated cost of $172 million for the next ten years. The findings for 500 MacNab were dramatic. As per Board Report #13045 from November 2013, the capital repairs for 500 MacNab were extensive and it was further noted that there were extreme levels of pest infestation.

In 2015, a further BCA was completed for 500 MacNab. The immediate financial requirements to put the units back on the market was an estimated cost of $6.5 million. This was in comparison to the cost of replacing the 146 units at approximately $30 million. Based on this information, the Board decided to renovate the building.

Once the decision had been made to renovate, CHH began exploring the possibility of a deep energy retrofit to this building. Understanding that it would require more capital, CHH wanted to build on its commitment to energy conservation and optimizing living spaces for the residents. In 2017, CHH hired ERA consultants to work on the 500 MacNab/Ken Soble Tower Transformation. As part of the feasibility study, ERA worked on both the building design and proforma. In creating the proforma, it was determined that CHH may be eligible for grants and low interest loans to support the renovation program. CHH has applied for two innovation grants for the project, one from CMHC and the other from the Federation of Canadian Municipalities (FCM). This Report sets out the recommendation for the financial loan that will be required to bring this project to fruition.

DISCUSSION

Despite the significant deferred maintenance and the annual shortfall in funding for repairs that was identified in 2011, progress has been made in recent years with the undertaking of the major capital works program to repair the housing portfolio. CHH continues to be proactive by identifying funding, enabling redevelopment, leveraging assets and pursuing opportunities to increase revenue and reduce expenses. There have been visible improvements in CHH communities as a result of major programs of maintenance and capital repair and energy retrofits that have been completed.

Under the proposed refinancing, CHH will take on new 30 year debts arranged through IO and CMHC (yet in discussion). IO and CMHC offer long-term, stable borrowing rates allowing for the elimination of the risk of fluctuations in interest rates. Document 1 identifies the details of the project for 500 MacNab.

Despite the satisfaction of the mortgage debt, the HSA stipulates that there is an ongoing requirement for the City, in its capacity as Service Manager for social housing, to continue to administer and fund transferred designated housing projects. As Service Manager the City could apply to the Province to have the project delisted from the HSA. However, this is not recommended for the following reasons:

1. The City must meet its legislated service levels of at least 10000 units of RGI housing;
2. The City owns the housing stock as the sole shareholder and therefore has a fiduciary obligation to maintain the housing assets in good condition;
3. The City has an ongoing requirement to ensure that current residents living in the RGI housing in question are not displaced without an alternative being provided; and
4. CHH must meet service level standards as set out in the regulation and the operating agreement which the City of Hamilton entered into in 2012 with CHH.

Further, after an analysis of the of the cost of operations for 500 MacNab, staff has concluded that this approach is revenue neutral from the Service Manager's perspective while providing an opportunity to have CHH access the much needed capital. The reason for this project being revenue neutral is, the cost of servicing the debt can be achieved from the operations revenue and does not need the Service Manager to fund the debt

For this recommendation, the Service manager would continue to provide the rent subsidy to ensure the building remains at its same affordability level.

City Guarantee

Once CHH is sure of financing, the City of Hamilton Council would be required to adopt a recommendation to authorize a delegate on behalf of the shareholder an agreement which provided a guarantee for repayment of principal and interest for the refinancing of 500 MacNab.

CONSENTS

In order to execute the proposed refinancing of MacNab, the following City of Hamilton consents are required

Sole Shareholder

Council's shareholder relationship with CHH is set out in the Shareholders Direction of 2012; the approval of the Shareholder is required to permit CHH to create any additional indebtedness of CHH.

Service Manager

As a designated Service Manager for social housing under the HSA, the City is also responsible for ensuring CHH's compliance with the requirements of legislation and its regulations. The HSA requires the Service Manager to consent to encumbering any social housing project.

In the past, the law was such that a social housing corporation was not allowed to sell or mortgage any of its properties without prior written consent of the Provincial Ministry, in 2017 this changed and now the required consent is to be given by the Service Manager.

The Housing Services Division has been consulted on this initiative and has indicated its support. As such, it will submit its recommendation to the City, as Service Manager, for the necessary consents under HSA.

FINANCIAL IMPLICATIONS

CHH has identified a number of key financial advantages in the proposed refinancing of 500 MacNab some of which are:

- Ability to lock in at historically low interest rates and equivalent amortization period of 30 years
- Provides CHH the ability to address the capital repair and put 146 units back on the market.
- This refinancing improves financial discipline of CHH through a process where individual assets are evaluated to determine the appropriate level of debt they can support. Securing debt against 500 MacNab rather than the general assets of the corporation ensures that the project is financially viable over the long-term.
- This project will have accessibility impact as approximately 10% of units will be converted to accessible units.

Document 1

500 MacNab
Refurbish 146 Units Traditional Model

Project Cost	$	6,500,000
Estimated Loan Requirement	$	(4,550,000)
Total Cost per Unit	$	44,520.55

Refurbish 146 Units using the concept of a Passive House

Project Cost	$	15,500,000
Estimated Grants Receivable CMHC	$	3,650,000
Estimated Grants Receivable-GMF	$	750,000
	$	11,100,000
CMHC Future Loan (15 year financing)	$	(3,600,000)
Estimated Loan Requirement (30 year financing)	$	(4,170,000)
Total Cost per Unit	$	76,027.40