Report to/Rapport au:

Community and Protective Services Committee
Comité des services communautaires et de protection

and Council / et au Conseil

February 14, 2013
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CITY WIDE / À L'ÉCHELLE DE LA VILLE Ref N°: ACS2013-COS-CSS-0002

SUBJECT: **OTTAWA COMMUNITY HOUSING CORPORATION 2013 MORTGAGE REFINANCING**

OBJET : **2013 REFINANCEMENT HYPOTHÈCAIRE DE LA SOCIÉTÉ DE LOGEMENT COMMUNAUTAIRE D'OTTAWA**

REPORT RECOMMENDATION

That the Community and Protective Services Committee recommend that Council approve the refinancing of the eight Ottawa Community Housing Corporation projects as described in this report and the continuation of the mortgage subsidy for these projects at the current monthly rate until 2043 when the refinanced loan with Infrastructure Ontario will be fully repaid.

RECOMMANDATION DU RAPPORT

Que le Comité des services communautaires et de protection recommande au Conseil d'approuver le refinancement des huit programmes de la Société de logement communautaire d'Ottawa mentionnés dans le présent rapport, et de continuer à verser des subventions pour le remboursement des hypothèques de ces programmes, au taux mensuel actuel, jusqu'en 2043, après quoi le prêt de refinancement offert par Infrastructure Ontario sera entièrement remboursé.

EXECUTIVE SUMMARY

Ottawa Community Housing Corporation (OCHC) has identified a need for significant capital repair and deferred maintenance work to be undertaken on many of the social housing projects within their portfolio. The levels of funding from on-going subsidies

and from existing capital repair programs are insufficient to complete the work that is required. The historically low interest rates currently available present an opportunity to refinance existing debt to generate additional monies to fund some of this work. In 2012 (***2012 OCHC Mortgage Refinancing report to Community and Protective Services Committee and Council***) Council approved the refinancing of 8 other mortgages through Infrastructure Ontario (IO) at an interest rate that was fixed for the full 30 year term of the loan. This generated $16.9M in additional funding that OCHC has put toward capital work.

Similarly, OCHC has now applied to IO to refinance an additional eight mortgages that are due for renewal in 2013; all of which are associated with social housing projects within the City of Ottawa's Service Manager Portfolio. IO continues to offer long-term, stable borrowing rates (currently between 4.00% and 4.45%) eliminating the risk of fluctuations in interest rates over the amortization of the loan.

As was the case in 2012, the intention of the refinancing is to leverage the equity in existing assets to generate capital that can be applied toward the repair of the housing stock. This can be accomplished by extending the amortization period to 30 years for each of these projects at a fixed rate of interest for the duration of the loan. By extending the amortization period and maintaining the debt payments at the current level, it is possible to generate approximately $12.5M to $14.1M in additional capital. This longer term obligation must be weighed against the City's obligation as Service Manager under the Housing Services Act (HSA) to provide and maintain over 16,500 units of rent geared to income housing on an ongoing basis (Rent Geared to Income Service Level Standards). OCHC is responsible to provide 12,272 of the RGI units with the balance of the 16,500 RGI units spread across the other housing providers in the City.

Approval of this recommendation will result in the City extending the mortgage subsidy for the eight identified housing projects (based on their current monthly mortgage payments) until the end of 2043 at which time the new loan will be fully repaid. The City will continue to pay the operating subsidy as per the existing formula which can be revisited in the future when further work has been completed at a provincial level in relation to the end of social housing mortgages and end of operating agreements. Any future reworking of the subsidy payments for any or all of these projects will first ensure that the loan payment obligation is deducted from any revised subsidy allocation.

SOMMAIRE

La Société de logement communautaire d'Ottawa (SLCO) a déterminé qu'il est nécessaire de procéder à des rénovations majeures ainsi qu'à des travaux d'entretien qui avaient été reportés dans bon nombre des projets de logements sociaux de son portefeuille. Cependant, le financement provenant des subventions actuelles et des programmes de rénovations majeures ne suffit pas à couvrir le coût des travaux nécessaires. Les taux d'intérêt qui sont à un niveau historiquement bas sont l'occasion pour la SLCO de refinancer ses dettes afin de générer des fonds supplémentaires pour

couvrir une partie des travaux. En 2012 (***Refinancement hypothécaire de la Société de logement communautaire d'Ottawa - 2012***), le Conseil a approuvé le refinancement de huit autres hypothèques par l'intermédiaire d'Infrastructure Ontario (IO) à un taux d'intérêt fixe pour la durée totale du prêt de 30 ans. Cette démarche a permis de générer 16,9 millions de dollars en fonds supplémentaires que la SLCO a utilisés pour des travaux d'immobilisations.

Dans le même ordre d'idées, la SLCO a fait une demande de refinancement à IO pour huit autres hypothèques dont le renouvellement est prévu en 2013; ces hypothèques se rapportent toutes à des programmes de logements sociaux faisant partie du portefeuille du gestionnaire de services de la Ville d'Ottawa. IO continue d'offrir des taux d'intérêt créditeurs stables à long terme (actuellement entre 4 % et 4,45 %) : il n'y a donc aucun risque de fluctuation des taux d'intérêt sur la durée d'amortissement du prêt.

Comme c'était le cas en 2012, l'objectif de ce refinancement est de tirer profit de la valeur des biens existants afin de générer des fonds qui serviront à la réparation du parc de logements. Pour ce faire, il est possible de prolonger la période d'amortissement sur 30 ans, pour chacun de ces programmes de logement, à un taux d'intérêt fixe pour la durée du prêt. En prolongeant la période d'amortissement tout en maintenant le même taux de remboursement, la SLCO pourrait générer de quelque 12,5 millions à 14,1 millions de dollars en capital. Cette obligation à long terme doit être évaluée en tenant compte du devoir qu'a la Ville, en tant que gestionnaire de services et en vertu de la *Loi sur les services de logement,* d'assurer en tout temps la disponibilité et l'entretien de plus de 16 500 logements à loyer indexé sur le revenu (LIR), selon les normes de niveau de service des LIR. La SCLO doit fourni 12 272 logements sur les 16 500 logements à loyer indexé sur le revenu (LIR), le reste étant réparti entre les autres fournisseurs de logement de la Ville.

Si cette recommandation est approuvée, la Ville augmentera les subventions pour le paiement des hypothèques des huit programmes de logement déterminés (en fonction de leurs paiements hypothécaires mensuels), jusqu'à la fin de 2043, date à laquelle le nouveau prêt sera entièrement remboursé. La Ville continuera de verser des subventions d'exploitation selon le mode de financement actuel, lequel pourra être révisé plus tard, lorsque l'on aura fait plus de progrès à l'échelon provincial en ce qui a trait au remboursement des hypothèques des logements sociaux et à l'expiration des contrats d'exploitation. Toute refonte future de ces subventions, pour un de ces programmes ou la totalité des programmes, devra d'abord permettre de déduire le remboursement du prêt des subventions révisées.

BACKGROUND

Ottawa Community Housing Corporation (OCHC) is Ottawa's largest non-profit housing corporation with approximately two thirds of the total social housing stock and is the city's second-largest residential landlord. The City of Ottawa is the sole shareholder of the corporation that manages the over 1.6 billion dollar asset. As a non-profit corporation that is owned by the City of Ottawa, OCHC is governed by a Board of Directors composed of community volunteers and members of City Council.

OCHC tenants include some of Ottawa's most vulnerable citizens. Families fleeing domestic violence have first priority for placement. Over 4,700 households are seniors; almost 3,000 households are tenants who qualify for the Ontario Disability Support Program; and over 6,600 children, 12 years old and under, live in OCHC communities. The quality and security of OCHC housing has a direct impact on the quality of life of over 32,000 tenants.

The City of Ottawa, the Province of Ontario and the Federal government have all invested in the construction, acquisition and maintenance of the social housing that constitutes OCHC. OCHC has an aging and diverse housing portfolio – apartments, townhouses, rooming house units, multi-residential and some single family homes. Within their portfolio is some of the oldest social housing stock in the province. On average, the buildings are more than 35 years old.

A Building Condition Assessment Study (BCA) was finalized in 2008 and provided a comprehensive assessment of the entire housing portfolio that assessed the state of the portfolio based on site inspections and the expected life cycle of major building systems. A significant finding from this BCA was the need for a substantial capital infusion to address deferred maintenance requirements within the portfolio. Many buildings and communities were in a poor state of repair. Many communities required extensive renewal or redevelopment and it was, and still is, a challenge to maintain them adequately. The BCA is currently being updated which will provide additional information relating to the current financial need.

OCHC has been proactive in reviewing and planning for these projected capital needs and has been working on the development of a Long Range Financial Strategy to address the need to acquire sufficient funds to sustain operations, address current capital repair needs, and support further housing development. As part of that process they have been exploring this option of leveraging the existing asset equity to finance some of the much needed capital work.

DISCUSSION

Despite the significant deferred maintenance and the annual shortfall in funding for repairs that was identified in 2008, progress has been made in recent years with the undertaking of major capital works programs to repair the housing portfolio. OCHC 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 OCHC communities – major programs of maintenance and capital repair and energy retrofits.

Under the proposed refinancing, each of the existing mortgages, which at renewal will have remaining amortization periods ranging from 56 months to just under 15 years, will be paid off in full on their respective renewal dates and will be replaced by a new 30 year debt arranged through Infrastructure Ontario (IO). IO offers long-term, stable borrowing rates (currently between 4.00% and 4.45%) allowing for the elimination of the

risk of fluctuations in interest rates. The Ministry of Municipal Affairs and Housing (MMAH) has confirmed that there will be no prepayment penalties incurred as a result of this refinancing. Table 1 identifies the details of the existing mortgages. The Ministry of Municipal Affairs and Housing have also confirmed in writing that the federal funding associated with mortgages will continue until the end of the original maturation date of the mortgages.

Continuing the annual mortgage funding of $1.74M that the City currently provides to OCHC for these eight properties for thirty years will fund a loan in the range of approximately $28.2M to $29.8M from IO. The loan will be used to fully payout the existing mortgages of $15.7M and the balance of $12.5M to $14.1M will be used toward priority capital repair work. The annual repayment amount would be $1.74M for an amortization of 30 years based on a fixed interest rate estimated at between 4.00% and 4.45%.

The HSA stipulates that there is an ongoing requirement for the Service Manager to continue to administer and fund transferred designated housing projects and this obligation continues even if the mortgages are fully paid and discharged as long as the projects remain listed in schedule 24 of the Ontario regulation (O.Reg.368/11). Upon full payment and discharge of the eight mortgages in question, the City could apply to the Province to have these projects delisted: but staff are not recommending this action at present. There are several reasons for this: 1. The City must maintain at least 16,503 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 tenants living in the RGI housing in question are not displaced without an alternative being provided; and 4. OCHC must meet the service level standards as set out in regulation and in the operating agreement which the City entered into in 2009 with OCHC. Further, staff have undertaken an analysis of subsidy formulas of the current 8 projects under consideration and given current interest rates and other benchmarked costs and revenues, have concluded that this approach is revenue neutral from the Service Manager’s perspective while providing an opportunity to have OCHC access much needed capital. This may not be the case with other mortgage renewals; each possible opportunity will need to be evaluated on its own merits. In this instance, the monthly payments for the new loan will remain the same as what the City currently contributes to the mortgages.

To meet Infrastructure Ontario's security requirements for the loan, the City of Ottawa is being asked to commit to continue the current level of the mortgage subsidy until the end of 2043 and to accept a direction from OCHC to pay the 360 equal monthly instalments directly to the lender. OCHC is in agreement with this approach. A portion of OCHC's monthly subsidy would be given directly to IO for the duration of the loan for the debt servicing costs. The security afforded by this commitment is an opportunity to access attractive interest rates, lower than those available through other commercial lending programs and to leverage the equity in these buildings so as to generate capital for much needed repairs.

City staff recommends the refinancing of the 2013 mortgages to align with OCH's multi-faceted approach to address the significant need for capital repairs. By maintaining the level of mortgage subsidy funding based on the existing monthly mortgage payments and extending the term of the debt, additional funding for capital repairs can be generated without any requirement for the City to increase its current level of mortgage subsidy funding; only extending it to 2043. This capital infusion will go toward priority repair work at the discretion of OCHC, and as with all previous funding; OCHC will make every effort to leverage the funds to ensure the maximum positive impact on the aging stock.

RURAL IMPLICATIONS

There are no specific rural implications associated with this report.

CONSULTATION

City staff has met on several occasions with staff from OCH to work out details for the refinancing proposal.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a City-Wide report.

LEGAL IMPLICATIONS

There are no legal implications to this report as long as CMHC continues to make financial contributions to the City in accordance with the terms of the current tripartite Municipal Non-Profit Housing Agreements (which affect several of the eight housing projects) for a period of time that is the equivalent of the current amortization period of each CMHC loan as outlined in this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications associated with this report.

FINANCIAL IMPLICATIONS

With the approval of the report recommendations the current annual funding OCHC receives of $1.74M for the existing mortgages would remain constant until 2043. The annual funding is included in Housing's 2013 operating budget and would remain constant until the end of the loan. Based on OCHC's direction to pay, the City will issue a portion of OCHC's monthly subsidy directly to Infrastructure Ontario for the debt servicing costs. Since the level of debt servicing is expected to remain the same under the proposed refinancing there will be no impact on the City's Annual Repayment Limit other than to extend the period during which the mortgage payments are to be made.

ACCESSIBILITY IMPACTS

There are no accessibility impacts associated with this report.

TECHNOLOGY IMPLICATIONS

There are no technology implications associated with this report.

TERM OF COUNCIL PRIORITIES

The recommendation in this report aligns with the Term of Council Priorities as it targets the Health & Caring Communities strategic priority by addressing the strategic objective to improve social and affordable housing.

SUPPORTING DOCUMENTATION

Table 1: "2013 Mortgage Renewals"

DISPOSITION

Staff will action any direction received as part of consideration of this report.

Table 1: 2013 Mortgage Renewals

Site	Renewal Date	Current Rate	Amount	Current Annual Payment	Remaining Amortization (years)
Gilmour	June 1	3.16%	$3,092,555	$261,067	14.83
May Nickson Place	June 1	3.16%	$4,571,208	$385,892	14.83
Strathcona: Renovations 1	June 1	3.16%	$1,157,538	$97,717	14.83
Bruyere & Belanger Manor	Dec. 1	5.14%	$1,038,222	$246,486	4.75
Eva Taylor Court	Dec. 1	5.14%	$869,712	$209,740	4.67
Orchard Grove	Dec. 1	5.14%	$1,667,156	$160,227	14.83
Revell Court	Dec. 1	5.14%	$1,943,595	$248,352	10.00
Strathcona: Nancy Smith	Dec. 1	5.14%	$1,343,463	$129,641	14.75
Total:			$15,683,449	$1,739,122	