



Date: April 11, 2018

Report to: CityHousing Hamilton Corporation Shareholder

Submitted by: Tom Hunter
Chief Executive
Officer/Secretary

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Subject: Development Strategy Update (Report 17021(b))

RECOMMENDATION:

Discussion of Confidential Appendix “B” to this Report in Closed Session is subject to the following requirement(s) of the City of Hamilton’s Procedural By-Law and the *Ontario Municipal Act, 2001*;

- **The receiving of advice that is subject to solicitor-client privilege, including communications necessary for that purpose; or**

That the Board of Directors approve the following resolution:

WHEREAS CITYHOUSING HAMILTON CORPORATION (CHH) is in the pre-development process for five social and affordable housing projects;

AND WHEREAS a requirement of the Shareholder’s Direction is the approval of any debt;

AND WHEREAS a requirement of the Shareholder’s Direction is the approval of redevelopment;

AND WHEREAS a requirement of funding applications is the guarantee of the debt and confirmation of the amortization period by the City of Hamilton (City) as sole shareholder of CHH;

AND WHEREAS CHH can access Infrastructure Ontario (IO) loan programs at a discounted municipal interest rate through the City as sole shareholder of CHH;

AND WHEREAS CHH can enter into debt/debenture/mortgage agreements under terms and conditions that are approved by the Board of Directors and Sole Shareholder;

THEREFORE BE IT RESOLVED THAT:

- (i) That the Board of Directors approve CityHousing Hamilton Corporation staff to proceed with development plans according to the parameters established within the indicative financial targets outlined in Report 17021(b) for gross project costs of \$63,306,000 as per Appendix "A" to Report 17021(b)).
- (ii) That Board of Directors approve CityHousing Hamilton Corporation staff to negotiate the terms and debt for projects in the amount of \$24,539,000 as per Appendix "A" to Report 17021(b)).
- (iii) That the City of Hamilton as Sole Shareholder be requested to:
 - a) Approve development plans outlined in Report 17021(b); and
 - b) Guarantee the debt financing for the projects listed above to the upset limit of \$24,539,000; and
 - c) Enter into an agreement with CHH and a security agreement with a collateral on the properties with the City of Hamilton for the purpose of accessing loan programs, and for 500 MacNab the City of Hamilton being in second place; and
 - d) Apply for Infrastructure Ontario (IO) loan programs on behalf of CHH and collect approved loan payments from CHH in accordance with terms and conditions in IO Loan agreements; and
 - e) Approve amortization periods of up to thirty-five years on behalf of CHH; and
 - f) Prepare the necessary agreements with the terms and conditions that ensure that CHH is responsible for all debt or loan payments included in Report 17021(b), including right to allow a creditor to register security agreements against the property being mortgaged and seeking legal opinions where necessary.
- (iv) That Report 17021(b) be forwarded to the City of Hamilton in its capacity as Service Manager for approval of all necessary consents.
- (v) That Report 17021(b) be presented to the next Shareholder's meeting for approval of development/redevelopment projects and approval of debt in accordance with the Shareholder Direction.
- (vi) That if required by a lender, the City of Hamilton as municipality be requested to guarantee the debt financing for 500 MacNab.



Tom Hunter
Chief Executive Officer/Secretary

EXECUTIVE SUMMARY:

CityHousing Hamilton (CHH) is embarking on the revitalization of its portfolio through the extensive retrofit of existing assets, and with new development that replaces sold units, as well as adds net new units.

This report follows on the Development Strategy Update provided in Report 17021 and the in camera version 17021(a), while referencing data from project specific reports 17018 regarding 500 MacNab St N, and 17022 regarding 55 Queenston Rd.

The aim of this report is to confirm, and request approvals by the City, the indicative financial targets for project costs, total debt, access to IO funding through the City, and amortization period for five CHH projects in pre-development, including:

- 500 MacNab St N (MacNab)
- 55 Queenston Rd Phase 1 (Queenston)
- 106-104 Bay St N (Bay-Cannon)
- 253 King William St (Wellington-King William)
- 701 Upper Sherman Ave, unused portion (Macassa)

The confirmation is critical to development work continuing as approvals are required by the City subsequent to this report for refinancing and/or new debt, maximum debt, confirmation of amortization period, and access to IO funds through the City. It should be noted that in addition to these items, requests for Service Manager consent for taking on debt is being prepared for 500 MacNab based on previous Board direction.

The following indicative financial targets for these developments allow CHH to continue the provision of the required allocation of RGI units through the renewal and replacement of assets, while increasing the amount of housing provided and broadening the spectrum of affordability through the addition of net new market units:

- **Project Costs** – A total of \$63M reinvested into the CHH portfolio across 337 units. The development outcomes achieved by this investment include the rehabilitation of 146 units through an extensive retrofit, and the new construction of 191 units (including the replacement of 146 units and the creation of 45 net new units).
- **Total Debt** – A total maximum debt of \$24.6M, from a debt percentage of 0% to 62% per project, optimized to available funding and to utilize capital sources.

- Amortization – A maximum 35 year amortization. This period complements the optimized debt to equity ratios, as based on extensive testing of financial models, a 35 year amortization is the maximum required to move developments forward at the highest debt to equity ratio targeted.
- Access to IO Funds – A total maximum of \$16.9M in IO funds at the municipal 30 year rate, to be utilized where it is cost effective for CHH.

In addition, though not included within these figures because of the uniqueness of the project in terms of scale and the possible element of partnership, the development of Jamesville has been considered in the formation of these indicative financial targets, as Bay-Cannon includes an allocation of 46 of the 91 Jamesville units to be replaced so that only 45 need to be replaced on-site.

It is also important to note that these developments are self-sustaining through their revenue, including the service of debt. Approval of the recommendations of this report will result in no additional tax levy to the City of Hamilton.

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 \$747M in insured value. 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.

CHH's residents include some of Hamilton's most vulnerable citizens. Over 3,700 households are seniors; almost 2,100 households are residents who qualify for the Ontario Disability Support program or Ontario Works Program. 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.

CHH's housing stock is, on average, older than the stock of most other providers in Hamilton. This creates additional maintenance and capital pressure, which cannot be addressed through a corresponding increase in current municipal

operating or capital funding. There is also no predictable source of provincial or federal funding to address these kinds of pressure in the housing stock.

Building condition assessments are currently being updated and will be utilized in the development of a comprehensive asset management strategy that will guide revitalization. However, it is currently known that from the period of 2013 to 2017 CHH has accumulated \$89M in deferred capital expenditures, while the capital forecast for the next ten years is for an additional \$172M.

To address deferred maintenance, rationalize assets, and respond to the need for more housing, CHH is accelerating the revitalization of its portfolio through reinvestments across five sites. This process of renewal and growth includes an extensive retrofit, the replacement of units and the addition of net new housing.

DISCUSSION:

Despite the significant deferred capital maintenance, CHH continues to be proactive by identifying funding, enabling redevelopment, leveraging assets and pursuing opportunities to increase revenue and reduce expenses. Progress has been made in targeting capital investment at the most critical projects. New provincial programs such as SHIP, SHARP, SHARP and GreenON Social Housing are bolstering reinvestment, particularly as it relates to energy conservation related capital projects. There have been visible improvements in CHH communities as a result of major programs of maintenance, capital repair and energy retrofits that have been completed.

Five projects in pre-development have had financial modelling completed and sites acquired. CHH has developed pro forma that enable each project to be self-sufficient and require no new tax levy. Detailed summaries of the financial modelling are included in Appendix “B”.

The following considerations inform the detailed financial summaries in Appendix “B” and are the basis for indicative financial targets for these projects:

- Financial Design Parameters – A range of debt to equity ratios from 0:100 to 62:38 and an amortization of 35 years have been established through extensive financial modelling as the financial design parameters based on the unique funding sources, unit compositions, and available capital of each project.
- Sources of Equity – The equity contribution will include sources such as the Sold Unit Fund, the Poverty Reduction Fund, the Annual Capital Budget, Block Funding, and Development Charges.

- Sources of Debt – IO has been identified as the primary source of debt for each project, with funding programs superseding this where they provide enhanced value and as they are successfully secured.
- Funding Programs – Grants and loans won can provide equity (replacing or complementing existing equity) and/or debt (reducing borrowing costs).

A summary of revitalized units, indicative financial targets for project cost and debt to equity ratio follows:

Project	Units				Cost	Debt to Equity Ratio
	Total	Rehab	Replac	Net		
MacNab	146	146			\$15,650,000	62:38
Queenston Phase 1	41		41		\$10,120,000	0:100
Bay-Cannon	65		46	19	\$17,066,000	50:50
Wellington-King William	20		14	6	\$ 5,520,000	30:70
Macassa	65		45	20	\$14,950,000	31:69
	337	146	146	45	\$63,306,000	39:61

Project costs were developed through a review of development costs, exclusive of land, for comparable multi-unit residential social housing buildings either recently completed or currently under development in Southern Ontario. MacNab is the exception, which as a unique retrofit had preliminary costing developed as part of the feasibility study. A 15% contingency has been added to each project, with the exception of MacNab, to address the possible and expected escalation in market costs for construction, consulting and interest rates, which will only be used as required. All debt costs have been modelled with current indicative interest rates. Any significant deviation in project pricing will be reported to the Board.

If all debt is issued as planned, the average servicing cost per annum would be \$1.2M, with the maximum debt in any given year would be \$1.6M, and is covered by revenue and results in no additional levy to the City of Hamilton.

CONCLUSION:

There has been a concentrated effort by the Board and staff to move forward this revitalization work. The specific projects identified in this Report respond to the priority needs within the building portfolio and are supported by a detailed financial analysis of how projects will be funded and the future operating viability of the buildings.

Support from the City in sourcing low cost funds from IO, allowing 35 year amortizations and the total debt required, as well as the guarantees of the debt financing, will enable CHH to significantly transform through reinvestment.

This first large scale revitalization of the CHH portfolio covers 337 units, achieving the rehabilitation of 146 units through an extensive retrofit, and the new construction of 191 units, including the replacement of 146 units and the creation of 45 net new units. With the development of these five projects, the revitalization of CHH's portfolio will visibly begin to take shape.

OPERATIONAL PLAN:

This report implements:

Goal 1. Create Financial Sustainability – *Ensure that CityHousing Hamilton has sufficient capital to invest in buildings to minimize the impact on City of Hamilton taxpayers.*

Goal 2. Maintain and Improve Building Conditions - *Ensure that the CityHousing Hamilton portfolio is managed effectively and sensitively and is in a good state of repair to meet the affordable housing requirements of Hamilton residents now and in the future.*

Goal 3. Create Healthy, Secure Communities - *Ensure that Hamilton residents have access to affordable housing opportunities and support initiatives that will enhance quality-of-life, increase client empowerment and decrease dependency.*

Goal 4. Reinvest in communities and increase affordable housing - *Expand the supply of affordable housing in Hamilton through new development, redevelopment and partnerships with the private sector and community housing stakeholders that will lever additional funding and resources.*

Goal 5. Leadership: Influence and adapt Social Housing Reform - *Advocate to the community, City Council, the Provincial Government and the Federal Government on policy, program and legislative solutions to affordable housing issues in Hamilton and issues affecting CityHousing Hamilton and other social housing providers in Hamilton.*

TH/rd,sb