



Council Report

Report Number: HH2021-001
Meeting Date: January 28, 2021
Title: **KLH Housing – Purchase of 11 West Street South, Fenelon Falls**
Description: Affordable Rental Housing
Author and Title: Hope Lee, Manager, Human Services (Housing)

Recommendation(s):

That Report HH2021-001, **KLH Housing – Purchase of 11 West Street South, Fenelon Falls**, be received; and

That the City approves the debenture financing of \$1,450,000 for KLH Housing Corporation for up to a thirty-year term in order to purchase the property located at 11 West Street South, Fenelon Falls.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

KLH Housing was approached by Women's Resources late last year to gauge any interest they may have in acquiring their property in Fenelon Falls (11 West Street South – Amy's Second Stage Housing). Women's Resources have owned and operated the building as transitional housing for women and their children fleeing violence, for many years now. The units offered temporary next step housing to women and their children, many of whom would have used the shelter previously. Women's Resources is interested in selling the Fenelon Falls building and using the revenue from the sale to offer options in Lindsay, closer to their existing programs and services, to women and children fleeing violence.

KLH Housing has more recently developed plans for 30 units of housing on 106 Murray Street in Fenelon Falls. The 11 West St. S. property is adjacent to the Murray St. property (Figure 1).



The KLH Housing Board considered this purchase at their December meeting, giving the CEO direction to negotiate a purchase and if accepted to request financing assistance from the City of Kawartha Lakes.

KLH Housing and Women's Resources have entered into a conditional agreement of purchase and sale. The offer is conditional on financing being approved by February 11, 2021. The closing date is June 30th, 2021.

This report addresses the request for financing assistance.

Rationale:

The property is approximately a half acre and is zoned residential type 5, which permits apartment dwellings. The property could have future development opportunities for KLH although at this time the intent is to use its current form.

The building includes:

- 8 units
 - 1 bachelor
 - 2 – 1 bedroom
 - 3 – 2 bedroom
 - 2 – 3 bedroom
- Office space
- Common room and kitchen
- Laundry on each level

The building is a two storey, approximately 50-year-old structure. The building has been very well maintained. There are no outstanding life safety repairs or electrical issues. The roof was replaced in 2019. An assessment of capital needs determined approximately \$200,000 would be needed over the next 5 years, with nothing critical at this time.

Occupancy Details:

The units are currently rented on a transitional basis with an expectation that a permanent housing option will be secured by the tenants within 18 months. At this time, only four units are occupied using this transitional model. The other four units are being used as isolation units for households to stay in prior to accessing the shelter in Lindsay. Women's Resources will work with the four households with the intention of finding them permanent housing elsewhere before the sale occurs.

KLH Housing's plan is to offer permanent affordable housing within the eight units. If any of the four households have not found permanent housing elsewhere, KLH would offer them the units on a permanent basis.

KLH would work toward an occupancy plan so that the units will be occupied soon after the closing date (June 30th, 2021).

Meeting Affordable Housing Targets

These units will become permanent affordable rentals adding eight units for approximately fifteen households.

Alignment to Strategic Priorities

This report aligns to the Exceptional Quality of Life strategic priority. It contributes directly to the goal of:

- Continuing to encourage mixed development, with a focus on affordable, attainable and purpose built housing.

Financial/Operation Impacts:

The conditional offer is \$1,450,000. This price is considered reasonable based on the following assessments:

- cost to purchase land and rebuild a similar building
- current market value (provided by KLH Housing broker of record)

The revenue generated from the eight units will cover the expenses and the debt payments producing a modest surplus year over year. Rents will be established using local averages so that these units will contribute to the affordable targets.

Category	2021	2022	2023	2024	2025
	6 months	12 months	12 months	12 months	12 months
Project Revenue	61,326	120,794	122,570	124,373	126,202
Operating Expenses	21,900	43,523	43,958	44,398	44,842
Net Operating Income	39,426	77,271	78,612	79,975	81,360
Debt Loan	38,786	77,094	76,127	75,233	74,194
Total: Project Expenses	60,686	120,617	120,085	119,631	119,035
Annual Surplus (shortfall)	640	177	2,485	4,742	7,167

Tenants will bring portable housing benefits through the by name list in order to ensure they pay no more than 30% of those income on rent. These benefits come through provincial funding sources (Canada Ontario Housing Benefit or Community Homelessness Prevention Initiative).

KLH Housing is requesting support to secure long term financing from the City. This has been approved and completed for several KLH Housing new developments already. The request is for the City to take out financing in the amount of \$1,450,000, in the form of a 30-year serial debenture, in its name. The City would then lend this money to KLH

who in turn would make both principal and interest payments from the revenue received from the tenants. If the City could not secure the debenture prior to the closing date (June 30th, 2021), it would cash flow the purchase with any related expense being reimbursed from KLH Housing.

The City of Kawartha Lakes (CKL) has an Annual Repayment Limit (ARL) prescribed by the Municipal Act. In the past Council has approved debt limits for City capital projects that are funded by Tax Levy and those funded by Water and Wastewater Rates. All other capital areas, including KLH Housing capital, do not have an approved debt limit at this time. The long term financial plan is currently being updated and an overall debt strategy, for all capital areas, will be developed. KLH Housing's debt limit falls within the scope of CKL's ARL in that the KLH Housing Corporation's sole shareholder is the City of Kawartha Lakes.

In the absence of a debt limit for KLH Housing Finance staff looked to debt levels at the beginning of 2001 which represents the time period around the amalgamation of the City and the downloading of responsibility of managing public housing to the municipal sector (devolution). At the time of devolution KLH housing had annual repayments of debt principle and interest of \$880,614. The 2021 projection for total debt principle and interest is \$1,028,367, including West Street debenture. This is an increase of \$147,753. At the same time the total debt outstanding for KLH Housing at 2001 was approximately \$11,246,954 and the projected 2021 debt outstanding, including West Street is \$11,251,722.

It should be noted that the Annual Repayment Limit for the City of Kawartha Lakes is based on 25% of overall revenue earned, excluding grants and municipal contributions. Rental revenue collected in KLH Housing has increased from approx. \$2.5M in 2001 to \$4.2M in 2020 which represents an increase of \$1.7M in revenue collected, including West Street. This is indicative of the redevelopment focus of KLH Housing in the past 5 years but also indicates a greater ability to finance debt principle and interest payments.

Treasury staff are recommending that Council approve the purchase of West Street and utilize \$1,425,000 in debt to finance the project, given all the factors illustrated above. Rental revenue has almost doubled since 2001 and debt payments have only increased approximately \$150,000. Total overall debt outstanding has stayed relatively the same as 2001 levels. This new debt issuance for West Street will still allow KLH Housing Corporation to approximate the debt at devolution. In addition, this old debt from devolution will be retired by 2026 and that will eliminate higher payments for debt as the interest rates were considerably higher in 2001 than the interest rates available today. (In 2001 the rates ranged from 4% to 7.8% and in 2020 a 30 Year serial debenture bears a 2.37% interest rate). The Long Term Financial Plan, due in Q2, 2021, will solidify a debt limit going forward for KLH Housing Corporation.

Consultations:

KLH Housing Board of Directors
Treasurer, City of Kawartha Lakes

Department Head email: rsutherland@kawarthalakes.ca

Department Head: Rod Sutherland, Director Human Services