



Council Report

Report Number:	HS2023-010
Meeting Date:	November 21, 2023
Title:	Cost-Share Requirement for Kawartha Lakes-Haliburton Housing Corporation for the Canada Mortgage and Housing Corporation Co-Investment Fund Repair Program
Description:	Strategy to support the cost-share requirement for the federal Co-Investment Fund Repair program.
Author and Title:	Michelle Corley, Human Services Manager, Housing Kirstin Maxwell, CEO, KLH Housing Corporation

Recommendation(s):

That Report HS2023-010, **Cost-Share Requirement for Kawartha Lakes-Haliburton Housing Corporation for the Canada Mortgage and Housing Corporation Co-Investment Fund Repair Program**, be received; and

That the completion of financing for cash flow and borrowing facilities in the City's own name, with the City then lending the funds of up to \$6.55 M to Kawartha Lakes-Haliburton Housing Corporation to meet cost-sharing requirements for the Canada Mortgage and Housing Corporation Co-Investment Fund Repair Program as outlined in Report HS2023-010, be approved.

Department Head: _____

Financial/Legal/HR/Other: _____

Chief Administrative Officer: _____

Background:

A. Introduction

On December 8, 2022 the Canada Mortgage and Housing Corporation (CMHC) invited the Kawartha Lakes-Haliburton Housing Corporation (KLH) to submit a proposal to a new sub-program of the CMHC Co-Investment Fund Repair Program that is exclusive to municipally-owned housing providers.

The CMHC Repair Program has been active since the start of the National Housing Strategy programs in 2018 with the purposes of extending the lifespan and condition of non-profit housing stock, improving energy efficiency, reducing Green Housing Gas (GHG) emissions, and increasing accessibility for persons with disabilities. This sub-program of the CMHC Co-Investment Fund Repair Program differs from other iterations of the program in the following ways:

1. This funding is a one-time offer only to municipal service managers to repair housing stock they own.
2. The funding is an up-front contribution, not a loan.
3. The funds are provided up front in a single payment to be managed by the corporation over the 3-year program period, 2023, 2024, and 2025.
4. There is no requirement to register a mortgage on title of any property, with none of the usual CMHC property encumbrance requirements.
5. The energy efficiency and accessibility requirements are more flexible than typical for CMHC programs.
6. Spending on energy efficiency and/or GHG emission and accessibility projects over the two-years prior to program participation contributes to the municipal and/or provincial cost share investment of 70% and towards meeting the energy efficiency and/or GHG emission and accessibility requirements.

B. Other Key Program Parameters

1. The CMHC funds must be cost-shared, with the CMHC funds forming 30% of the total investment in repair projects, to be matched by 70% KLH, municipal or provincial funds.

2. The maximum CMHC contribution is the lesser of 30% of the total project costs or \$10,000 per unit included in the portfolio of repairs.
3. The program is being administered through a streamlined process that recognizes municipal accountabilities.
4. For 20-years following completion of the repairs KLH must meet the program criteria for affordability, energy efficiency and GHG emissions (25% reduction), accessibility (20% of units), and make target 33% of the repaired units to women and/or women and their children.
5. Any public announcements regarding program projects, other than legislative obligations, must be approved in advance by CMHC.
6. If any of the requirements are not met, the portion of the CMHC funds relating to the unmet requirements must be returned to CMHC.
7. All projects must be completed by January 31, 2026, though CMHC could grant an extension for extenuating circumstances. With the Project Plan in place the KLH team is ready to start the first projects immediately upon Council's approval.
8. All costs directly associated with the renewal and replacement projects are eligible for inclusion in the program, including the costs of consultants who did the assessment and analysis work, all supplies, contractors, etc. The only costs not eligible are operational and administrative expenses, including staff.

C. KLH Board Approval & Principles

December 7, 2022 the KLH Board approved KLH's participation in the CMHC Co-Investment Fund Repair Program through approval of the following resolutions:

"Resolved That Report 2022-22, "CMHC Co-Investment Fund Repair Proposal and Agreement", be received; and,

That the CEO be authorized and directed to enter into an agreement with the Canada Mortgage and Housing Corporation for Kawartha Lakes-Haliburton Housing Corporation's participation in the Co-Investment Fund Repair Program in accordance with the program terms and conditions and the KLH Participation Principles as amended by striking principle two from Report 2022-22;"

The KLH Board directed the CEO to maximize KLH's participation in the CMHC Co-Investment Fund Repair Program by striking the following principle:

“To reach the 70% municipal and provincial contribution, commit only funds from the City or KLH that have been or would have been spent anyway; funds that are reasonably expected to be required, requested, and approved as part of the annual City budget process or provided by the province.”

As such, the KLH Board adopted the following principles to guide the planning and implementation of this initiative:

1. Maximize the use of CMHC funds for projects that have already been planned or are known to be required in the future.
2. Use CMHC funds to offset higher costs needed to maximize the energy efficiency gains and GHG emission reduction of planned projects.
3. Accessibility modifications should to the extent possible meet the known and projected needs of KLH tenants, as demonstrated through modification requests and wait list data, while meeting program requirements.

D. Risks

To reduce the risks of participation in the CMHC Repair Program it is important to ensure that the projects proposed to be completed as part of the CMHC Program will meet all of the program requirements at the conclusion of the 3-year program of work. If CMHC were to determine at the conclusion of the program that the requirements had not been met, they could require repayment of the funds. The up-front provision of the funds; increased flexibility of accessibility, GHG emission, and energy efficiency requirements; and the lack of property encumbrances of this program significantly reduce the risk to KLH.

If KLH is unable to meet all of the requirements for all of the offered funds for any reason, including providing all of the required cost share funds, a portion of the funds will be required to be returned to CMHC at the conclusion of the program period.

E. Asset Management Planning

Since 2012, the City has supported all Community Housing Providers, including KLH, by financing and supporting training on a sophisticated asset management software called Asset Planner. This platform supports informed management of building condition, including capital expenditure planning and decisions. Program data is regularly validated by staff review, annual budget planning, and periodic expert building conditional assessments.

In 2018, the City initiated a formal Asset Management Plan exercise for all Community Housing units within the City's responsibility as Consolidated Municipal Service Manager. Council adopted this plan on January 22, 2019, through report HH2019-003.

Additionally, on June 18, 2019, Council adopted the Community Housing Master Plan, as received in report HH2019-006. KLH's participation in the CMHC Co-Investment Fund Repair Program will directly support the following Community Housing Master Plan goals:

- Preserve and adequately maintain existing housing
- Focus on the long-term viability of housing assets

Based on the above-referenced practices and formal planning exercises, City staff are confident that the CMHC repair funding and cost-shared funds will be strategically directed to the projects that will best achieve these goals.

Rationale:

A. Program Participation Overview

KLH's participation in the CMHC Repair Program will enable over six years of capital repair, renewal, and replacement projects to be done in three years. In addition to the increased cost and operational benefits of completing projects sooner, this program will enable KLH to increase the benefits achieved through necessary projects, and complete projects that would otherwise have to be done piecemeal or forgone altogether.

KLH's participation in the CMHC Repair Program can be accomplished with City support to debenture up to \$6,550,000 on KLH's behalf, but does not require funds beyond the municipal subsidy normally requested through the annual budget process.

B. Analysis and Planning Work

Through 2023 KLH has completed the necessary analysis and developed financial and projects plan for its participation in the CMHC Repair Program. These plans maximize the use of CMHC's \$5M and all cost-shared funds, ensure an equitable distribution of the program benefits between City and County properties; maximize energy efficiency, accessibility, long-term operating savings, and life cycle extension of KLH properties; and meet the KLH Board-directed principles.

The following assessments and analysis informed the recommended financial and project plans:

- An analysis of all capital work completed in KLH buildings in the past two-plus years, completed and planned for 2023, and planned for 2024;
- An energy audit of each KLH building by Finn Environmental;
- Additional in-depth assessment of the efficiency and life span of the heating and ventilation systems of each building by Kirkland Engineering; and,
- An in-depth analysis of all of the capital work recommended for completion by 2031 by Asset Planner.

Projects were assessed on the principles noted above and the following criteria:

- Current condition, need for repair or replacement;
- Risk of and from a failure of the system;
- Increased operational efficiencies and cost savings;
- Energy efficiency and GHG emission reduction;
- Improved accessibility for current and future tenants with disabilities; and
- Tenant quality of life.

KLH's participation in this program will:

- Enable some projects to be completed sooner than otherwise, increasing the length of benefits such as energy efficiency, operating cost savings, improved tenant quality of life, reduced risks, and possibly reducing the overall costs by avoiding cost escalation;
- Enable projects to be completed to a higher standard, such as with longer lasting or more energy efficient products and materials; and,
- Enable completion of projects that are needed, but would be superseded by other more urgent projects.

C. Investments in the City and County

KLH's financial and project plans distribute investments and costs between the City and County on the basis of the total number of KLH units within each area, 16% within the County and 84% within the City. (Total KLH units=783, total units in the County 124=15.8%) Note that this allocation of investment and costs differs from the agreed upon cost sharing formula of 29%/71% which is based on the proportions of units within the entire community housing portfolio which were transferred from the Province in 1999. The CMHC Program is open only for KLH units and includes all units, not just

those transferred in 1999. The costs of the highest priority projects in each of KLH’s communities in the County and City divided easily into this 16/84 formula.

D. Project Plan

Table 1 outlines the Project Plan, including categories and example projects. It is not an exhaustive list of proposed projects. Given the requirement to complete all of the projects by January 31, 2026, it is important for KLH to retain the ability to adjust project specifics, costs, and timelines quickly in the event that costs change when projects are tendered, unanticipated circumstances arise during the course of a project, supplies are more expensive or less available than anticipated, contractor timelines change, or other surprises arise.

Table 1: CMHC Repair Program Projects and Benefits

Projects	Approx. Cost	Additional Benefits
Energy Efficiency and GHG Emission Reduction Projects		
Increase attic insulation in all buildings	\$500,000	<ul style="list-style-type: none"> • Utility cost savings
Upgrade boilers near the end of life	\$1,000,000	<ul style="list-style-type: none"> • Financial and operational efficiencies • Increased reliability • Increased life span of system
Safety and Accessibility Modification Projects		
Install back-up generators for all multi-unit buildings <ul style="list-style-type: none"> • Uncertain weather patterns result in power outages for extended periods of time • Emergency lighting lasts up to one hour. Tenant safety is priority. 	\$2,250,000	<ul style="list-style-type: none"> • Would be done piecemeal over several years or not at all without CMHC funds • Increased tenant safety, accessibility and convenience • Significantly reduced risk to KLH

<ul style="list-style-type: none"> • Elevators cease operation with power outage; accessibility a priority. • Reliance of power for well operations at three KLH communities. • Certain tenants rely on electricity to operate critical health equipment. (oxygen concentrators, mobility devices, CPAP machines, etc.) 		
Install fob entry system for all unit doors	\$500,000	<ul style="list-style-type: none"> • Important project that would not be financially feasible without CMHC funds • Enable easy, fast and proactive reset of all fobs that provide entry to unit doors • Increased tenant safety and convenience • Reduced staff time and costs to rekey locks • Reduced risk to KLH
Asphalt resurfacing and sidewalk repair	\$186,000	<ul style="list-style-type: none"> • Would be piecemeal without CMHC funds • Increased tenant safety, accessibility and convenience • Reduced liability risk of slips and falls
Various accessibility upgrades (add power door operators, replace door handles)	\$31,000	<ul style="list-style-type: none"> • Proactively meet accessibility needs
Life Cycle Extension		
Move-out repairs 2023, 2024 and 2025	\$1,000,000	<ul style="list-style-type: none"> • Enables cost sharing of regular annual costs with 30% CMHC funds

Additionally, this initiative largely meets objective 6.9, within the City’s 10-Year Housing and Homelessness Plan (2020-2029); ‘securing capital repair dollars from the federal

and provincial governments in order to support capital needs in the Community Housing Provider's portfolio'.

Other Alternatives Considered:

None

Alignment to Strategic Priorities

KLH's participation in the CMHC Repair Program as outlined in this report advances the following strategic priorities:

Healthy Environment – This initiative will increase the energy efficiency and decrease the GHG emissions of approximately 500 rental units owned and operated by the largest landlord in the region.

Good Government – This initiative represents prudent long-term asset management, extending the life of vital affordable housing assets so they remain available to provide homes for residents in need for decades to come, and reducing operating costs.

Financial/Operation Impacts:

KLH's proposed overall investment was determined by CMHC's \$5,000,000 offer, the 70% cost share requirement, and the KLH Board's direction to maximize utilization of CMHC's investment.

To enable full participation in the CMHC Repair Program KLH requires City support to debenture up to \$6,550,000 on KLH's behalf, and does not require funds beyond the municipal subsidy normally requested through the annual budget process. The 70% cost share program requirement can be met through a combination of prior and planned spending, interest on CMHC's lump-sum payment, Canada-Ontario Community Housing Initiative (COCHI) funding allocations, energy program rebates, and a projected 10-year debenture of \$6,119,924 as detailed in Table 2: Total Investments. The debenture financing payments will be the responsibility of KLH and will not increase KLH's annual financial needs.

Table 2: Total Investments

Total Funds Invested in Repairs from 2021 - 2025	\$16,666,667	
CMHC Contribution (30%)	\$5,000,000	

Cost Share Requirement (70%)	\$11,666,667	
70% Cost Share Contributions	\$11,666,667	
2021, 2022 and 2023 Qualifying Expenditures	\$2,062,263	
Projected 2024 and 2025 Qualifying Capital Expenditures (Regular future capital budget requests)	\$1,951,130	
Investment Interest on CMHC Funds (\$5M)	\$531,000	
COCHI Fund Allocation 2024 and 2025	\$747,350	
Estimated Enbridge Energy Program Rebate	\$127,500	
Estimated Hydro Energy Program Rebate	\$127,500	
Projected Debenture Required	\$6,119,924	
Estimated Total Debenture Interest (10-year debenture, 5.00% rate)	\$1,684,488	

Debenture:

KLH is requesting City support to debenture up to \$6,550,000 on its behalf for a 10-year term. The requested debenture amount is open to accommodate potential changes in some investment projections and interest rate. KLH will pay all of the financing costs within its standard operating and capital budgets. Annual budget projections were done assuming a 3% annual municipal subsidy increase. The operating savings from reduced utility costs and annual savings on capital repairs over the 10-year period of the debenture are sufficient to enable KLH to pay all of the financing costs, without any additional City or County contribution. The total interest projections for the life of the debenture are \$1,684,488.

Debenture Limits:

The City has an overall Annual Repayment Limit (ARL) prescribed by the Ministry of Municipal Affairs and Housing (MMAH). This is the maximum annual amount the City can incur in total debt principle and interest payments. The amount of debt is not prescribed, rather the City is bound by a limit of total debt principle and interest payments. This City limit includes debt payments incurred for City tax funded capital, Water and Wastewater (WWW) capital and KLH capital. KLH does not have a debt limit separate from the City. The ARL limit allows the City to incur approximately \$40 Million in debt principle and interest payments. Overall City debt payments, including WWW and KLH debt, are approximately \$17 Million in 2024 and therefore the City is well within the ARL limit.

The ARL is the maximum amount of debt that the City can legislatively incur. City Staff analyzed the optimal debt principle and interest payments that the City could incur by recommending a limit that would fit into the 10-year Long Term Financial Plan (LTFP), given all other operating and capital pressures facing the City. City Council approved the LTFP in 2022 and the debt servicing limit of 10%. The 10% debt servicing ratio limits the amount of debt principle and interest to 10% of the total revenue earned by the City, including Water and Wastewater and KLH Revenue. The 2022 LTFP also included the methodology that City and WWW debt payments would be set at 7.5% of this ratio and KLH would be set at 2.5% of this ratio. This allocation results in the following debt payment limits illustrated in Table 3.

Table 3: Debt Payment Limits – City and KLH

Total City Revenue-2023 estimate	\$253,381,277
10% Debt Servicing Ratio	\$25,338,128
Allocation of Debt Servicing Ratio:	
7.5% City Debt Payments	\$19,003,596
2.5% KLH Debt Payments	6,334,532
Total Debt Servicing Ratio	\$25,338,128

In determining how this debenture request for the CMHC program fits into this overall limit the total current debt payments for KLH have to be taken into account. The table below shows the total limit and the total debt payments currently committed.

Table 4: KLH Debt Limit Remaining for CMHC Debenture Request

Total Debt Servicing Payments KLH	\$6,334,532
Current Debt Payments	(1,149,525)
Future Committed Debt Payments	(1,727,241)
Total Debt Servicing Payment Remaining	\$3,457,766

The CMHC debt principle and interest averages approximately \$168,449 in annual debt payments so this request is well within the debt limit prescribed by City Council’s LTFP. In addition, this leaves approximately \$3.3 Million in debenture payment room. This is equivalent to approximately \$52.5 Million over a 30-year term at 5%. This allows the flexibility to continue financing future housing developments.

Consultations:

Chief Administrative Officer, City of Kawartha Lakes
Director, Corporate Services
Treasurer, Corporate Services
Manager of Building and Property, KLH Housing Corp.

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Department Head: Cheryl Faber