2016 ONPHA Conference and Trade Show

410

End of Operating Agreements

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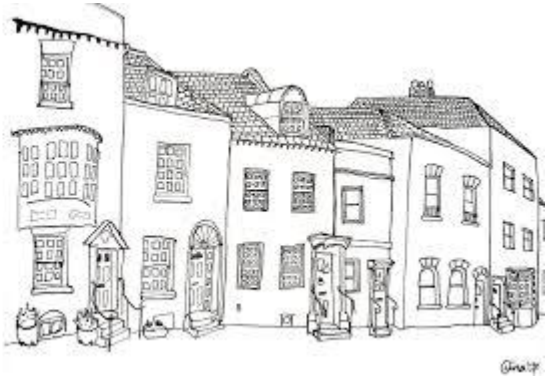
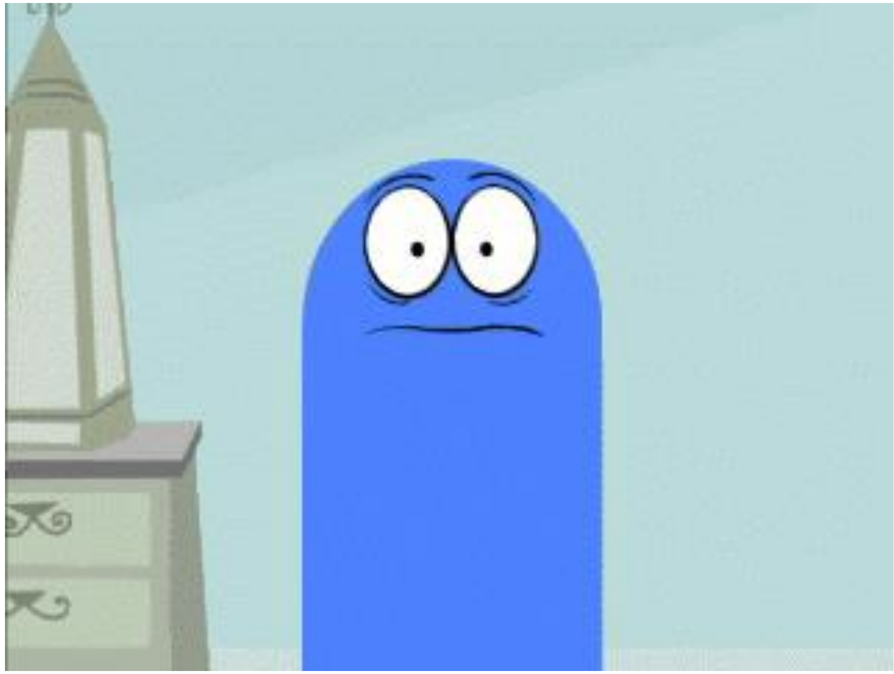
ONPhA

Agenda

- The context
- End of operating agreement
- What changes, what stays the same?
- Evaluating viability
- Options



Is it time to panic?



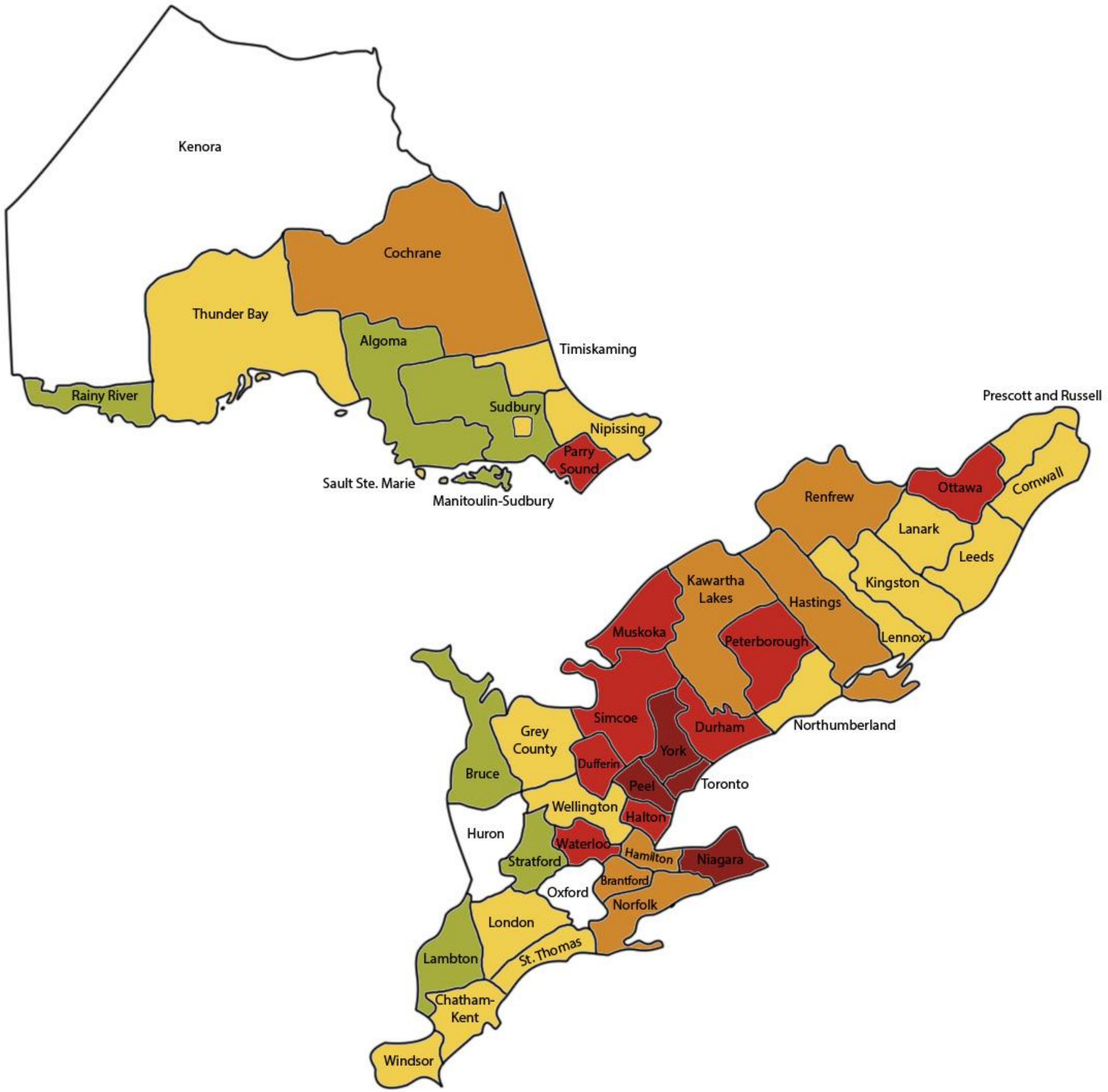
What is an operating agreement?

Context: At the crossroads

- Still a need for RGI/affordable housing
- Social housing remains a valuable community asset
- Changes at end of operating agreement require changes in how to meet mission
- The Long Term Affordable Housing Strategy means there will be changes to the operating environment

Waiting List RGI Unit Heat Map

Dark red: 5 years + wait



Context –Federal Providers

- By 2022
- End of operating subsidies
- Your corporation will own the property
- You’re mortgage free
- Aging infrastructure

What Stays the Same

- You will continue to be landlords
- still incorporated under your original letters patent
- still subject to relevant provincial and/or federal legislation.

What Stays the Same (cont.)

- You are still subject to municipal laws
- Agreements on any other projects the providers may have i.e. HSA projects or Affordable Housing projects

What Stays the Same (cont.)

- Other agreements remain in place unless renegotiated
- You will maintain your capital reserve fund
- You will maintain your subsidy surplus fund

What will Change

- Federal operating agreements end
- No longer subject to HSA or Section 95 social housing program
- Reporting requirements of the federal agreements with your service manager end
- Household limits no longer apply
- No longer qualify for exemptions under Residential Tenancies Act
- First Mortgage payments end

The Leased Land Dilemma

- If you are on leased land, the lease may have anticipated an end to your operating agreement

- Leases may state that:
  - The land and buildings become the property of the lessor at the end of the first mortgage
  - The lease needs to be renegotiated at the end of the first mortgage

- If you have a lease it is critical that you understand its terms

Service Manager

- No longer required to report under your operating agreement
  - May still have obligations under rent supplement or SHRRP
- You are no longer eligible for support or training from your service manager
- Before your agreement ends it is in your interest to negotiate a new relationship with your service manager

What is Clear

- Affordable housing continues to be a significant need in your community
- Your first mortgage payments will end
- Your buildings are aging (and in some cases so are your human resources!)
- There are new demands (see the LTAHS)
- You need to assess, plan and address

Planning for the future

Planning for the expiry of an operating agreement

Financial Viability

- Long before your mortgage ends you need to evaluate the viability of your housing project post operating subsidies
- You need to look at all parts of your operations

Financial Viability- Revenue

- Review your existing revenue base
- Are there new revenue sources to pursue?

Financial Viability-Rental Income

- Where are your market rents compared to similar rental housing buildings in your neighbourhood?
- Can market rents be increased?
- Is it possible to negotiate a new rent subsidy agreements with your service manager – one free of the current benchmark rents
- If rents were to increase would it be necessary to enhance curb appeal or upgrade units?

Financial Viability- Operating Expenses

- Evaluate your current expenses
- Remember you will have no first mortgage payments
- Can they be reduced? – cost sharing agreements, staff reductions etc.
- Do they need to be enhanced to meet the new challenges?

Financial Viability- A Quick Test

- Total Revenue
  - Less operating subsidy
  - Less operating expenses
  - Less mortgage payments

= Surplus / (Loss)

- You have met the first test of viability if the surplus is greater than 0
- Complete this simple test on all your projects!

ABC Non-Profit Inc.
Balance Sheet
as at December 31, 2012

Assets	
Petty Cash	100
Chequing Account	340,225
Investments - Operating	500,000
HSC Investment Fund	375,746
Subsidies Receivable	65,810
Accounts Receivable - Tenants	50,307
Allowance for Doubtful Accounts	(20,000)
Prepaid Expenses	12,124
125 ABC Avenue	18,214,125
Accumulated amortization	(5,936,477)
Total Assets	$ 13,601,960
Liabilities	
Subsidies payable	41,729
Mortgage Loans	12,277,648
Accounts Payable	269,043
Accrued Expenses	100,500
Total Liabilities	12,688,920
Equity	
Capital Reserve Fund	375,746
Accumlated surplus/(deficit)	537,294
Total Equity	913,040
Total Liabilities and Equity	$ 13,601,960

Statement of Income and Expense
for the period ending December 31, 2012

Income			**After EoA**
Market Rental Income	584,952		
RGI Rental Income	398,670		
Vanancy Loss	(15,414)		
Investment Income	24,800		
Non-Rental Revenue	4,326		
Subsidy	1,171,310	LESS	
Total Income	**2,168,644**		$997,334
Expenses			
Salaries	165,000		
Office Supplies	575		
Phone, Internet	900		
Insurance	23,132		
Building repairs and maintenan	201,747		
Grounds	6,500		
Utilities	358,137		
Bad Debts	9,036		
Capital Reserve	71,776		
Property Taxes	228,868		
Mortgage Payments	1,104,504	LESS	
Total Expenses	**2,170,175**		$1,065,671
Net Income	**(1,531)**		($68,337)

Other considerations-Lender's Expectations

- Any transfers to capital funds would come from surplus generation
- Lenders want to see sufficient surplus generated to finance any future mortgages for capital replacement or expansion
- Managers and Board members may need to learn new ways to manage finances

Other considerations- CRA Challenges

- What currently qualifies you as a non-profit/charity?
- Will that change if you change your market / RGI mix?
- If you need to have surpluses to pay for future capital replacement – will it impact your non-profit or charitable status?
- What are the risks?

Other considerations- Capital Requirements

- Complete a Building Condition Audit (BCA)
- Develop a cash flow of your capital requirements over the next 10 years
- Will your surplus and/or current capital replacement fund be sufficient?
- Will you need to borrow against the asset?

Other considerations

- Mandate
- Support funding options
- Expansion
- Organizational capacity
- External Partnerships
- Staffing
- Governance-succession planning
- Relationship with Service Manager
- Long term affordable housing strategy
- Other?

Who Do You House?

- Do you currently have a mandate?:
    - Hard to house
    - Seniors
    - Families
    - Etc.
- Continue with your current mandate?
- Will changes to your mandate affect your letters patent, charitable status etc.
- Service Manager willing to consider changes?

What Are Your Options?

Do it alone

- You are financially viable
- You are confident that you can manage your building without tax dollars in the future

What Are Your Options?

New Operating Agreements

- You are not financially viable
- You have vulnerable tenants who will not be able to pay market rents
- You are a supportive housing provider who will continue to need support funding

Other Options

Rent Supplement Agreements

- You wish to continue to offer rent geared to income housing
- You wish to continue to provide housing to very low income tenants

Other Options

Support Funding Agreements

- You are committed to continuing your current mandate
- You will need support funding to continue to house your current and future tenants

Support Funding

- Do you currently receive support funding to provide care to your tenants?
- Will that funding continue?
- If not will that impact who you currently house?
- Support funding is a conversation you need to have early with your service manager, MOHLTC, MCSS or agencies

Conclusion

- Will your project be financially viable as is without an ongoing operating subsidy / mortgage cost
- Ways to increase revenue / lower expenses
- Is there a need to change your mandate
  - What are the implications of changing your mandate
- Plan, plan, plan
- Communicate to stakeholders throughout the process