



2017 ONPHA Conference and Trade Show

Shaping
our
Future

309

Tango or Waltz: Choreographing successful mergers or acquisitions

PRESENTED BY:

Darlene Cook, CEO, Peterborough Housing Corporation

Jon Harstone, Executive Director, St. Clare's Multifaith

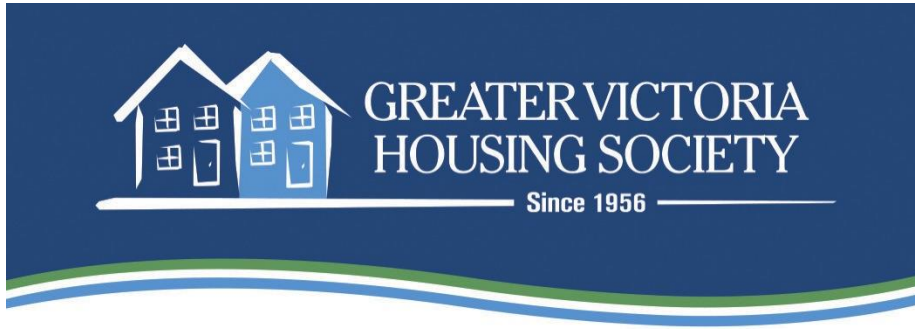
Kaye Melliship, Executive Director, Greater Victoria Housing Society

Keith Hambly, Executive Director, Fife House Foundation
(moderator)

Learning goals

1. When is the right time to dance?
2. How does the dance begin?
3. Defining the roles of the dance partners.
4. What are the steps we need to learn execute a successful dance?
5. When the dance ends, how do the partners leave the dance floor?





Session 309: Successful Mergers and Acquisitions

Kaye Melliship Executive Director

November 2017



BC Context



- Housing owned/managed by:
 - Provincial Government
 - Municipal/Regional Government
 - Private Non-Profits/Charities
- 60% of housing organizations own/manage one building



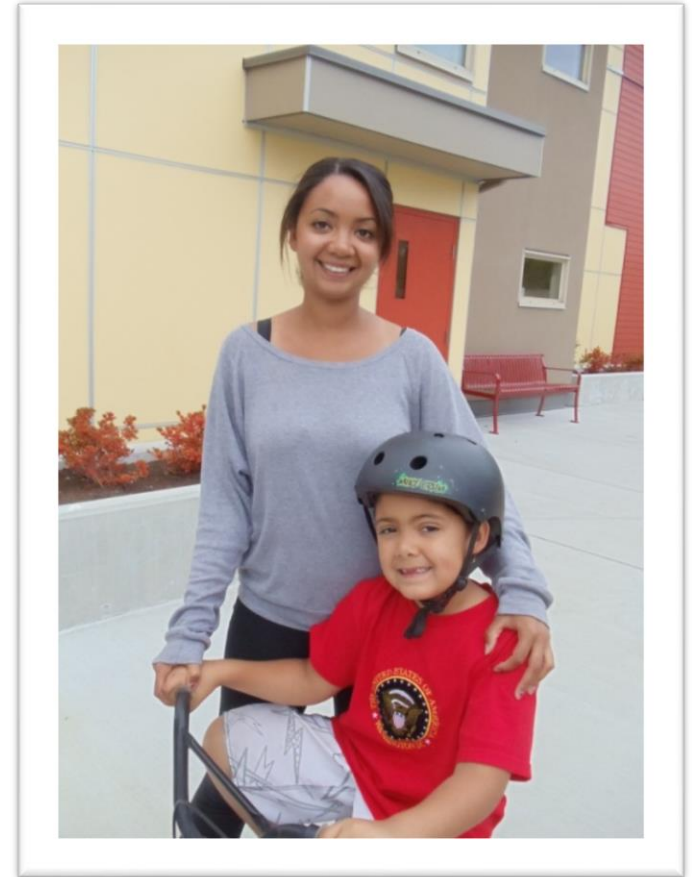
Greater Victoria Housing Society

- Mission: affordable rental housing for low to moderate income households.
- 15 buildings (765 homes) throughout Greater Victoria.



What triggers a merger?

- Inability to recruit Board Directors
- Poor scale: no ability to hire expertise/reliance on volunteers
- Cash flow problems
- Capital repairs beyond scope of the society
- Complex tenant relations



Why take on a merger?

- Growth: so we work at most cost effective level
- “Rescue” valuable rental housing stock
- Land for future redevelopment
- Help societies that have come to the end of their “lives”.





Criteria for Mergers

- Financially Viable
- Location
- Tenants
- Condition
- Property
- Complexity





Tillicum Terrace

- 24 Family Townhouses
- 29 Apartments for Seniors
- Owned and managed by service club
- BC Housing Operating Agreement for Subsidy
- On land leased from Province



Grafton Lodge

- 39 apartments for seniors
- Owned by service club
- Operated by GVHS
- BC Housing Operating Agreement
- Municipal leased land



Balmoral, Nigel

- Owned and operated by church-based societies
- BC Housing operating agreements
- Balmoral on land leased from church/Nigel on land leased from Province



Sutcliffe

- Owned by independent society
- 10 units for seniors
- BC Housing Operating Agreement





What do these have in common?

- Deferred maintenance
- Depleted capital reserve funds
- Reliance on contracted and volunteer staff
- Small aging boards of directors
- Unsustainable cash flow
- Lack of professional support for difficult tenancies



Our Process

- Help the Society giving up building with the change management process
- Assess risks and liabilities
- Negotiate the terms/conditions of the transfer
- Implement transition plan



Transition Plan

- Financial
- Accounts/Contracts
- Tenants
- Property Operations
- Administration
- Staff
- “Donating” Society



Lessons Learned

- The buildings will require a lot of work to bring them to our standard
- Address outstanding tenancy issues right away
- Don't take on the staff





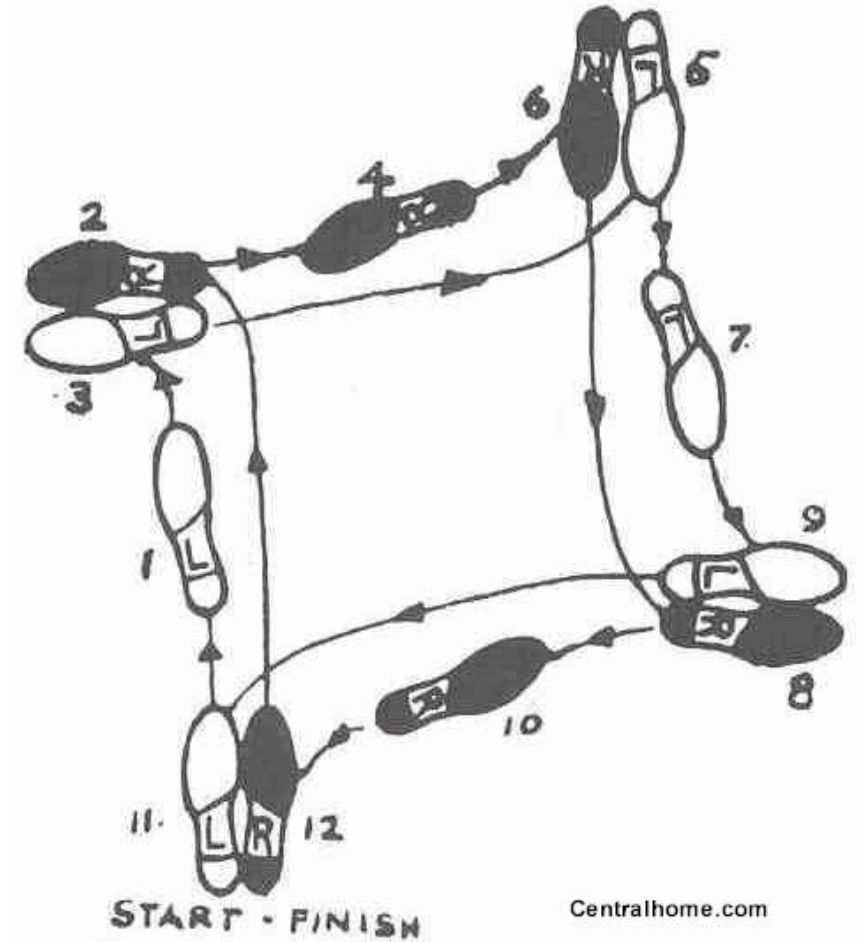
Our Successes

- Allowing donating society chance to “grieve”
- Negotiating cash infusions to deal with priority repairs and maintenance
- Setting new tone in tenant relations
- Having a transition process
- Acquiring sites with excellent redevelopment potential





Tango AND Waltz





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Choreographing successful mergers or acquisitions

PRESENTED BY:

Darlene Cook, CEO,
Peterborough Housing Corporation

Waltz or Tango: When is the right time to Dance?

- In this caseWhen the business model just doesn't work anymore !!!!
- Historically, our new to be partner had not been thriving since inception, had been through various corporate changes to try to make it work, direct management, property management, declared a PID, in receivership for 6 years and then restructured.
- The Service Manager assisted with funding for capital, operating dollars, bringing in housing mentors, additional staff, a social worker and forming a knowledgeable board



How does the Dance Begin?

- In our scenario, the President of the Board (only his second year on the Board) approached the Service Manager to see if there was a viable solution and a potential partner.
- The Board of the 110 Townhouse property had decided to explore options realizing that their non-profit was not sustainable on its own.
- PHC was suggested as a possible housing provider who may have an interest in the asset.



Defining the roles of the dance partners

- Over the next couple of months, representatives of the Board of the non profit and the staff and Board of PHC met to discuss options.
- PHC did not want to take on the corporation, only the assets.
- We did not want to be the successor employer
- The Finance Committee and PHC did their due diligence on the financial statements, budget, funding.
- PHC Board of Directors did make a resolution to “take over the asset” if it made financial sense



Dance steps we needed to learn

- The Board of the non-profit needed to resolve their employment contract issues and gave staff working notice
- As partners we agreed to meet and share information, have a consultant provide a framework for the transfer
- After staff of the non-profit were notified, we began to make plans to communicate on a united front with the tenants
- Schedules were made for staff teams to meet on the site, gather information, assist with the transfer and make the transfer as seamless as possible.



Dance Steps:

- Some steps are smoother than others!! And easier to learn!
- The hard steps....staff of the non-profit learned far too early what was happening and were incentivized to stay til the end, in one case it was 4 months, far too long, too uncomfortable
- A little smoother...we had a tenant meeting a couple of months before the change, the two area councilors attended and were supportive, reps from both staffs and Boards attended
- It was difficult for staff from both corporations to work together on site and we minimized that interaction where we could.



Dance Steps

- There are always loose ends, steps that fall between the cracks or where we stumble a bit
- There were duties over who did what, they were easily resolved
- We are unable to own the property until MOH issues a regulation exempting PHC from land transfer tax, likely not until January 2018
- PHC and the non profit has a Property Management agreement for the interim and an agreement of purchase & sale



Leaving the Dance Floor

- The non profit will need to exist corporately until all the loose ends are finalized, final audit done, bank accounts closed
- PHC will manage the schedule as Property Management but will change schedule and processes and procedures when we acquire the asset
- It is a 7 acre site, 110 units, approx 30 years old with potential for regeneration
- PHC as a large provider will be able to provide services that will provide economy of scale and savings for the property and its residents



Leaving the Dance Floor

- The non profit Board and staff are to be congratulated on this very brave move which will ensure the property stays as social housing and will be well maintained.
- There will be opportunities through PHC services for the residents such as summer recreation programs, homework clubs, food banks and the capacity for timely repairs and capital work



Change is never easy: Lessons Learned

- PHC will always engage a consultant to map out the process, best practice for both parties
- We are currently taking a property that belonged to a men's shelter and demolishing and rebuilding the shelter and 15 transitional units, we used the same consultant for the framework and it guided us
- Transfer plans would be executed differently, notice given to staff with compensation and Property Management brought in immediately without crossover



In Earlier Times: Practicing dance Steps on a Smaller Stage

- In 2004, we acquired 5 single detached rural native housing units that had been part of a PID portfolio in our area grouped with Hamilton
- Transferred successfully, residents liked local landlord and we achieved efficiencies
- In 2009, we took on an 8 unit assisted living facility in Apsley that had a tired board, increased responsibilities and did not want to continue
- PHC evaluated property, assessed future value to our organization and received the property



Still Waltzing.....

- We entered into a delinked model with a service provider and the LHIN and were able to reduce costs and share services (we had t a 20 unit building next door.
- In 2015, we acquired 11 units from a private non profit who also suffered from not achieving “economies of scale”.
- We sold one building that had two units as it was not the standard we would deliver housing and transferred the rest into our portfolio
- In all three instances, resident satisfaction is high



Will We Dance Again?

- PHC will always evaluate each opportunity and make sure there are wins for all parties involved
- We know that other non profits are struggling with future decisions and our door will be open to assist them in any way we can and lending our expertise
- Our future will include mergers and acquisitions, land banking, looking at buildings to restore, regenerating our existing properties and developing new properties to fill the housing need in our area.



Thank You

- Darlene Cook,
CEO, PHC





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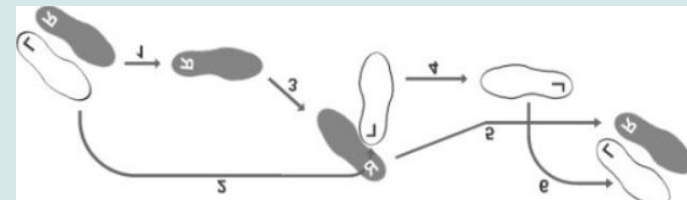
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Tango or Waltz
Do you know the steps?

PRESENTED BY:

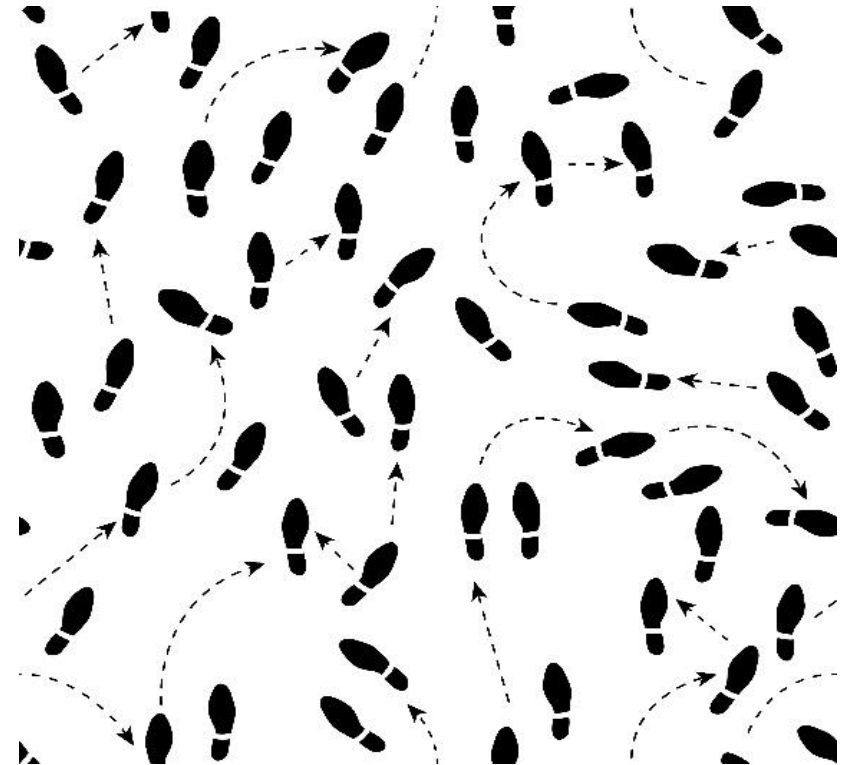
Jon Harstone,
Executive Director
St. Clare's Multifaith



The Good News is: your partner doesn't know the steps either

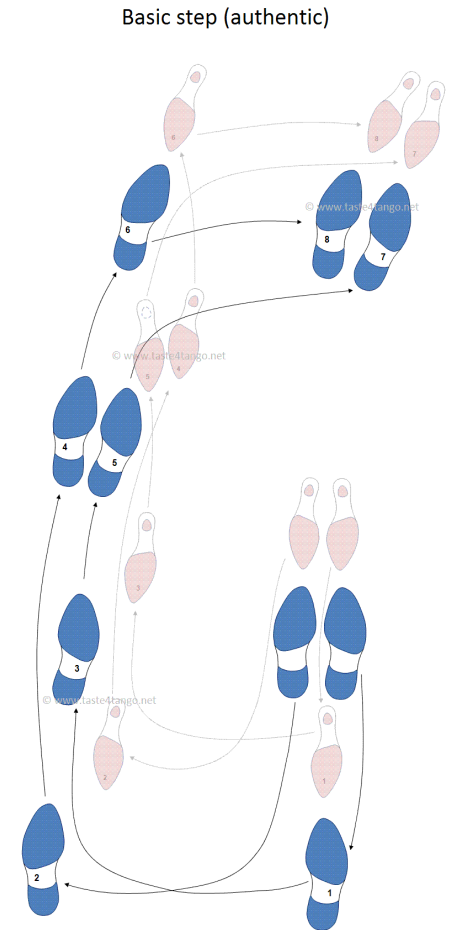
Legal Issues and Considerations Facing Mergers & Acquisitions

Disclaimer: I'm not a lawyer and I'm not
giving you legal advice



Two Options

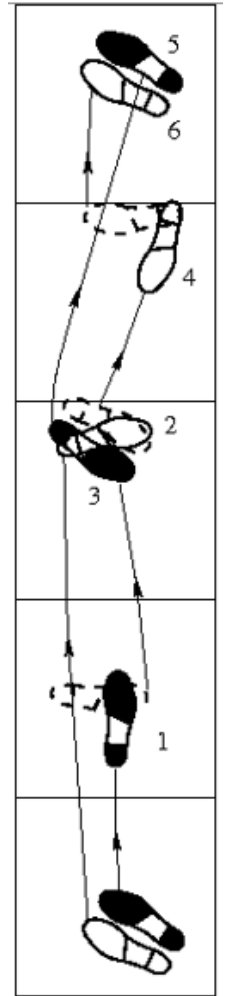
- Merger Two corporations become one
- Acquisition Maintain separate corporations



Considerations

Do some research: are there show stoppers?

- Stakeholder Consent (government, lenders, staff, tenants)
- Membership: (community based or just the board)
- Legal impediments (by-laws, articles, funding agreements)
- Similar corporate structures (ie both charities)
- Unintended consequences (HST rebates etc.)
- Will the acquisition strengthen your organization (due diligence)

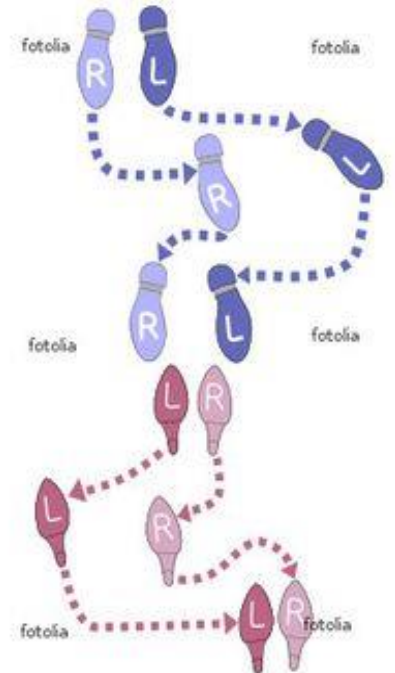


Acquisition Process (separate corporations)

Agreement between Parties (names new directors)

Acquired Group to:

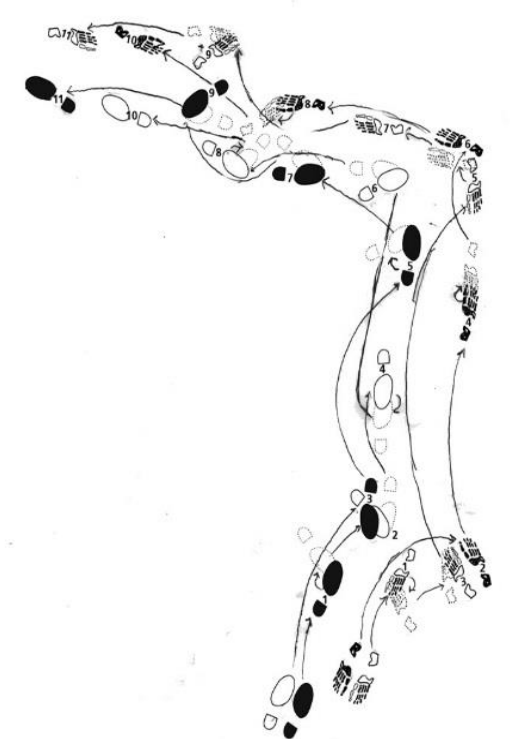
1. Get resignations of all members effective date of meeting
2. Board meeting: amend by-laws re: # of members
3. Members' meeting: approve by-law amendments, elect new directors
4. Board meeting: accept members resignations and accept acquiring corporation as the sole member



Process: Amalgamation (one corporation)

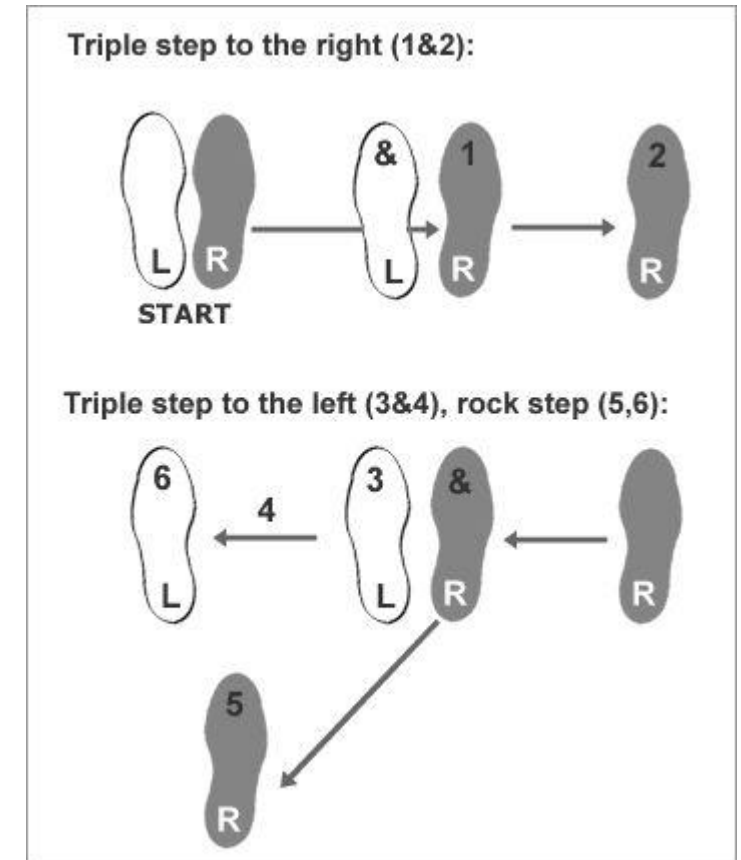
Amalgamation regulated by Corporations or Non-Profit Act

1. Special Resolution: passed by both boards & memberships
1. Sign Amalgamation Agreement
 - Sets out who are the directors, members, which by-laws to use
3. Submit Articles of Amalgamation
4. Province issues Certificate of Amalgamation



Acquisition by Gift

- Some insolvent providers are taken down by the Lender and gifted to a new operator by the Receiver
- New operator enters into an Agreement of Purchase and Sale with the Receiver



Thank You

Don't forget your boots



Now, let's try a Waltz. Don't worry about me though,
I'm wearing safety boots...

