

Report to Community and Protective Services Committee

To: Chair and Members
Community and Protective Services Committee

From: Scott Mathers, MPA, P.Eng.
Deputy City Manager, Planning and Economic Development

Subject: Operational Transition Plan for 446 King Street Housing Project

Date: January 29, 2024

Recommendation

That, on the recommendation of the Deputy City Manager, Planning and Economic Development:

- a. The following information on Civic Administration's approach for the 446 King Affordable Housing Project Transition Strategy **BE RECEIVED**;
- b. Civic Administration **BE AUTHORIZED** to disburse up to an additional \$300,000 as municipal contribution to this housing project from the Service Manager Administrative Funding account conditional on the Canadian Mental Health Association ("CMHA") taking ownership of this property and entering into an agreement of assignment and assumption with The Corporation of the City of London and Council of LIFT Non-Profit Housing Corporation;
- c. The Deputy City Manager **BE AUTHORIZED** to approve and execute an amendment to the Municipal Contribution Agreement for CMHA to support the business transition plan;
- d. Civic Administration **BE AUTHORIZED** to allocate rent subsidies to this project.

Executive Summary

The current financial situation is bleak. The affordable housing project at 446 King Street has been struggling to match operating expenses to revenue for a number of years and requires an action plan to protect the 30 supportive housing units at an affordable rent. The business turnaround plan is outlined in the report below, but can be summarized as follows:

- Transition of ownership & governance.
- Transfer the Provincial Affordability Payment from LIFT to CMHA.
- Secure revenue sources from other parties/agencies.
- Secure rent supplements from the City.
- Secure additional municipal contribution and amend MCA.

The housing project is currently owned by The Council of LIFT Non-Profit Housing Corporation (LIFT). Most individuals currently housed here require ongoing mental health and other social services supports. Capital funding was provided by all three levels of government and a Municipal Contribution Agreement was executed in 2007 with first occupancy occurring in January 2009. Over the past few years, the project has been experiencing several issues that still exist today.

Key issues contributing to the current situation include:

- A board that has effectively stepped away and is not actively engaged in project governance.
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- Annual operating deficits that threaten the future existence of this housing project.
- No clear ownership and accountability.

Linkage to the Corporate Strategic Plan

Council and staff continue to recognize the importance of actions to support housing, as reflected in the 2023-2027 - Strategic Plan for the City of London. Specifically, the efforts described in this report address the following Areas of Focus, including:

- Housing and Homelessness

Housing and Homelessness Strategic Area of Focus:

The following strategies are intended to “Increase access to a range of quality, affordable, and supportive housing options that meet the unique needs of Londoners”:

- Align policies and programs recognizing the broad range of factors that contribute to accessing and maintaining transitional, supportive, community, affordable and market housing.

The following strategies are intended to Decrease the number of Londoners at risk of or experiencing homelessness:

- Implement a program of continuous review of policies, procedures, and by-laws to create accountability and opportunities for balanced and compassionate solutions to homelessness.

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

The following reports provide direct and relevant background related to this report:

- [Housing Stability for All Plan 2021 Update](#) (CPSC: May 31, 2022)
- [Delegation of Authority for Municipal Contribution Agreements](#) (CPSC: June 13, 2023)

1.2 The Council of LIFT Non-Profit Housing Corporation Profile

The property located at 446 King Street is owned by The Council of LIFT Non-Profit Housing Corporation. The organization has its origins in the 1980’s as a charitable entity to advance housing for people in need. The Council of LIFT Non-Profit Housing Corporation was incorporated as a non-profit, non-share Corporation by Letters of Patent dated September 6, 2005. The Board of Directors of the Council of LIFT Non-Profit Housing originally consisted of four members. Over the last few years, members have either stepped away or have passed away. As of the date of writing this report, there are three directors of the Corporation on file, but they are not actively engaged.

The same board that governs The Council of LIFT are the same board members who govern another corporation called LIFT Non-Profit Housing. The latter corporation operates two social housing sites that were built in the 1990’s. These two social housing projects are governed under the Housing Services Act, 2011 and are known as “LIFT House” at 446 Queens Ave and “Elaine Lucas Place” at 749 Little Simcoe Street. These two social housing projects have separate business models from 446 King Street and are not the subject of this report.

1.3 Project Background

The property at 446 King Street is a result of a successful submission by The Council of LIFT to a City issued Request for Proposal to build new affordable. The development cost \$3.5 million and was funded by all three levels of government as part of the Affordable Housing Program (AHP) Rental and Supportive (R&S) component. Funding from all government sources account for \$2.45M or 69% of the total project cost. The building construction started in 2007 and was open for first occupancy in January 2009.

The building has a total of 30 apartment units consisting of bachelor and one-bedroom units for low-income single people, including people with disabilities. Under the AHP R&S component, there was a requirement for designating a number of units as supportive units that would support mental health and victims of domestic violence. It was decided that 20 units would be designated as supportive units for mental health. At the time of writing this report, all units within the project are housed by individuals in need of mental health supports, 10 of these units have individuals with high acuity.

Canadian Mental Health Association (CMHA) has been the agency utilized for tenant referrals at this project. CMHA continues to provide onsite supports to tenants and have been provided with office and communal space to deliver support programs.

Since the initial occupancy in 2009, Tilley Holmes had been hired by LIFT as the property manager. In April 2019, Tilley advised the board that they intended to end the property management contract, but they continued to provide services on a month-to-month basis up until March 2023. The timing of their decision to step away was also around the time that the LIFT board reached out to the Service Manager with a request to find a replacement board.

At that time, Municipal Housing Development started to work with the board and Tilley Holmes to explore options. In May 2019, CMHA expressed interest in taking over the property and assuming governance and management of the project. Although much discussion occurred amongst these various parties, there was no consensus on a transition plan for the project.

2.0 Discussion

2.1 Financial and Operational Challenges

Over the last few years, the Council of LIFT and their property management firm, Tilley Holmes, have expressed concerns over the financial viability of the project. A review of the last few years of financial performance for 446 King Street confirms that the project is in financial distress. Deficits are being realized consistently year over year as depicted below in Table 1 – Historical Financial Performance. According to CMHA and Tilley Holmes, these deficits are understated because there have been some expenses that were absorbed directly by CMHA. Future financial performance will be no different unless fundamental changes are made to the business model.

There are a few factors contributing to these operating results:

- **Low rental rates.** Rents for bachelor and one-bedroom units are averaging about 50% of Average Market Rents (AMR). These rents are too low to support an affordable housing project. As a comparator, most social housing projects are subsidized up to 60% of AMR in addition to other operating subsidies.
 - **Insufficient Subsidies.** Subsidies from government sources are received in the form of Provincial Affordability Payments (PAP). At the inception of this project, the Province committed \$1.196 million in funding to go toward a portion of mortgage payments over 20 years. The PAP funding helps to pay for about 67% of the total mortgage obligation. There are no other sources of government subsidies.
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- **Higher Operating Costs.** Costs are higher than originally contemplated due to unanticipated repairs & maintenance as well as the need for enhanced security measures.

Table 1 – Historical Financial Performance

Council of LIFT - 446 King	Actuals	Actuals	Actuals
Year Ended March 31	2020	2021	2022
Revenue			
Rental Revenue	\$ 164,240	\$ 160,676	\$ 167,374
Government Subsidy	101,586	108,338	119,114
Total Revenue	265,826	269,014	286,488
Expenses			
Administrative Overhead	26,667	29,704	27,658
Maintenance & Repairs	63,553	66,182	78,535
Mortgage Expense	148,886	148,835	148,815
Other	50,046	48,959	60,034
Total Expense	289,152	293,680	315,042
Operating Surplus/(Deficit)	(\$ 23,326)	(\$ 24,666)	(\$ 28,554)
Operating Surplus/(Deficit), beginning of year	(\$ 29,633)	(\$ 52,959)	(\$ 77,625)
Operating Surplus/(Deficit), end of year	(\$ 52,959)	(\$ 77,625)	(\$ 106,179)

2.2 Current State of Project

Over the last few years, as the LIFT board stepped away from their duties as board members and directors of the corporation, CMHA has stepped in to help manage the operations at 446 King. CMHA have stated that they cannot continue to do this much longer without help to stabilize the business and a plan to provide for future sustainability. Part of the business transition plan described later in this report includes a large financial contribution from a private donor that CMHA has been engaging with to support this project turnaround. The financial donation has been designated toward paying off part of the outstanding mortgage. CMHA has also been engaging with the Ministry of Health to subsidize current rents up to 80% of AMR for some units. These discussions are still ongoing.

The current financial situation is bleak. In September 2023, the mortgage would have been in default had it not been for emergency funding in the amount of \$31,000 from the City. This funding bridges the shortfall on mortgage payments from September 2023 to February 2024 while a new business plan is put into place. This funding was necessary to prevent the lending agency from triggering a default and potentially taking possession of the property. Recognizing that the emergency funding will soon be depleted, and time will be needed to implement the transition plan, additional funding to support the mortgage may be disbursed for an additional three months.

2.3 Waitlist

Part of the transition plan will involve a new rent supplement stream from the City. Financial support for the project through rent supplements from the City will keep low-income individuals housed and supports the project's financial capacity to cover annual operational expenses. As units become vacant, rent supplements up to 80% of AMR would be offered to individuals who are matched from the City's waitlist. Over time, up to fourteen individuals may be matched from the City's waitlist.

2.4 Preventing Homelessness

The 446 King Street project provides stability, support, and a home to individuals who are on low fixed income. Continuing to provide an affordable and safe place for these individuals prevents homelessness. Support of this transition plan enables those agencies (i.e. CMHA) to support the most vulnerable in our community.

3.0 Financial Impact & Considerations

3.1 New Business Model Needed for Future Project Sustainability

The current business model is not viable, and changes are needed to stabilize this project and protect these affordable housing units.

The following initiatives are recommended to be advanced for this project:

- LIFT and CMHA to complete a Purchase and Sale Agreement.
- City to approve an Assignment and Assumption of 446 King Street Project from LIFT to CMHA. The new ownership would offer renewed leadership that is invested in better outcomes for tenants.
- Secure additional Rent Supplement revenue stream from two sources:
 - 1. Homeless Prevention Program for up to 14 units; and
 - 2. Ministry of Health for any remaining units.
 - At current average market rates, rent supplements for up to 14 units equates to about \$80,000 per year.
 - Discussions have been ongoing between CMHA and the Ministry of Health.
- CMHA to secure donor commitment up to \$680,000 that will contribute to a partial mortgage payout and operating needs.
- Contribute up to \$300,000 from municipal sources that will help dissolve past and current operating deficits. The exact amount of contribution will be determined based on need. This funding will be sourced from the City's Service Manager Administrative Funding account.

These initiatives constitute fundamental changes to their business model through the creation of new revenue streams and a re-setting of operational expenditures. The projected financial performance in Table 2 reflects the assumptions described above. For financial modelling purposes, the contributions are assumed to be implemented for the new fiscal year starting April 1, 2024 (as shown in "Projected 2025" column). The impact of rent supplements and one-time funding contributions from the donor and the City addresses past deficits and reduces the balance of the mortgage. Under these assumptions, the project not only generates enough revenue to meet all operating needs, but it also generates funds to contribute effectively to capital reserves. The latter is important to maintaining and protecting the building asset into the future.

Table 2 – Projected Financial Performance

446 King Street Year Ended March 31	Projected 2025	Projected 2026	Projected 2027	Projected 2028
Revenue				
Rental Revenue	\$ 180,243	\$ 184,750	\$ 189,368	\$ 194,103
Government Subsidy	407,798	\$ 261,762	\$ 265,825	\$ 269,989
Other	202,500	2,500	2,500	2,500
Total Revenue	790,542	449,011	457,693	466,591
Expenses				
Administrative Overhead	38,496	38,881	39,270	39,663
Maintenance & Repairs	170,501	174,266	178,144	182,138
Mortgage Expense	199,148	99,252	99,252	99,252
Other	117,036	120,100	122,334	124,619
Total Expense	525,181	432,498	438,999	445,671
Operating Surplus/(Deficit)	\$ 265,361	\$ 16,513	\$ 18,694	\$ 20,920
Operating Surplus/(Deficit), beginning of year	(\$ 223,563)	\$ 41,798	\$ 58,311	\$ 77,005
Operating Surplus/(Deficit), end of year	\$ 41,798	\$ 58,311	\$ 77,005	\$ 97,925

3.2 Other Options Considered

Other options have been considered, but all fall short of the outcomes achieved in the recommended approach.

- a. Bring on replacement board members for the Council of LIFT
 - Board members are challenging to recruit for housing projects. Having new board members may fill the governance void, but it does not address the financial challenges in the current business model.
- b. The City assumes ownership
 - The City is not resourced to operate housing projects.
 - Diverts time and resources in Municipal Housing Development from focusing on advancing other initiatives in the Roadmap to 3,000 Plan.
- c. Allow the project to fail
 - The project could go into receivership and be put up for sale by the lending agency.
 - The community risks losing affordable units.
 - Current tenants risk being re-located or being homeless.

4.0 Next Steps

Aligned with the transition plan in section 3.1 above, Civic Administration will engage with CMHA and LIFT to implement all the transactions and agreements needed to transition ownership and secure new funding streams. Council's recent approval of the Delegation of Authority for Municipal Contribution Agreements (MCA) for Affordable Housing will enable Civic Administration to deliver on some next steps more effectively.

Business Transition Plan:

- A. Transition Ownership & Governance
 1. Complete Purchase and Sale Agreement (CMHA to lead)

2. LIFT submits a request to the City for an Assignment and Assumption to CMHA
 3. Civic Administration reviews and approves the request, as permitted in the Delegation of Authority for Municipal Contribution Agreements for Affordable Housing
 4. Civic Administration to advise the province of change in ownership.
- B. Transfer Provincial Affordability Payment from LIFT to CMHA
1. Civic Administration to work with the province to transfer this subsidy to new owners. The payment is currently administered by the City.
- C. Secure Revenue sources from other parties/agencies
1. CMHA to secure one-time donation from anonymous source.
 2. CMHA to enter into amended agreement with Ministry of Health for rent subsidies.
- D. Secure Rent Supplements from the City
1. Civic Administration to work with CMHA on Tenant Placement Agreement that will specify the level of subsidy and the number of units subsidized aligned to filling new vacancies with tenants from the waitlist.
- E. Secure additional Municipal contribution and amend MCA
1. Conditional on approval from Council, Civic administration will contribute up to an additional \$300,000 grant to support the operational viability of this project. A condition of the grant will be to extend the affordability period by ten years out to 2044.
 2. Civic Administration to amend the MCA to allow rents up to 80% of AMR, as authorized in the Delegation of Authority.

Civic Administration can commit to provide an update to Council after the transition plan has been successfully implemented.

Conclusion

The project at 446 King Street is in financial crisis and needs a turnaround plan implemented within the next few months. The risk of inaction poses a threat to the housing stability of high acuity individuals. The cost of displaced tenants would far outweigh the financial commitment described above. The additional investment in this project would also protect and preserve much needed affordable housing stock that is also supportive. In the context of current initiatives being implemented to address health & homelessness, to address the shortage of affordable housing stock, allowing this project to fail would undermine those initiatives.

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