TO:	**CHAIR AND MEMBERS** **STRATEGIC PRIORITIES AND POLICY COMMITTEE** **MEETING OF AUGUST 26, 2019**
FROM:	**ANNA LISA BARBON** **MANAGING DIRECTOR, CORPORATE SERVICES & CITY TREASURER, CHIEF FINANCIAL OFFICER** **and** **SANDRA DATARS BERE** **MANAGING DIRECTOR, HOUSING, SOCIAL SERVICES AND DEARNESS HOME**
SUBJECT:	**CITY OF LONDON SERVICE REVIEW:** **REVIEW OF SERVICE DELIVERY FOR HOUSING**

RECOMMENDATION

That on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer and Managing Director, Housing, Social Services and Dearness Home, the following actions be taken:

a) the attached Appendix “A” City of London Service Review: Review of Service Delivery for Housing **BE RECEIVED** for information;

b) that Civic Administration **BE DIRECTED** to determine next steps and actions based on the analysis and potential courses of action identified in the KPMG report;

c) that Civic Administration **BE DIRECTED** to work with London Middlesex Community Housing (LMCH) to investigate, address and reduce the vacancy rate within their housing portfolio;

d) that no action **BE TAKEN** with respect to the requested changes to the Shareholder Declaration and Articles of Incorporation for LMCH; and,

e) that Civic Administration **BE DIRECTED** to examine the development of affordable housing, consistent with the City’s Service Manager legislated responsibility and report back on a recommended option.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

“RFP 18-04: City of London Service Review – Consulting Services,” Strategic Priorities and Policy Committee, March 26, 2018

“Response to London Middlesex Housing Corporation (LMHC) Requested Changes to the Articles of Incorporation and PricewaterhouseCoopers Internal Audit Report,” Strategic Priorities and Policy Committee, March 4, 2019

“City of London Service Review: Project Update”, Strategic Priorities and Policy Committee, April 8, 2019

LINK TO THE STRATEGIC PLAN

The City of London Service Review links to Council’s Strategic Plan 2019 – 2023 strategic area of focus of Leading in Public Service, specifically:

- Increase efficiency and effectiveness of service delivery; and
- Maintain London’s finances in a transparent and well-planned manner to balance equity and affordability over the long term

PURPOSE

On March 6, 2019, Municipal Council put forward and approved a resolution to undertake a review of the delivery of housing programs and services that are specific to the shareholder agreement between the City and London Middlesex Community Housing ("LMCH") as well as the City and Housing Development Corporation, London ("HDC"). This report responds to item c) of the Council resolution, which is as follows:

That the following actions be taken with respect to requested changes to the Articles of Incorporation and PricewaterhouseCoopers Internal Audit Report for London Middlesex Housing Corporation:

a) on the recommendation of the Managing Director, Housing, Social Services and Dearness Home, the Civic Administration's response to London Middlesex Housing Corporation's (LMHC) requested changes to their Articles of Incorporation and PricewaterhouseCooper's Internal Audit Report, dated March 4, 2019, BE RECEIVED for information;

b) the attached presentation from J. Browne, S. Quigley and M. Allen Easton, London & Middlesex Community Housing, with respect to this matter, BE RECEIVED; and,

c) to ensure it is maximizing its investment in housing, civic administration BE DIRECTED to undertake a review of the delivery of housing programs and services that are specific to the shareholder agreement between the City and London Middlesex Community Housing Corporation ("LMCH") as well as the City and Housing Development Corporation, London ("HDC") to evaluate the current service delivery model, including the relationships, roles and functions of the City and the two housing corporations, including any necessary changes to the shareholder declarations, noting that the review be completed in time to inform the development of the 2020-2023 Multi-Year Budget.

This report presents findings and recommendations from the review undertaken by KPMG for the service delivery of housing. It is noted that both the LMCH and HDC have received this report to Committee and the accompanying KPMG report.

APPROACH

Further to the service review project update identified in the April 2019 report, KPMG has undertaken, on behalf of the City, an in-depth review of the delivery of housing programs and services that are specific to the shareholder agreement between the City and London Middlesex Community Housing ("LMCH") as well as the City and Housing Development Corporation, London ("HDC"). The following provides an overview of the components of the KPMG report:

- Current state assessment of the service delivery of housing; and
- Analysis and Potential Courses of Action.

Detailed information on the findings and recommendations with respect to potential courses of action contained in KPMG's report can be found in the attached Appendix "A" City of London Service Review: Review of Service Delivery for Housing. The information contained in KPMG's report represents an independent assessment of the service delivery of housing.

REPORT FINDINGS AND RECOMMENDATIONS

Through the course of the review that was undertaken by KPMG, a number of key themes emerged with respect to the delivery of housing services by the City, LMCH and HDC. The key themes identified by KPMG, are as follows:

1. The current assignment of municipal housing services, which divides same or similar services among the service providers, creates the potential for duplication and service impairment.

2. LMCH's performance appears to be adversely impacted by capacity constraints, including effective governance oversight and greater than normal vacancies within its housing stock.
3. The incremental benefits of HDC as a separate corporate identity may be questionable.
4. HDC's processes and focus may expose the City to increased risk.
5. There is limited back office integration amongst HDC, LMCH and the City.
6. LMCH's ability to undertake an expanded mandate is likely problematic in light of operational and governance issues.

In response to the issues identified within each of the key themes, KPMG developed the following recommendations with respect to potential courses of action:

1. KPMG suggests that LMCH resolve its current performance issues, including addressing its housing unit vacancy rates. To support the resolution, KPMG suggests the mapping of critical processes which is intended to: (i) to identify the root cause of LMCH's challenges with respect to unit turn-around and overall vacancy; (ii) identify potential opportunities for enhancements to customer experience; (iii) identify potential opportunities for synergies and operational efficiencies through the integration of common functions with City services; and (iv) quantify the resource requirements necessary to support streamlined processes.

   In addition, to support vulnerable people the reduction in vacancy rates will provide increased rental revenues.

2. In light of the performance issues identified, KPMG recommends that no changes to LMCH's governing documents, including its articles of incorporation, shareholder declaration and operating framework be undertaken. At the present time, KPMG suggests that the City support LMCH to focus on effectively executing on its core business prior to undertaking any expansion in activities.

3. KPMG suggests that there is no incremental benefit from the establishment of HDC in comparison to previous development of affordable housing by the City. Consideration could be given to transitioning the operations of HDC back into the City.

PROPOSED PROCESS / NEXT STEPS

Civic Administration has reviewed the report and its findings and has considered the recommendations by KPMG. Should Council wish to adopt any of the recommendations, Civic Administration will develop the next steps and actions to address the potential courses of action identified by KPMG.

Regarding LMCH's performance issues identified by KPMG, Civic Administration will work with LMCH to investigate, address and resolve current vacancy issues. With respect to the requested changes for any necessary changes to the shareholder declarations, Civic Administration acknowledges the KPMG recommendations for potential courses of action and suggests that no changes be made at this time.

With respect to HDC, it is recognized that the analysis identified no incremental benefit in the number of affordable units created, notwithstanding that HDC was established to increase affordable housing units and broader housing policy and tools, KPMG has suggested that they be integrated back into the City and that HDC is dissolved. Civic Administration will examine the development of affordable housing and report back on a recommended option.

PREPARED AND SUBMITTED BY:	
MARK JOHNSON, RPP **BUSINESS PLANNING PROCESS MANAGER** **FINANCE AND CORPORATE SERVICES**	
RECOMMENDED BY:	**RECOMMENDED BY:**
ANNA LISA BARBON, CPA, CGA **MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER**	**SANDRA DATARS BERE** **MANAGING DIRECTOR, HOUSING, SOCIAL SERVICES AND DEARNESS HOME**

Attach: Appendix A – City of London Service Review: Review of Service Delivery for Housing (August 2019)

cc: Barry Card, Managing Director, Corporate Services & City Solicitor

KPMG

City of London Service Review

Review of Service Delivery for Housing

Summary Report

August 12, 2019

Introduction to the Review

A. The City of London Service Review

Pursuant to the terms of RFP 18-04, the City of London (the ‘City’) has engaged KPMG to undertake a service review, the overall goals of which included:

- Developing a better understanding of the relevance, effectiveness and efficiency of City programs and services, as well as those offered by selected Agencies, Boards and Commissions;
- Identifying gaps in service that present opportunities for financial and time efficiencies, continuous improvement, and alignment with the City’s strategic goals.

The 2018 Service Review project is part of a larger process begun in 2016 in response to direction by City Council to identify $4 million in annual permanent operating budget reductions by 2019 that were built-in to the approved 2016 - 2019 Multi-Year Budget. As well, the opportunities identified through the 2018 Service Review are intended to create capacity and or mitigate budget pressures anticipated for the next Multi-Year Budget (2020-2023).

During the course of the review, KPMG prepared a list of opportunities for consideration by the City to pursue for further analysis. While a high level analysis of all opportunities was undertaken with respect to potential financial impacts and implementation considerations, the review also involved the prioritization of the identified opportunities based on financial and non-financial considerations, with priority opportunities further refined through the completion of individual detailed reviews. Overall, three opportunities were selected for more detailed analysis, including a review of the delivery of housing programs and services that are specific to the shareholder agreement between the City and London Middlesex Community Housing (“LMCH”), as well as the shareholder agreement between the City and Housing Development Corporation, London (“HDC”).

The City is the Service Manager as established within the Housing Services Act and is responsible for administering housing programs and services in the City of London and the County of Middlesex. As the designated service manager, the City wishes to ensure that housing is delivered efficiently and effectively in order to maximize its investment in housing programs and services that are provided to the community. The detailed review is intended to evaluate the current service delivery model, including the relationships, roles and functions of the City, LMCH and HDC.

Introduction to the Review

B. Restrictions

This report is based on information and documentation that was made available to KPMG at the date of this report. We had access to information up to June 24th, 2019 in order to arrive at our observations but, should additional documentation or other information become available which impacts upon the observations reached in our report, we will reserve the right, if we consider it necessary, to amend our report accordingly. This report and the observations and recommendations expressed herein are valid only in the context of the whole report. Selected observations and recommendations should not be examined outside of the context of the report in its entirety.

Our observations and full report are confidential and are intended for the use of the City. Our review was limited to, and our recommendations are based on, the procedures conducted. The scope of our engagement was, by design, limited and therefore the observations and recommendations should be in the context of the procedures performed. In this capacity, we are not acting as external auditors and, accordingly, our work does not constitute an audit, examination, attestation, or specified procedures engagement in the nature of that conducted by external auditors on financial statements or other information and does not result in the expression of an opinion.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and opportunities as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the City of London. Accordingly, KPMG will assume no responsibility for any losses or expenses incurred by any party as a result of the reliance on our report.

This report includes or makes reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion.

KPMG has no present or contemplated interest in the City of London nor are we an insider or associate of the City of London or its management team. Our fees for this engagement are not contingent upon our findings or any other event. While KPMG does provide auditing and other professional services to the City of London, the service review was conducted by KPMG partners and employees that are not involved in the provision of these services. Accordingly, we believe we are independent of the City of London and are acting objectively.

Current State Assessment

A. Overview of the City's Mandate for Housing

The City's involvement in the delivery of housing services is mandated by the Housing Services Act, 2011 (the "HSA"), which designates the City as the Consolidated Municipal Service Manager (the "Service Manager") for the City of London and County of Middlesex. Pursuant to Section 6(1) of the HSA, the Service Manager is required to have a plan to address housing and homelessness, which must include:

- An assessment of the current and future housing needs within the Service Manager's service area;
- Objectives and targets relating to housing needs;
- A description of how progress towards meeting the objectives and targets will be measured; and
- Other matters as prescribed by the Ministry.

The HAS further requires that the housing plan, which must cover a minimum planning horizon of ten years, address both (i) matters of Provincial interest which are defined in Section 4 of the Act; and (ii) policy statements issued by the Province with respect to housing.

The Service Manager's Homelessness Prevention and Housing Plan (the "Housing Plan") was finalized in November 2013. Building on previous planning exercises – most notably the *London Community Housing Strategy (June 2010)* and the *Community Plan on Homelessness (November 2010)* – the Housing Plan provides an integrated summary of the Service Manager's homelessness and housing strategies built on a Housing First approach.

Housing First encompasses a strategy of rapidly moving people experiencing homelessness into stable and long-term housing, with supports. The adoption of the Housing First approach responds to the significant, and increasing, pressures faced by the City with respect to homelessness and reflects its intention to support housing stability for all. Rather than looking to move individuals along the housing continuum[1], the Service Manager's focus is on addressing immediate needs so as to fulfill the basic needs of the homeless.

The Service Manager is currently in the midst of updating its homeless and housing plan, which is expected to be presented to Council in the fall of 2019.

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[1] The housing continuum is the term used to define the various different states of housing for individuals and families, with the continuum ranging from homelessness through to private home ownership under market conditions. While multiple versions of the continuum have been developed, the Canada Mortgage and Housing Corporation ("CMHC") – which acts as the lead Federal agency for multiple housing and homelessness initiatives – has developed a continuum framework that encompasses eight different housing states.

Current State Assessment

The HSA mandates the requirement for the Service Manager to address housing and homelessness; however, it is less prescriptive with respect to the exact nature of the services to be delivered and activities undertaken, with the Service Manager able to assess and respond to the specific needs of the community. As outlined in the Housing Plan, the City has identified two key priorities with respect to homelessness and housing:

- Priority No. 1 – Individuals and families experiencing homelessness obtain and retain housing and individuals and families at risk of homelessness remain housed.
- Priority No. 2 – The greatest number of people will be provided with an integrated mixture of affordable and housing options.

Inherent in these priorities, and the Housing Plan in general, is the focus on specific aspects of the housing continuum[2], specifically:

1. Homelessness (including homeless, emergency shelters and transitional housing);
2. Social housing; and
3. Affordable rental housing.

B. Distribution of Responsibilities

The Service Manager has adopted different approaches for the delivery of services to each of these areas, which include:

- Direct delivery by the City;
- Funding agreements with community organizations; or
- Delegation of responsibility to LMCH or HDC, with:
  - LMCH providing direct delivery of social housing[3]; and
  - HDC entering into funding agreements with not-for-profit organizations and private-sector entities

[2] Other aspects of the housing continuum (affordable home ownership, market rental housing, market home ownership) have been considered to be outside of the scope of housing services included in our review.

[3] The Province of Ontario now refers to community housing, which consists of both social and affordable housing.

Current State Assessment

- **Homelessness** – Homelessness services are delivered exclusively by the City, specifically the Homeless Prevention Division ("HPD"). The HPD is responsible for the development of homelessness prevention strategies, plans and supporting analysis, and is also the lead functional unit for the establishment and maintenance of partnerships (including funding agreements) with community organizations that directly deliver homeless programs (outreach, emergency shelters).
- **Social Housing** – The delivery of social housing is divided between the City's Housing Services Division ("HSD") and LMCH.
  - The HSD is responsible for the development of housing plans, strategies and supporting analysis for social and affordable housing. It also manages the Housing Access Centre ("HAC"), which is the point-of-entry into social housing through a coordinated access/centralized wait list system and subsidy wait lists,

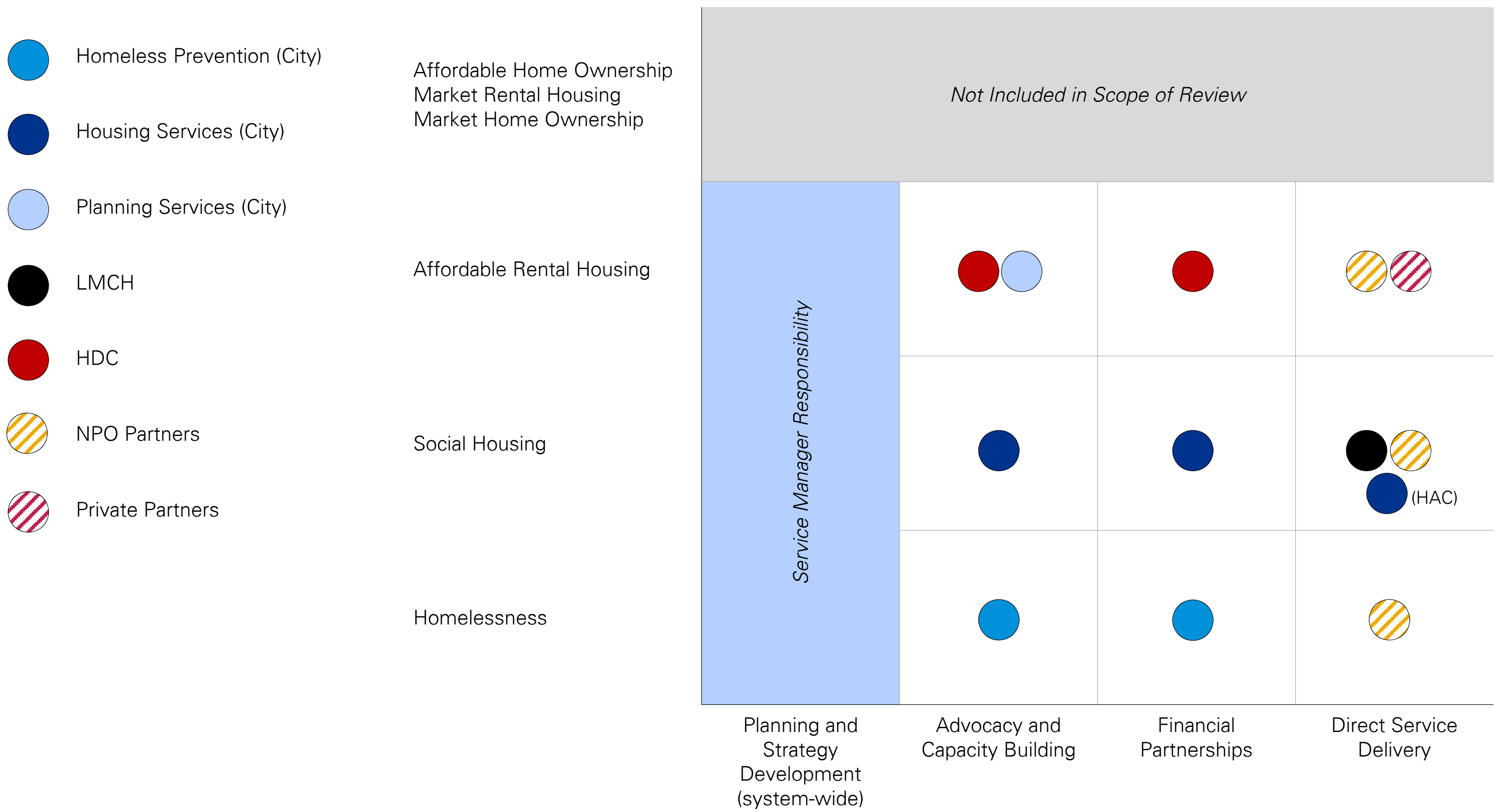
    In addition, the HSD also administers the payment of annual operating and capital subsidies to local not-for-profit housing corporations. During the 2018 fiscal year, the HSD administered a total of $18.4 million in operating subsidies to 71 recipients, with a further $360,000 provided in capital funding. Overall, these providers account for 4,394 social housing units in the City and Middlesex County. As part of the funding agreements, the HSD monitors compliance with Provincial legislation and can, as required, become involved in projects experiencing financial or governance difficulties. Additionally, the HSD also monitors compliance for affordable housing agreements administered by HDC (see below).
  - LMCH is responsible for the direct provision of social housing through the maintenance and rental of 3,276 social housing units, all of which are rent-geared-to-income ("RGI") units (i.e. LMCH does not offer any units at market rent). LMCH was established in December 2000 in response to the passing of the Social Housing Reform Act (the "SHRA"), the enabling legislation for the transfer of approximately 84,000 public housing units from the Province to 47 service managers. Prior to the SHRA, the City had no direct involvement in the delivery of social housing, unlike other municipalities that had operated their own municipal not-for-profit housing corporations.

    The activities of LMCH are governed by the corporate articles of incorporation, a shareholder's declaration and operating framework, all of which establish the mandate of the LMCH and restrict its focus solely to social housing activities. In addition, the provisions of the HSA give the Service Manager an extensive level of control and approval rights over the operations of LMCH.
- **Affordable Housing –** Planning and strategy development for affordable housing is combined with social housing and as such, rests with the Service Manager. Outside of planning, the Service Manager's involvement in affordable housing consists of the provision of funding to third party developers of affordable housing units, which can either be not-for-profit organizations or for-profit, private sector enterprises. Traditionally, the majority of funding for affordable housing development has come from the Investment in Affordable Housing Program ("IAH"), a Provincial program extending to March 31, 2020. In addition to these funds, the City provides an annual contribution to HDC of $2 million (funded through the municipal levy) to supplement the amount of funding available to support affordable housing development.

  Concurrent with establishing HDC, the Service Manager has delegated its responsibility for the administration of the IAH, with HDC responsible for the selection of eligible projects and the provision of funding (both IAH and City). While the IAH program requires annual compliance monitoring, we were advised that this is undertaken by the HSD and not HDC.

  A graphical depiction of the current assignment of responsibilities is provided on the following page.

Current State Assessment



Current State Assessment

C. Resource Requirements

As a corporate group, the Service Manager is expected to spend $62.1 million on homelessness and housing services, of which $26.9 million will be funded through the municipal levy. As summarized below, the HSD and LMCH each account for approximately 36% of total spending and 43% of the municipal levy requirement. LMCH also represents the largest area of staffing, with 74 full-time equivalent staff positions ("FTEs").

2019 Budget Summary *(amounts in thousands except for full-time equivalent staff)*	City			LMCH	HDC	Total
	HPD	HSD	Total			
Budgeted expenditures:						
• Operating costs	$1,921	$1,807	$3,728	$22,173	$638	$26,539
• Transfer payments	$12,529	$20,851	$33,380	–	$2,200[4]	$35,580
• Total	$14,450	$22,658	$37,108	$22,173	$2,838	$62,119
Budgeted non-taxation revenue	($12,133)	($11,104)	($23,237)	($11,475)	($546)	($35,258)
Budgeted levy requirement	$2,317	$11,554	$13,871	$10,698	$2,292	$26,861
Full-time equivalent staffing	8.0	17.0	25.0	57.0	6.0	88.0

D. Key Themes

During the course of our review, a number of themes emerged with respect to the provision of homelessness and housing services by the City. Given that the scope of our review is intended to focus on areas for potential enhancements, we have not provided commentary on the positive aspects of the services provided by the City, LMCH or HDC. Rather, the identification of the key themes is intended to provide an indication of issues that may be addressed through alternative strategies identified in the next chapter of our report.

The key themes identified during the course of our review, in no particular order of priority, are listed on the following pages.

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4 Represents the City's contribution towards affordable housing development. Transfer payments involving senior government funding (i.e. IAH) are not included in the budgeted figures.

Current State Assessment

1. **The current assignment of responsibilities divides same or similar services, with the potential for service impairment and duplication –** Based on the results of our review, we note that the Service Manager does not appear to have adopted a streamlined approach to service delivery – where one organization is tasked with all elements of the housing continuum – but rather has allocated services across multiple organizations. For example:
   - While HDC is responsible for the delivery of IAH, compliance verification is undertaken by the HSD. Accordingly, there is the potential for inefficiencies due to the separation of contract negotiation from contract administration;
   - While LMCH owns and manages the City's social housing stock, HDC plays a role in its renewal. This could result in a potential duplication of capabilities relating to project management and contract administration within the two organizations;
   - The current assignment of responsibilities involves three parties in the delivery of social housing (the HSD, which is responsible for the HAC as well as transfer payments to not-for-profit social housing providers, LMCH and not-for-profit social housing providers). All three entities provide client-facing services to tenants, which may result in potential inefficiencies due to the absence of economies of scale.
   - Planning and strategy development for affordable housing rests with the HSD, while HDC is tasked with the actual execution. Given the separation of planning and execution, it is possible that affordable housing development is undertaken in a manner that is inconsistent with the overall strategy for affordable housing.
2. **LMCH's performance appears to be adversely impacted by capacity constraints –** While decided well-intentioned, there is the realization – both within LMCH and the Service Manager – that LMCH's performance has been adversely impacted by capacity constraints at both the governance and operational level. Our review has indicated that notwithstanding its intended role as a skills-based board, the current board of LMCH is more representative of an advocacy board, with only limited representation of what we consider to be requisite skills. As a result, effective governance oversight appears to be lacking.

   From an operational perspective, our review has noted a significant limitation in terms of LMCH's ability to rehabilitate its housing stock, which in turn has led to a higher than average vacancy rate. From January 2014 to December 2018, LMCH's monthly vacancy rate has ranged from 2.4% (September 2017) to a high of 5.9% (December 2018), with an average monthly vacancy rate over the last five years of 3.9% (see next page).

   Based on our review, we understand that vacancy rates are not typically considered to be a major issue given long waiting list times and as such, limited statistical information concerning vacancy rates is reported. Where vacancies do exist, these relate to the period when units are transitioning from one tenant to another, with the length of the vacancy impacted by two factors:

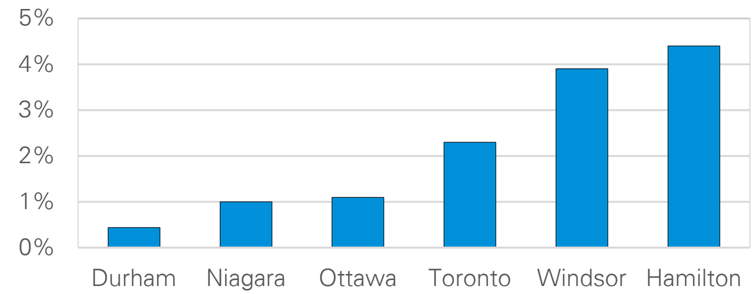
   - The time required to undertake necessary repairs and maintenance on the unit, which is contingent upon both the extent of work required and the effectiveness of LMCH's management of the repair and maintenance process.
   - The time required to rent the unit to a new tenant, which can be extensive due to the ability of potential tenants to provide up to three refusals. We understand that the Province will be reducing the number of refusals from three to one, which is expected to reduce the amount of time required to rent available units.

Current State Assessment

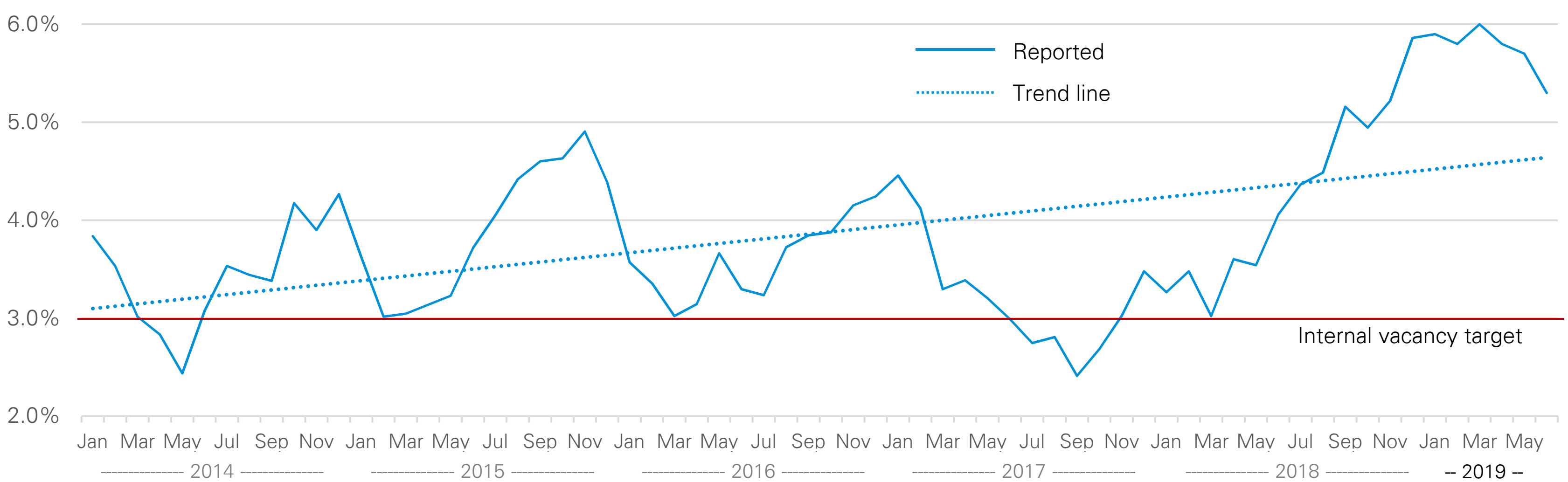
LMCH's five year vacancy rate translates into an average of 128 units being unoccupied at any given time, with 159 units vacant during the month of December 2018. While LMCH has reported an improvement in its overall vacancy rate as at June 2019 (5.3%), we note that this rate is still higher than both the average of selected municipal social housing providers (2.2%) and LMCH's own internal target for vacancies (3%). As noted below, LMCH met its internal target for vacancies in only seven months from January 2014 to June 2019 (66 months in total).

As at June 2019, a total of 174 units were reported as vacant. ***Had LMCH met its internal target for vacancies (3%), total vacancies would be 98 units, with 76 more units occupied by tenants in need of social housing. Had LMCH achieved a vacancy rate equal to the average of the selected municipal social housing providers (2.2%), total vacancies would be reduced to 72 units, providing 102 more units for tenants in need.***

Reported Vacancy Rates



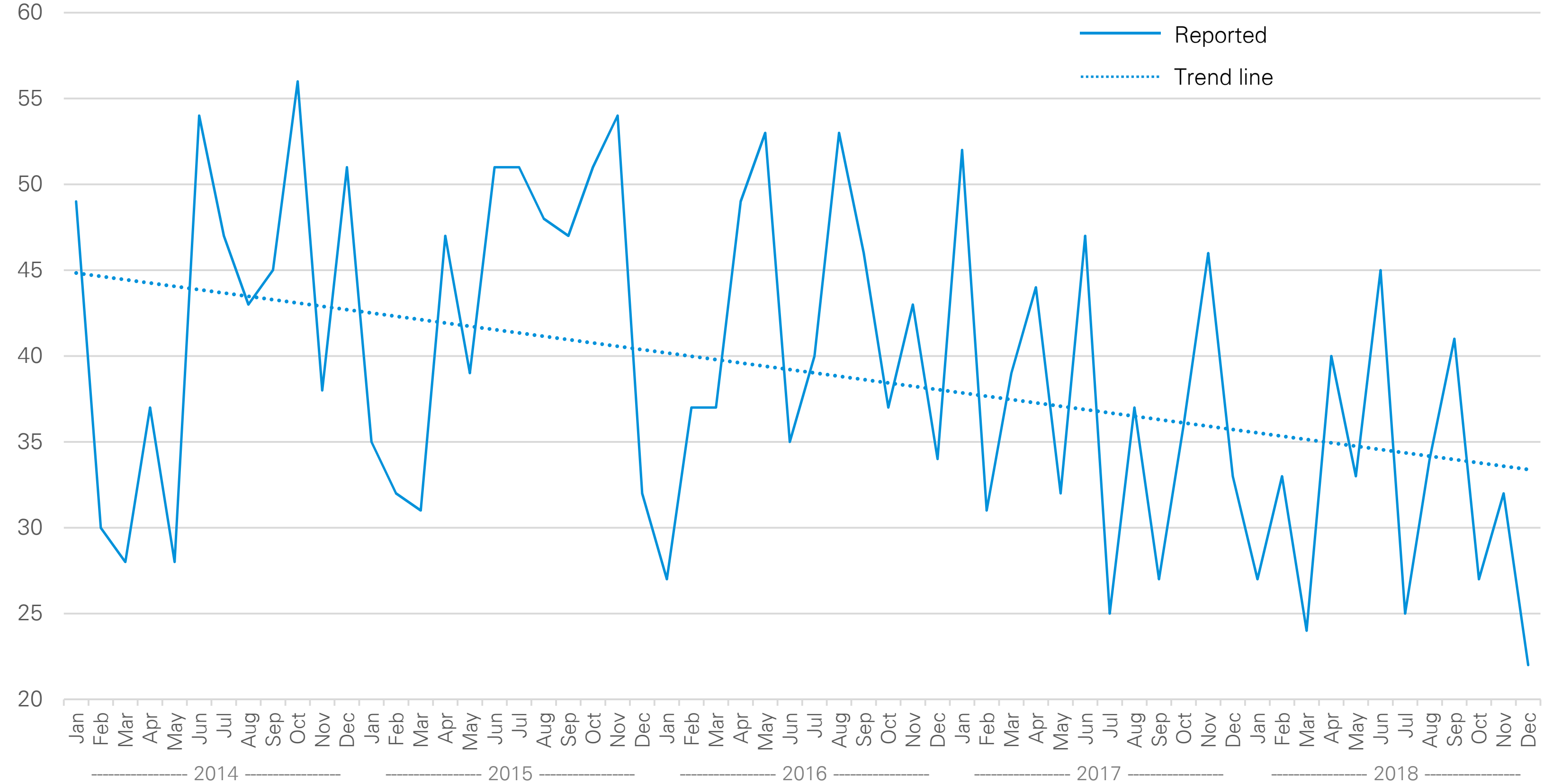
LMCH Monthly Vacancy Rate (January 2014 to June 2019)



Current State Assessment

Over the same period, the number of tenants vacating units on a monthly basis has decreased, which would indicate that LMCH's vacancy rates should be decreasing, not increasing, as lower move-outs reduces the need to keep units vacant in between tenants for rehabilitation and repairs.

LMCH Monthly Move-outs (2014-2018)



Current State Assessment

Based on information provided by LMCH, we understand that the standard approach to rehabilitating a unit between tenants involves the following:

- Remaining items are removed from the vacated units;
- The unit is inspected for pests, with pest control undertaken if required;
- Initial repairs are conducted. LMCH classifies repairs based on the extent of work required, with different standards established for repair times, as follows:

Repair time standards	High Rise	Residential
Level 1 (minor repairs)	1-2 days	1-4 days
Level 2 (moderate repairs)	3-5 days	5-9 days
Level 3 (component replacement)	6+ days	10+ days
Level 4 (catastrophic damage)	30-90 days	30-90 days

- Units are painted and cleaned, following which they are confirmed as ready for occupancy.

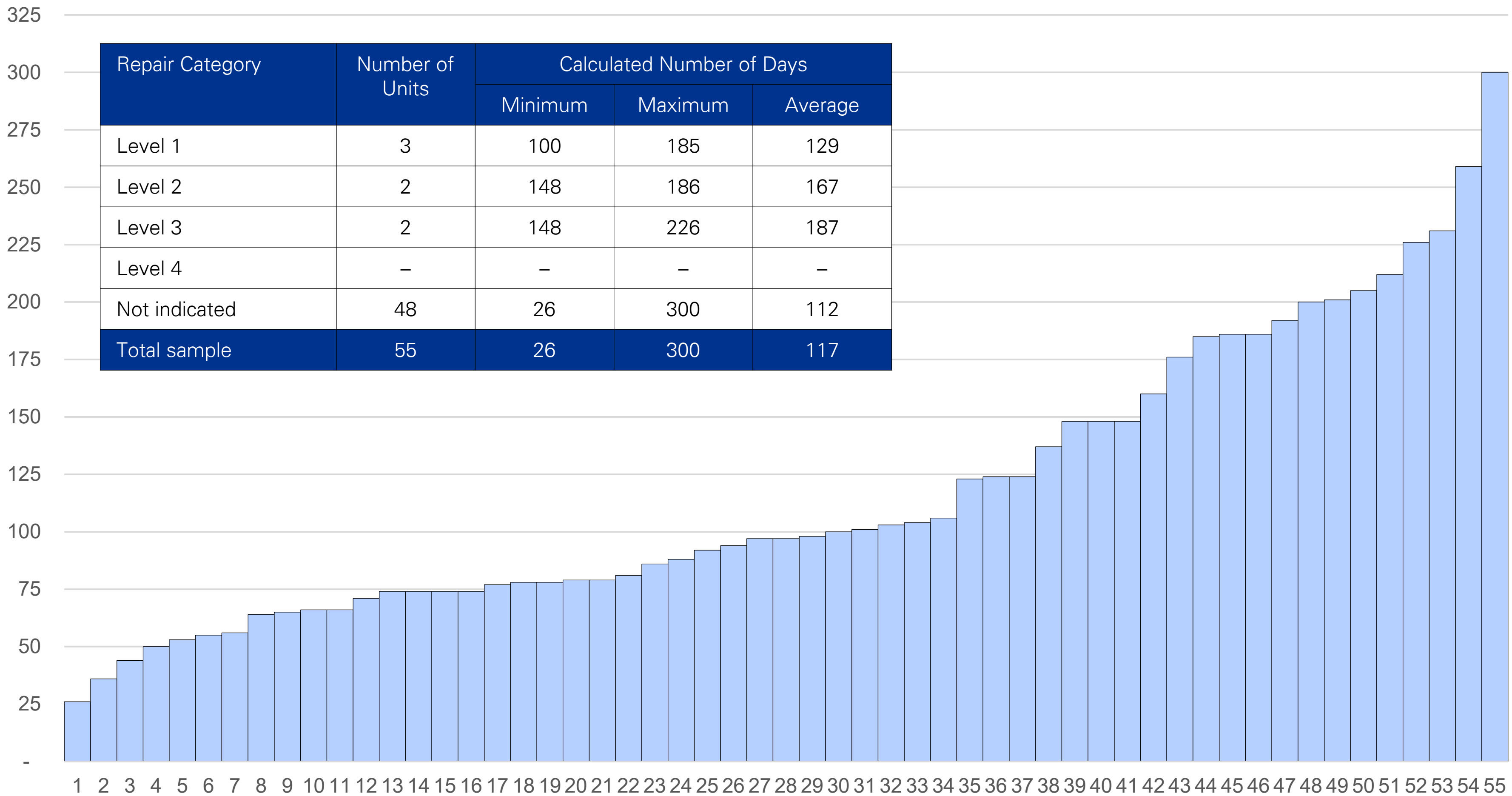
In order to assess LMCH's performance against these standards, we have selected a sample of 55 units from LMCH's *April 2019 Unit Restoration Tracking Sheet* and have calculated the number of days between when the unit was confirmed as vacant and when the unit was confirmed as ready for rental, which we understand encompasses the rehabilitation steps noted above. As summarized on the following page:

- The time from confirmation that the unit was vacant to confirmation that the unit was available for rent ranged from 26 to 300 days, with an average of 117 days;
- Only 5.4% of units had a turn-around time of less than 50 days, with 24% of units requiring 50 to 75 days and a further 24% of units requiring 75 to 100%. Overall, 47% of the units sampled had turnaround times of more than 100 days.; and
- While 87% of the items sampled did not have an indicated repair level (e.g. Level 1, Level 2…), we note that the average turn-around time for those units identified as Level 1 was 129 days, with the average turn-around times increasing to 167 days and 187 days for units designated as Level 2 and Level 3, respectively.

Current State Assessment

Calculated Number of Days from Confirmation of Vacancy to Confirmation of Available for Rental (n=55)

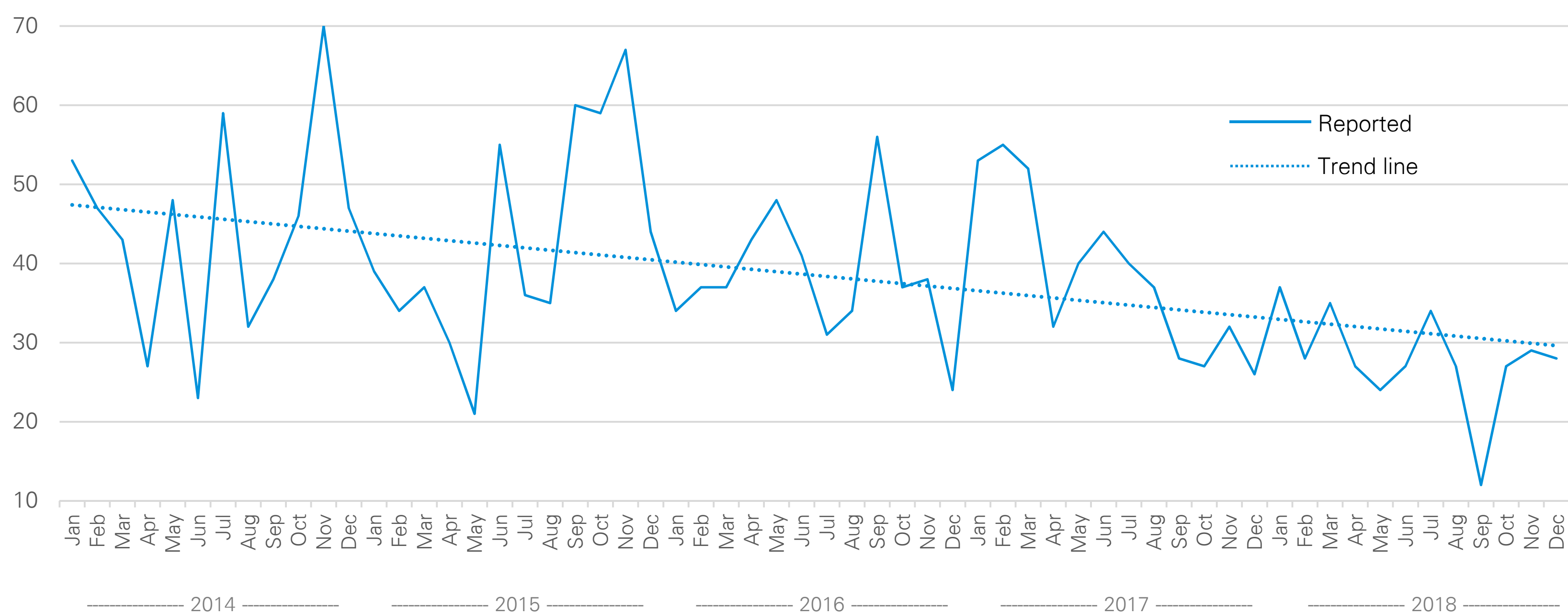
Repair Category	Number of Units	Calculated Number of Days		
		Minimum	Maximum	Average
Level 1	3	100	185	129
Level 2	2	148	186	167
Level 3	2	148	226	187
Level 4	–	–	–	–
Not indicated	48	26	300	112
Total sample	55	26	300	117



Current State Assessment

On a monthly basis, the number of units rehabilitated and available for rental have been decreasing, which we believe reflects a general inability on the part of LMCH to effectively manage the rehabilitation process. While we understand that time may be required to fill a unit once it is ready for occupancy (which relates to the performance of HAC), it appears that LMCH's turn-around times are excessive, particularly when compared to other community housing providers that report turn-around times of 20 to 55 days (see Appendix A). **LMCH's current performance indicated that it currently requires 109 days to rehabilitate a unit between vacancy and re-occupancy, with the rehabilitation time ranging from 67 to 391 days.** While LMCH attributes the longer turn-around times to greater levels of damage to its units, with LMCH indicating that approximately 50% of units are classified as Levels 2, 3 or 4, we have been unable to validate LMCH's assertion of increased damage levels due to an absence of tracking of repair requirements by level. We also believe that the absence of data is a symptom of an overall absence of management of the work order process**.**

LMCH Monthly Units Restored (2014-2018)



Current State Assessment

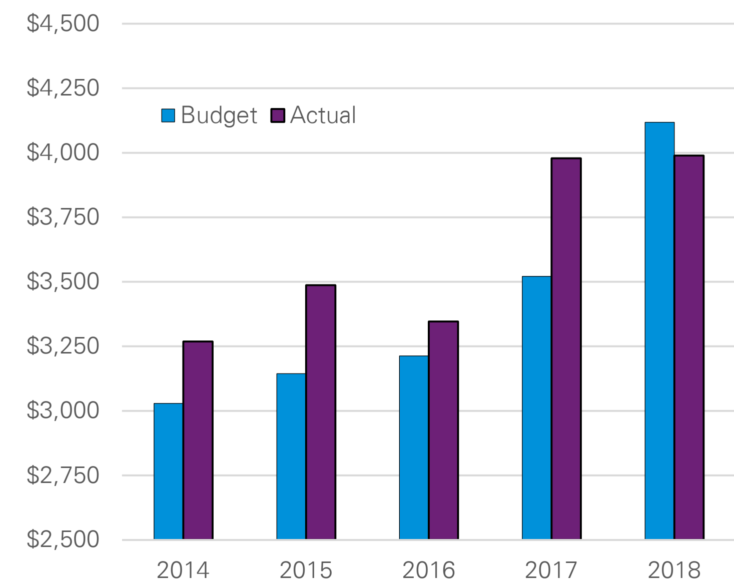
A review of LMCH's financial statements indicates that the budget for building repair and maintenance (excluding grounds maintenance) has increased in each of the last five years, with actual costs exceeding budget for every year except for 2018. With respect to LMCH's budget for building repair and maintenance, we were advised by the Service Manager that:

- While LMCH had requested additional funding to address the general state of disrepair of its units, it had not made a specific request for additional financial resources intended to reduce vacancies by reducing unit turn around time; and
- When the Service Manager suggested additional funding in order to address the vacancy rate, LMCH declined the funding, indicating that it was unable to effectively manage the process for the use of the additional funding.

3. **The incremental benefits of HDC as a separate corporate entity may be questionable.** During the course of our review, we were advised by representatives of HDC that the primary benefits of utilizing HDC as the provider of funding for affordable housing development, as opposed to HSD, were:

- The increased flexibility of HDC, which was not required to adhere to the same level of policy and process as the City;
- The preference on the part of developers to deal with an organization that was not perceived as being as bureaucratic as the City; and
- The ability of HDC to act as lead agency for the development of policies for affordable housing development.

LMCH Building Repair and Maintenance Costs (in thousands)



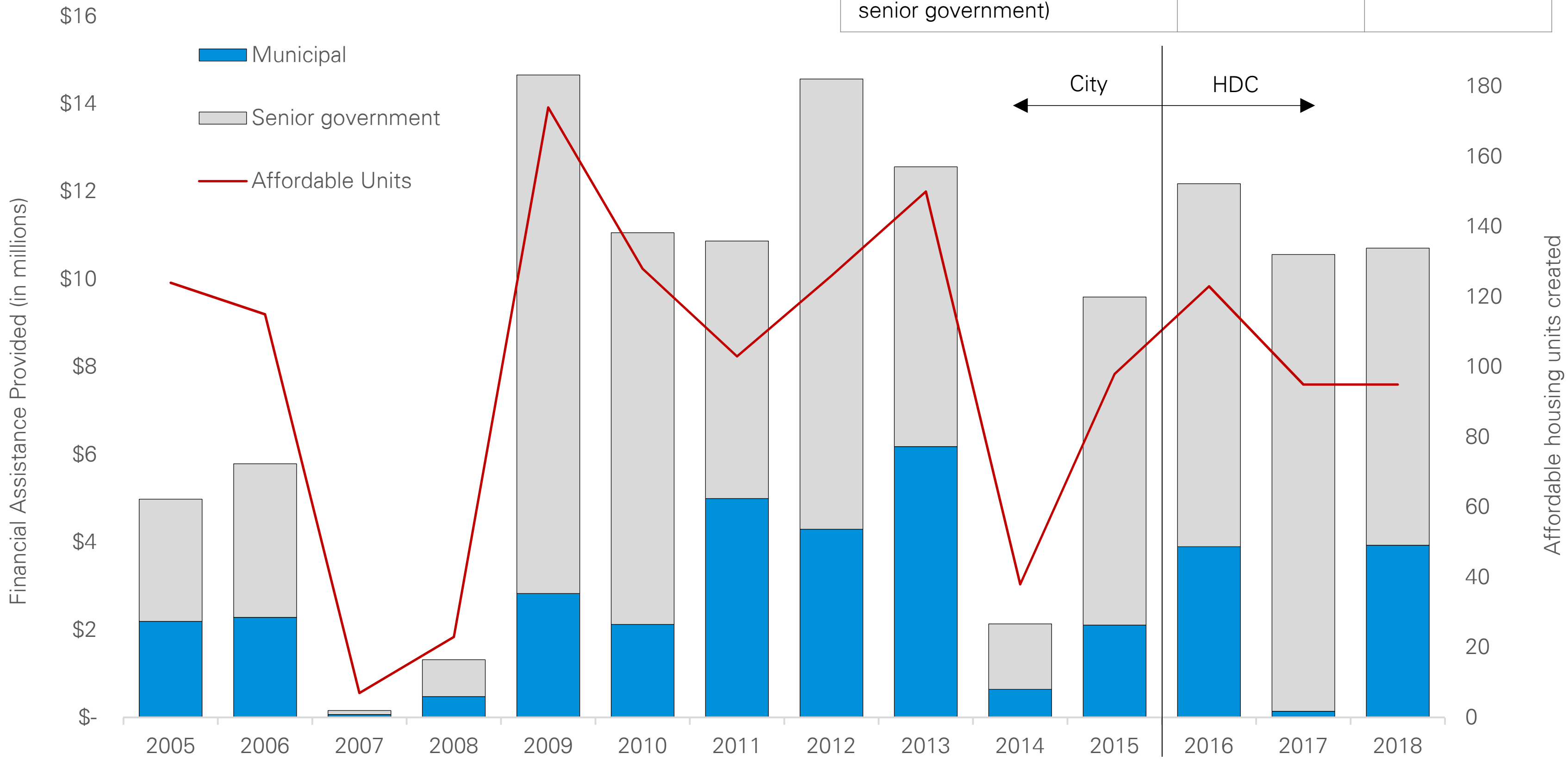
While we have not conducted interviews with developers in order to confirm HDC's comments, we do note that the use of a separate stand alone corporation for affordable housing development does not appear to be utilized elsewhere in Ontario with the exception of the City of Toronto. Rather, it appears that IAH funding is delivered either by (i) the Service Manager directly; or (ii) local housing corporations such as LMCH. The absence of similar models adopted by other service managers in Ontario would appear to counter HDC's assertions concerning the benefits of a separate corporation.

The concept of a lack of incremental benefit may also be supported by an analysis of investment levels prior to and following the establishment of HDC. As summarized on the following page, the level of funding provided and affordable housing units created does not appear to have significantly increased following the establishment of HDC.

Current State Assessment

Annual average[5]	City (2011 to 2015)	HDC (2016 to 2018)
Affordable housing units created	119	104
Total funding (municipal + senior government)	$11.900 million	$11.150 million

Affordable Housing Investments and Units Created



[5] Represents annual averages under the original IAH program and IAH 2014 extension, which collectively cover the period from April 1, 2011 to March 31, 2015. For the purposes of our analysis, we have excluded 2014 as the IAH 2014 Extension was announced late in the calendar year, resulting in a lower level of investments by the Service Manager pending the release of the IAN 2014 Extension. In addition to the IAH, the Social Infrastructure Fund ("SIF") provided additional funding during 2016 and 2017 from both the Provincial and Federal governments.

Current State Assessment

4. **HDC's processes and focus may expose the City to increased risk.** We have been advised by HDC that it is currently investigating the potential to assume an equity interest in future affordable housing projects, on the basis that the current funding arrangements (grants only) provide no ongoing benefit to the City outside of the alleviation of housing pressures and incremental taxation revenue, with wording incorporated into funding agreements to permit an equity investment by the City. We further understand that HDC is contemplating taking an active role in property ownership and development through the acquisition of vacant school properties, with the potential for actual ownership of real property.

   From our perspective, we believe that these strategies may expose the City to increased risk:

   - We understand that the IAH guidelines do not permit the Service Manager to assume an equity interest in eligible projects (grants only) and as such, the assumption of an equity position may render the Service Manager as non-compliant with the terms of the funding agreement for IAH, potentially requiring the repayment of funds to the Province.
   - The assumption of an equity position has the potential to expose the City to a variety of risks associated with ownership, including but not limited to environmental liabilities, trust fund liabilities (e.g. remittances) and general financial exposure based on joint and several liability.
   - The acquisition of an ownership interest and or the direct ownership of property may result in the associated level of debt being included in the determination of the City's allowable debt repayment limit, which would effectively reduce its borrowing capacity.

   In addition to the potential risk exposures from direct ownership strategies, we also note that HDC's current processes result in a transfer of financial risk from the proponents to the Service Manager. Specifically, we understand that under the Provincial IAH guidelines, funding is provided to eligible proponents based on three project milestones, with all funding provided at completion of the project. However, we understand that HDC has established a process involving seven milestones which, in addition to increasing the degree of work required to administer project funding, may result in the payment of a greater percentage of funding prior to the completion of a project. In the event that a project fails, a greater percentage of IAH funding – as well as that portion of funding provided directly by the City from the annual tax-supported contribution – may have been paid to the proponent.

   While we understand that the provisions of IAH require funding to be provided prior to completion of the project, we suggest that any municipal funding only be provided at completion so as to ensure City funds are not being invested in projects that ultimately fail.

5. **There is limited integration of back office and other support services.** While the City provides corporate support services to HDC (including payroll, finance, human resources and information technology), there appears to be limited integration of back office and support services between LMCH and the City, with LMCH maintaining its own human resources, procurement, payroll, information technology, facilities maintenance and accounts payable functions. With respect to the sharing of services, we make the following comments and observations:

   - While the City charges HDC for corporate support services, we were advised that the amount recovered ($25,000) does not reflected the estimated cost of staffing provided (in excess of $100,000), thereby understating the actual cost of having a separate legal entity for affordable housing; and
   - We believe that the ability to achieve greater efficiencies and potential cost reductions through the integration of corporate and support services is likely challenged under the current governance structure due to a combination of factors, most notably different expectations between LMCH and the City as to the level of support that could be provided and capacity limitations on the part of LMCH that limit its ability to identify and implement shared service arrangements.

Current State Assessment

6. **LMCH's ability to undertake an expanded mandate is likely problematic.** Concurrent with KPMG's review of social and affordable housing delivery, LMCH has recently requested changes to its Articles of Incorporation and Shareholder Agreement in order to provide for greater autonomy and authority with respect to the delivery of social housing services. Specifically, we understand that LMCH is requesting revisions that will allow it to expand its operations beyond social housing to include alternative revenue generating sources, including but not limited to residential market rental units and commercial properties. In addition, LMCH is seeking the ability to maintain reserve funds for capital and operating purposes which would be specific to LMCH and not accountable to the Service Manager. We further understand that the intention of these changes is to allow LMCH to generate sufficient funds to address future capital reinvestment requirements, which are estimated to be in excess of $200 million over the next ten years.

   With respect to LMCH's request for an expanded mandate, we make the following comments and observations:

   - Aspects of the proposed scope of activities appear to be inconsistent with the mandate and scope of services for other municipal social housing providers. Specifically, the results of our review of other social housing providers indicate only a limited amount of revenue from non-residential rental sources (i.e. little to no commercial rental revenue other than ancillary commercial activities located in social housing facilities) and a primary focus on RGI, as opposed to market units.
   - As noted earlier in our report, the results of our analysis indicate that LMCH is challenged to deliver on its core mandate of social housing, with vacancy rates and unit turn-over times approximately double other municipal social housing providers. Accordingly, we suggest that the primary focus of LMCH should be on addressing its current challenges prior to undertaking new services. An expansion of LMCH's mandate will likely result in the diversion of resources from its core social housing functions, further adversely impacting the availability of social housing to individuals and families in need.

Analysis and Potential Courses of Action

- We do not believe that changes to the governing documents for LMCH – including its articles of incorporation, shareholder declaration and operating framework – should be undertaken at the present time given the performance issues identified with respect to LMCH and the suggestion that LMCH focus on executing on its core business effectively prior to undertaking any expansion in activities.
- The resolution of the current performance issues impacting LMCH, specifically the reduction of its vacancy rates likely represents the main priority for the City with respect to housing services. In order to address these issues, we suggest that the City consider the undertaking of process mapping of critical processes, which is intended to (i) identify the root cause of LMCH's challenges with respect to unit turn-around and overall vacancy; (ii) identify potential opportunities for enhancements to customer experience; (iii) identify potential opportunities for synergies and operational efficiencies through the integration of common functions with the City (e.g. income verification, administrative and back office functions); and (iv) quantify the resource requirements necessary to support streamlined processes. In addition, we suggest that the following processes be considered:
    - RGI determination
    - Affordable housing application solicitation and approval
    - Affordable housing subsidy disbursement
    - Affordable housing subsidy compliance monitoring
    - Tenant complaint resolution
    - Tenant arrears management
    - Employee recruitment and onboarding
    - Payroll processing
    - Procurement
    - Operating disbursements
    - Billing and accounts receivable
    - Work order management (calls for service)
    - Facility turn-around process
- While the main purpose of the operational improvements is to increase the availability of social housing to residents in need, a reduction in the overall vacancy rate is also expected to increase total revenues for LMCH. In anticipation of future operational improvements, we have assumed that LMCH can reduce its occupancy rate from the 2018 average of 3.9% to 2.5%, which is the average of the selected housing providers noted earlier in our report. This reduction is expected to result in an additional 46 units being rented (3,276 total units x 1.4%). Based on the average annual rental revenue per unit in 2018 ($3,640), this results in an annual increase in rental revenues of approximately $167,000.
- As noted earlier in our report, an analysis of information provided by HDC indicates that the level of annual activity with respect to affordable housing development does not appear to have materially increased after the establishment of the HDC. Accordingly, consideration could be given to transferring responsibility for affordable housing programs to the HSD and dissolving HDC as a corporate entity.

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