

Report to Community and Protective Services Committee

To: Chair and Members
Community and Protective Services Committee

From: Anna Lisa Barbon, Deputy City Manager, Finance Supports

Subject: LMCH – CMHC Co-Investment Letter of Intent

Date: June 1, 2021

Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the attached proposed by-law (Appendix “A”) **BE INTRODUCED** to authorize the Mayor and the City Clerk to execute the Letter of Intent, and any future amended versions, between the Canada Mortgage and Housing Corporation, London and Middlesex Community Housing and The Corporation of the City of London, to initiate a loan agreement through the National Housing Co-Investment Fund to support repairs to London and Middlesex Community Housing’s portfolio of housing.

Executive Summary

Canada Mortgage and Housing Corporation (CMHC) offers a National Housing Co-Investment Program that provides low-cost loans and financial contributions for the preservation and renewal of existing community housing supply. London and Middlesex Community Housing’s (LMCH) portfolio of housing is aging and requires significant capital investment. With the 2020-2023 Multi-Year Budget, Municipal Council approved a \$37.0 million business case to access the Co-Investment program.

To advance the process of securing the funding, CMHC requires a Letter of Intent signed by CMHC, LMCH and the City of London. The purpose of this report is to present the Letter of Intent from CMHC to Municipal Council and introduce a by-law to to authorize the Mayor and the City Clerk to execute the Letter of Intent.

Linkage to the Corporate Strategic Plan

The following report supports the Strategic Plan through the strategic focus area of “Building a Sustainable City”, under the outcome of ensuring London’s infrastructure is built, maintained, and operated to meet the long-term needs of our community.

Federal investments supporting public housing in London represent important contributions to maintaining and improving the quality of life for Londoners.

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

Strategic Priorities and Policy Committee, December 17, 2019, Agenda Item #3.1, 2020-2023 Multi-Year Budget – Additional Investment Business Case #18

[https://london.ca/sites/default/files/2020-](https://london.ca/sites/default/files/2020-11/2020%20to%202023%20Multi%20Year%20Budget%20Business%20Case%20Cerlox.ah%20FINAL%20as%20of%20November%203%2C%202020.pdf)

[11/2020%20to%202023%20Multi%20Year%20Budget%20Business%20Case%20Cerlox.ah%20FINAL%20as%20of%20November%203%2C%202020.pdf](https://london.ca/sites/default/files/2020-11/2020%20to%202023%20Multi%20Year%20Budget%20Business%20Case%20Cerlox.ah%20FINAL%20as%20of%20November%203%2C%202020.pdf)

1.2 Background

Canada Mortgage and Housing Corporation’s (CMHC) National Housing Co-Investment Program (Program) provides low-cost loans and financial contributions for the preservation and renewal of existing community housing supply. London and Middlesex Community Housing’s (LMCH) portfolio is aging and requires significant capital investment. Under the Housing Services Act, LMCH is required to maintain the

condition of units in a state of good repair that is fit for occupancy. CMHC Co-Investment funding provides an avenue to access significant levels of forgivable loans in conjunction with loan financing.

On March 2, 2020, as part of the 2020-2023 Multi-Year Budget, Municipal Council approved Business Case #18 – LMCH Co-Investment with CMHC to support repairs and rehabilitation to LMCH housing units. The business case included \$36.5 million in CMHC funding with \$14.6 million (40%) as a forgivable loan and \$21.9 million (60%) as a repayable loan. An additional \$0.5 million of City funding was also approved for a total investment of \$37.0 million. The funding would address approximately 2,080 units (63% of the total LMCH portfolio), a partial portfolio approach, reducing GHG emissions by 25% and increasing accessible units to 20% (or 413 units) of the invested portfolio.

To advance the process of securing the Co-Investment funding, CMHC requires a Letter of Intent signed by CMHC, LMCH and the City of London that clearly communicates the City's commitment to support and guarantee the total loan portion of CMHC Co-Investment funding. The Letter of Intent enables CMHC to secure funding for LMCH, demonstrating to both the City of London and LMCH that CMHC is a committed partner.

Co-Investment funding will provide needed improvements to the quality of LMCH homes. For example, replacing building envelopes ensures that issues with water infiltration and potentially mould are prevented. As a result, LMCH homes are healthy for tenants. At the same time, the public appearance of these homes is improved and consequently the stigma that tenants may experience because of their home's appearance is reduced. Other energy saving repairs include furnaces, water heaters, windows and doors. The projects will lower operating costs and improve accessibility, addressing the important needs of an aging population and AODA requirements. The funding will also improve the Facility Condition Index (FCI) and extend the life of the assets significantly.

1.3 Letter of Intent

After approval of the business case, LMCH worked with CMHC to validate the partial portfolio and worked with consultants to confirm the energy efficiency and accessibility targets required by CMHC can be achieved. Civic Administration and LMCH also worked with CMHC on the details of the loan arrangement. This work progressed to the point that CMHC could present the Letter of Intent. A formal funding announcement with representatives from the Federal Government was held on March 11, 2021, demonstrating that this agreement represents a significant amount of funding and an important contribution to affordable housing in the community.

Significant components of the Letter of Intent appear below (see **Appendix A – Schedule 1** for details):

1. CMHC conditionally allocates up to \$40,136,090 (up to \$24,602,101 in repayable loans and up to \$15,533,989 in forgivable loans). LMCH must spend an additional \$28,447,776 on the portfolio, for a total investment of \$68,583,866. LMCH has secured this additional funding from annual life cycle funding to address their infrastructure gap. It should be noted that these amounts are slightly greater than the approved business case to allow for some flexibility during the seven-year repair period, but the additional investment beyond the approved amount is optional and will require future Council approval.
2. LMCH is committed to completing the work no later than December 31, 2027 and achieving program requirements including:
 - i. affordability will be maintained for at least 20 years such that rents for a minimum of 50% of the units will be on average below 50% of the median market rental rate;
 - ii. energy consumption and greenhouse gas emissions are reduced by at least 25% relative to the pre-repair levels; and
 - iii. at least 20% of the units will meet or exceed accessibility criteria required for the program.

Failure to achieve the above targets may result in some of the forgivable loans (from Section 1. above) becoming repayable.

3. The City of London, the Guarantor, agrees to provide an unlimited payment and performance guarantee and indemnity agreement for all the obligations of LMCH and the City of London related to the Letter of Intent, term sheets, loan agreements and all other related agreements.
4. LMCH and the City of London, each acknowledge and agree to obtain all appropriate authorizations to borrow the funds or enter into the necessary guarantee and indemnification agreements for loan, security and other required agreements with CMHC.

1.4 Key Considerations regarding the Letter of Intent

Civic Administration recommends that Municipal Council authorize the Mayor and Clerk to execute the Letter of Intent, noting the following. This Letter of Intent is a non-binding document that sets out the framework for negotiating a formal agreement between LMHC and CMHC. Civic Administration is therefore seeking Municipal Council's approval of the key terms set out in the Letter of Intent that will serve as the basis for the parties' negotiations of a formal agreement.

The following due diligence was undertaken to protect the City's financial interests in this project and mitigate risks to the extent possible, but in order to access this funding the risk cannot be fully eliminated.

1. Civic Administration reviewed the consultant's plan for achieving the accessibility targets required by CMHC. As long as the accessibility renovations are completed as planned, the accessibility targets should be easily met.
2. Civic Administration also reviewed the consultant's plan for achieving the CHMC energy saving targets. The plan exceeds the targets, with some contingency, but the achievement will be monitored annually. During the seven-year project period, adjustments can be made to ensure the targets are met.
3. There is some risk that all the planned projects will not be completed by the National Housing Co-Investment Program current end date of December 2027. However, LMCH is well underway on project planning and projects will be completed in achievable portions so that a large project will not be left uncompleted at the end.

2.0 Financial Impact/Considerations

As anticipated in the Multi-Year Budget Business Case, loan amounts included in the Letter of Intent are approximately 60% loan and 40% forgivable loan (grant). CMHC loans are amortized over 40 years; terms are ten years in length with a fixed interest rate, locked in upon first advance each term. To mitigate the interest rate risk with the long-term amortization of these loans, the approved Multi-Year Budget Business Case includes funding for principal and interest repayment, as well as a reserve fund contribution, the objective of which is to set aside funding to fully extinguish the debt after ten years.

To execute the work, three additional full-time equivalent contract staff will be hired by LMCH for project management. The estimated cost is \$2.8 million and is included in the total project costing.

Improvements to building efficiency, mostly achieved through new building envelopes on townhouse properties, is projected to result in \$370,000 in operational savings following construction completion. The savings have been factored into the overall financial analysis and approved Business Case funding.

3.0 Next Steps

CMHC is already working on the terms and the details of the agreement. After CMHC receives the signed Letter of Intent, they will present the first draft of the terms and agreement to LMCH and the City. After review and legal concurrence, these will be brought to Municipal Council for approval.

LMCH is concurrently working to finalize the rehabilitation and repair projects but will not begin any construction until the agreement is final. LMCH is also confirming with CMHC that all insurance requirements are in place to begin the work and providing the necessary asset management project plans.

Civic Administration is beginning to work on the guarantee required by CMHC that will be presented to Municipal Council with the terms and agreement described above.

Conclusion

With the 2020-2023 Multi-Year Budget, Municipal Council approved a \$37.0 million business case to allow LMCH to access the National Housing Co-Investment Program from CMHC. This program provides low-cost loans and financial contributions for the preservation and renewal of existing community housing supply. LMCH's housing portfolio is aging and requires significant capital investment.

To advance the process of securing the funding, CMHC requires a Letter of Intent signed by CMHC, LMCH and the City of London. The purpose of this report is to present the Letter of Intent from CMHC to Municipal Council and introduce a by-law to authorize the Mayor and the City Clerk to execute the Letter of Intent.

Prepared by: Alan Dunbar, CPA, CGA, Manager III, Financial Planning and Policy

Submitted by: Kyle Murray, CPA, CA, Director, Financial Planning and Business Support

Recommended by: Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

Attachments:

Appendix A – By-law

Cc:

Jason Davies – Manager III, Financial Planning and Policy
Meng Liu – Senior Financial Business Administrator
Annette Ripepi – Financial Business Administrator

Appendix A – By-law

Bill No.
2021

By-law No.

A by-law to approve and authorize the execution of the Letter of Intent, and any future amended versions, between the Canada Mortgage and Housing Corporation, London and Middlesex Community Housing and The Corporation of the City of London, to initiate a loan agreement through the National Housing Co-Investment Fund to support repairs to London and Middlesex Community Housing's portfolio of housing.

WHEREAS subsection 5(3) of the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended, provides that a municipal power shall be exercised by by-law;

AND WHEREAS section 9 of the *Municipal Act, 2001* provides that a municipality has the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority under this or any other Act;

AND WHEREAS subsection 10(1) of the *Municipal Act, 2001* provides that a municipality may provide any service or thing that the municipality considers necessary or desirable for the public;

AND WHEREAS subsection 10(2) of the *Municipal Act, 2001* provides that a municipality may pass by-laws respecting, among other things: i) economic, social and environmental well-being of the municipality, including respecting climate change; and ii) financial management of the municipality;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. The Letter of Intent between the Canada Mortgage and Housing Corporation, London and Middlesex Community Housing and The Corporation of the City of London, ("Letter of Intent") to initiate a loan agreement through the National Housing Co-Investment Fund, attached as Schedule "1" to this by-law is hereby authorized and approved.
2. The Mayor and the City Clerk are hereby authorized to execute the Letter of Intent authorized and approved under section 1 of this by-law.
3. The Mayor and the City Clerk are hereby authorized to approve any future amended versions of the Letter of Intent between the Canada Mortgage and Housing Corporation, London and Middlesex Community Housing and The Corporation of the City of London, to initiate a loan agreement through the National Housing Co-Investment Fund.

4. This by-law shall come into force and effect on the day it is passed.

PASSED in Open Council on June 15, 2021

Ed Holder
Mayor

Catharine Saunders
City Clerk

First Reading – June 15, 2021
Second Reading – June 15, 2021
Third Reading – June 15, 2021

Schedule 1 – Letter of Intent