

Toronto Community Housing



Update on Financial Sustainability Strategy

Item 9

June 25, 2024

Board of Directors

Report: TCHC:2024-34**To:** Board of Directors (the “Board”)**From:** President and Chief Executive Officer**Date:** June 25, 2024

PURPOSE:

The purpose of this report is to provide the Board with an update on the Toronto Community Housing Corporation’s (“TCHC”) Financial Sustainability Plan further to the recommendations made through the Ernst and Young report and presentation at the February 15, 2024 TCHC Board Meeting. This report outlines the progress made in creating a more sustainable funding approach and initiating internal administrative and external efficiencies to capture and report on the anticipated savings.

RECOMMENDATIONS:

It is recommended that the Board:

1. Receive this update as a progress report to the EY Strategic Financial Sustainability Plan report action items; and
2. Direct TCHC staff to provide a further update at the Q4/2024 Board Meeting.

REASONS FOR RECOMMENDATIONS:

In response to the growing financial pressures to meet increasing demand for social and affordable housing and the need for significant capital investment to address aging building stock and revitalization, TCHC

commissioned Ernst & Young (EY) to conduct a comprehensive review of its financial sustainability and the long-term viability of TCHC in early 2023.

The report presented to the Board in February 2024 provided an in-depth analysis of the various aspects of TCHC's operations and financial position and identified key opportunities for improving financial sustainability. The report outlined a series of recommendations, including a new funding model, administrative efficiencies, and potential revenue-generating initiatives. These recommendations were intended to help TCHC better align its resources with its strategic objectives, improve operational efficiencies, and secure more stable funding streams to support its mission of providing safe and affordable housing to Toronto's residents.

TCHC has started to implement these recommendations, focusing on revisiting TCHC's overall funding model and formula with the City and moving forward on administrative efficiencies in other critical areas.

Revisiting TCHC's Funding Model and Funding Formula

EY's findings indicated that TCHC faces structural challenges related to increasing demand and misaligned funding. To maintain our current service levels over the next 10 years, TCHC's total funding requirement is conservatively estimated at \$6.4 billion, including an additional \$1.9 billion. Despite ongoing investment from the City, the structural gap was caused by a misalignment between the current funding formula and the actual cost drivers at TCHC.

EY recommended that TCHC's funding model be restructured through an exercise managed jointly between TCHC and the City, aligning with our cost drivers, policy decisions, and tenant service outcomes, and supported by clear performance indicators.

Key Recommendations from EY:

Ageing Housing Stock:

- EY highlighted the significant capital reinvestment needed to address the ageing housing stock, which makes up a large portion of TCHC's portfolio. The current state of these buildings demands ongoing maintenance and emergency spending, creating a critical need for a sustainable capital funding strategy.

Capital Funding:

- EY emphasized the importance of securing funding beyond the current commitments, particularly to meet the operational targets tied to the Canadian Mortgage and Housing Corporation (CMHC) and the National Housing Co-Investment Fund (NHCF) program. This funding is crucial to continue necessary capital projects and address the substantial gap in capital needs, indicating a need for strategic partnerships and potential new funding models.

Supportive Services for Vulnerable Tenants:

- EY underscored the need for enhanced supportive services for tenants, particularly those who are highly vulnerable and living in Rent-Geared-to-Income (RGI) units. They recommended exploring innovative funding mechanisms, including developing strategic partnerships and establishing a charitable foundation to expand and improve the range of services provided to tenants.

Operational Costs/Running Operations:

- EY identified ongoing operational cost pressures and recommended a shift to a more cost-based funding approach, aligning funding with the actual cost drivers and service requirements. This includes leveraging data analytics for better decision-making and exploring administrative efficiencies to ensure long-term sustainability.

In September 2023, TCHC leadership began preliminary meetings with the Deputy City Manager, Development and Growth Services. The Deputy City Manager expressed agreement with the challenges facing TCHC due to its current funding formula and suggested that TCHC begin its engagement with the Housing Secretariat and City Finance to develop an effective funding model. In May 2024, the City expressed interest in pursuing further discussions with TCHC and TSHC. TCHC will continue the discussions with City representatives as part of the 2025-2029 Strategic Planning process beginning in June 2024.

TCHC's business model and funding formula will drive critical discussions for the 2025-2029 Strategic Plan. There is a strong need and desire to understand our operations, capital needs, support services, and corporate services, and to understand the current and future cost drivers behind TCHC's overall budget. TCHC's overall priority is to establish a more stable

and sustainable funding formula for the organization. TCHC's current financial situation underscores that operating under the existing funding constraints is unsustainable and that immediate action is required to align TCHC's funding with its strategic and operational realities.

The Board and management must make critical decisions and deepen our understanding of our financial and operational models. This requires close collaboration with all levels of government to secure the necessary support and resources. We are fully committed to developing a comprehensive business model and funding framework.

2024 Budget Accomplishments

The EY Financial sustainability report provided a framework for discussion leading into the 2024 Budget approval with City Council. The increases achieved below recognized the importance of securing TCHC's financial well-being in the context of changing operating and capital spending environments.

Key highlights from the 2024 Budget approved by City Council include:

- **\$214 Million in Additional Funding:** This includes 2024 funding allocation of a \$40 million increase to our base subsidy, \$33 million in one-time funding, \$8.8 million in IT/Corporate capital, and \$131.7 million for in-flight development capital over the next 10 years.
- **Support from the City:** The funding commitments and collaboration from the City underscore the importance they place on TCHC's role in delivering safe, affordable housing and supporting the City's new housing strategy.

Efficiencies and Continuous Quality Improvement (CQI) Opportunities:

The TCHC Executive Leadership Team (ELT) has been actively working on the opportunities identified in the financial sustainability report. These opportunities are categorized into administrative efficiencies, alternative commercial arrangements, tenant support, data analytics, external opportunities and additional opportunities identified from the 2024 Budget Process.

Administrative Efficiencies:

Initiative	Update	Status	Target Completion
Reserves Strategy	Negotiations are underway to finalize the agreement with Mercer Global Investments Canada Limited as the Outsourced Chief Investment Officer.	In Progress	Q3 2024
Financial Authority	Financial commitment limits for BIFAC and PAC increased to streamline procurement processes. PAC authority increased to \$5M and BIFAC to \$10M. Initiative completed.	Completed	Q4 2023 - Completed
Procurement Modernization	EY engaged to conduct a procurement assessment and develop a Procurement Transformation Plan (PTP) to enhance compliance, value for money, and growth.	In Progress	Q3 2024

Alternatives Commercial Arrangements:

Initiative	Update	Status	Target Completion
Strategic Partnership Strategy	Completing a needs analysis of TCHC's portfolio and exploring partnerships with high-capacity organizations with the development of agreements.	In Progress	Q3/Q4 2025
Charitable Foundation	Developing an assessment report including operational and financial impact assessments, Community and program review, Legal and governance requirements, and Options and recommendations.	In Progress	Q4 2024

Initiative	Update	Status	Target Completion
Social Impact Bonds and Social Financing	Engaged in discussions with the City of Toronto to better understand the current trends in social impact bonds and social financing. Following the City discussions, it was conveyed to TCHC that the organization lacks the authority to autonomously issue social impact bonds without City approval.	Completed	N/A

Tenant Support:

Initiative	Update	Status	Target Completion
Arrears Collection Process (ACP) Review	TCHC has collaborated with the Office of the Commissioner of Housing Equity (“OCHE”) to adopt a comprehensive approach. Following the initial pilot roll-out of the new process in June and July of 2024, TCHC will assess the pilot results. These learnings will inform final changes to the ACP.	In Progress	Q3/Q42024
Tenant Incentive Program	Development of a tenant incentive will begin in 2025, following implementation of the ACP revisions and Phase 1 of the arrears forgiveness program.	Planned	Q1 2025 pending ACP Results

Data Analytics:

Initiative	Update	Status	Target Completion
Data Analytics	As of April 2024, the Strategic Planning Division reprioritized a Director-level role to include data intelligence expertise and four existing FTE roles have been reassigned to this unit. The first planned activity of this team will be to develop a data strategy that will identify opportunities to maximize the potential of the technology foundation established by the HoMES solution, identify and implement analytics capacity on select strategic use cases and to identify any additional resources required to sustain a multi-year commitment to establishing a full data analytics function in the organization.	In Progress	Q1 2025

External Opportunities:

Initiative	Update	Status	Target Completion
Development and Revitalization	Ongoing collaboration with the City to align development strategies and streamline approvals.	In Progress	On-going discussions with the City of Toronto
Natural Gas Procurement	Discussions with the Housing Services Corporation (HSC) to achieve better rates and procurement processes. Estimated \$4.0M Energy savings included in 2024 Budget	Completed	2025 budget cycle *exploring further cost avoidance opportunities.

Initiative	Update	Status	Target Completion
Water Rate Rebate or Exemptions	<p>Collaborated with the City CFO's office to explore a 30% water rebate for TCHC/TSHC. The requested info/data was provided to the City, ongoing discussions are underway.</p> <p>\$15M one-time City funding allocation to offset the water spend is included in the 2024 budget approval</p>	Completed	N/A

Additional Opportunities identified the 2024 Budget Process:

Initiative	Update	Status	Target Completion
Maintenance and Repairs	Implemented a Capital Demand Working group and developed an 8-step plan to manage demand maintenance for 2024. Comprehensive review and implementation of a new repair strategy to improve efficiency and reduce costs.	In Progress	Q1 2025 *Stage 8
Reducing False Alarms	Reinstated the False fire alarm task group to conduct reviews and implement targeted initiatives.	In Progress	Q4 2024
Realigning Tenant Service Hubs	Conduct a comprehensive review of the Tenant Service Hub Model with a proposed realigned model with fewer service locations.	In Progress	Q3 2024

Toronto Seniors Housing Corporation (TSHC) Update:

The EY report references the TSHC and their ongoing financial relationship with TCHC. TCHC is currently reviewing the short- and long-term implications of the two organizations operating alongside each other, including financial impacts on both entities. A report to the Board is planned for Q3 of 2024.

IMPLICATIONS AND RISKS:

A key component of our financial sustainability is the restructuring of TCHC's overall funding formula. This effort is contingent upon collaboration and cooperation with the City of Toronto. Developing a more effective funding model, aligned with our overall business model, cost drivers and strategic objectives, is essential. The successful implementation of this model will depend on ongoing support and partnership with City representatives to ensure that we can achieve the desired outcomes and secure a sustainable financial future for TCHC.

Achieving financial sustainability for TCHC is a medium to long-term effort that will require significant investment of time and effort to realize meaningful results. While the initiatives outlined in this report are crucial steps toward improving our financial position, the full benefits will take time to materialize.

TCHC could potentially realize approximately \$25M per year starting in 2025 in net cash efficiencies depending upon the outcomes of opportunities undertaken.

Net Impact (\$M)						
Initiative	2024*	2025*	2026*	2027*	2028*	2024-2028
Analytics, incl. procurement reform**		3.31	7.71	7.90	8.09	26.26
Natural gas***	-	3.39	3.39	3.39	3.39	13.58
Water	15.00	15.00	15.00	15.00	15.00	75.00
Finance admin IT	-	-	-	-	-	-
Charitable foundation		(0.11)	0.25	1.00	2.00	2.93
Arrears		2.82	2.82	2.82	2.82	14.10
Tenant incentive scheme		-	-	-	-	(0.03)
Internal maintenance/repairs	net impact under review					
Tenant service hubs review	net impact under review					
Fire alarm fines (municipality tax)****	net impact under review					
Total cash impact	15.00	24.41	29.17	30.11	31.30	131.84

*Year 2024 is based on TCHC projection, amounts for Year 2025 to 2028, other than Water, are based on EY projections which are subject to review

**Costs of \$751K has been included in 2024 Budget submission

***Energy Savings including natural gas of \$4.0M from Energy conservation measures & retrofit has been included in 2024 Budget submission

****Similar to Natural Gas and Water this is an external opportunity that will need to be negotiated with the support of the City. Currently this tax is costing \$3.2M in the 2024 budget.

SIGNATURE:

“Sean Baird”

Sean Baird
President and Chief Executive Officer

STAFF CONTACTS:

Lily Chen, Chief Financial Officer and Treasurer
416-981-4256
Lily.Chen@torontohousing.ca

Ada Wong, Acting Vice President, Strategic Planning and Communications
647-458-1820
Ada.Wong1@torontohousing.ca