

Toronto Community Housing



## 2024 State of Good Repair Update

Item 11b

September 23, 2024

Building Investment, Finance and Audit Committee

**Report: BIFAC:2024-79**

**To:** Building Investment, Finance and Audit Committee  
("BIFAC")

**From:** Vice President, Facilities Management  
Chief Financial Officer

**Date:** August 2, 2024

### PURPOSE:

At the March 18, 2024, BIFAC meeting, BIFAC was presented with the Internal Audit Report: Capital Projects Planning and Monitoring Process Review (State of Good Repair) (BIFAC:C2024-23). Discussion generated by the report resulted in additional questions from the BIFAC. This report responds to the request for information.

### Item 1: Management was asked to report back on a plan to:

- a) address the manner in which TCHC characterizes expenditures between capital and operating;
- b) review the adequacy of the \$1,500 limit for repair spending being allocated to operating vs capital spend; and
- c) identify and addresses the operational and budgetary impacts of the plan's implementation.

### Item 2: Management was asked to provide a report:

- detailing the steps to be taken to improve the budgeting process for demand capital, that addresses the Internal Audit recommendations (including staffing and resourcing ramifications);

**Item 3: Management was asked to provide regular aggregate tracking of demand capital vs. planned capital and total SOGR capital spend in conjunction with the Facilities Management Quarterly Capital Budget Update that reports:**

- a) the impact on the Facilities Condition Index (“FCI” in light of demand capital work performed compared to budget;
- b) capital spending on projects being delivered relative to budget

**Item 4: Management to implement the measures described in the foregoing action items as part of the 2025 budget process.**

This report provides an update as requested by BIFAC and the Board.

#### **RECOMMENDATIONS:**

It is recommended that the BIFAC receive this report for information.

#### **Background**

For more than 15 years, TCHC operated without a stable, long term funding source for capital and maintenance repairs. With its aging portfolio, this led to a \$3.6B backlog resulting in deteriorating buildings and permanent unit closures.

In 2017, TCHC received a 10-year Capital Renewal Plan with federal investment from the National Co-Investment Fund (“NCIF”) and the City of Toronto’s (the “City”) commitment to provide stable, long-term funding. This funding, meant for larger, planned capital repairs has enabled TCHC to:

- Complete holistic repairs vs patchwork repairs
- Building system repairs and replacement vs component repairs
- Deliver multi-disciplinary projects
- The funding model is expenditure reimbursement based. This means that TCHC has to manage a quarterly billing process to be reimbursed for the funding, which requires there to be active project management that needs to be flexible in order to maximize the funding.

To date, over \$2B in capital work has been completed.

**Item 1A: The Manner in which TCHC Characterizes Expenditures between Capital and Operating**

TCHC's Capital Expense Policy was first approved in December 2016 with an effective date of March 1, 2017. It has not been revised since its original adoption. Pursuant to the Capital Expense Policy, in order to capitalize an expense:

1. The expense must follow the De Minimis Rule;
2. The acquired, constructed, bettered, improved or developed asset has a useful life of at least two (2) years;
3. The costs incurred in improving an existing asset are considered a betterment, meaning it enhances the service potential (useful life or capacity) or performance of the asset;
4. The future economic benefits associated with the expense will flow to Toronto Community Housing; and
5. The cost of the expense can be reliably measured.

**Item 1B: The Adequacy of the \$1,500 Limit for Repair Spending Being Allocated to Operating Vs Capital Spend**

The De Minimis Rule is described in the Capital Expense Policy as follows:

“For an expense to be considered capital, the cost must equal or exceed a minimum dollar amount of \$1,500. There may be exceptions to this rule (e.g., the purchase of a single laptop) where the De Minimis Rule is not satisfied, but all other capitalization criteria are satisfied, and the asset is capitalized.

The cost of a single item may not meet this threshold, however, if the single item is part of a bulk purchase or a larger project and the total cost of the project exceeds the \$1,500 threshold, the single item's cost may be capitalized if the other criteria are met”.

At the July 17, 2024, BIFAC meeting, third-party consultant Ameresco Inc. presented the “2023 Facility Condition Index (“FCI”) Report” (BIFAC:2024-52). Included in the report was an environmental scan of other housing providers and comparable industries capital renewal threshold. Ameresco Inc. verified that the \$1500 limit for capital repairs is outdated and lower than comparable industry markers. Information from Ameresco Inc. indicates the following limits currently in use by other housing providers:

- CMHC \$5000
- BC Housing \$10,000
- City of Ottawa \$10,000
- City of Toronto \$5,000

Ameresco Inc. recommended that TCHC consider increasing the capital renewal threshold to a value of \$10,000.

### **Item 1C: Identify and Address the Operational and Budgetary Impacts of Implementing the Proposed Plan**

Increasing the minimum value of an expense that can be capitalized would reduce the pressure on TCHC's Capital Budget.

TCHC Finance has estimated that an increase of the threshold from \$1500 to \$5000 would result in a \$40M increase on capital expenditures with a positive impact on FCI. However, such a change would result in a corresponding increased pressure on TCHC's Operating Budget. Based on a review of the 2023 budget, the impact was approximately \$40M.

To date, TCHC has lacked the ability to accommodate such a move. This change in threshold would require a significant change in TCHC's funding formula and require negotiation with the City. During the 2024 budget process, TCHC entered into initial discussions with the City regarding the change in capital vs operating threshold and illustrated the impact. These discussions are underway during the 2025 budget process with goal to increase the threshold from \$1,500 to \$5,000. However, at present the threshold established as the minimum amount that might be treated as a Capital expense remains \$1500.

### **Item 2: TCHC to Provide a Report Detailing the Steps to be Taken to Improve the Budgeting Process for Demand Capital that Addresses the Internal Audit Recommendations (Including Staffing and Resourcing Ramifications).**

With the goal of improving the budgeting process for demand capital, a third-party consultant has been retained to assist staff with addressing each of the items noted in the Capital Planning Audit in keeping with the Internal Audit recommendations. The project has begun and it is anticipated that this

work will be completed in approximately six months. The final report will factor in staffing and resourcing ramifications as applicable.

In addition, TCHC has retained a separate third-party consultant to review and make recommendations with respect to TCHC's overall capital planning process and procedures.

**Item 3A: Report on the Impact on the Facilities Condition Index (“FCI” in Light of Demand Capital Work Performed Compared to Budget**

This information was presented to the Board at the June 25<sup>th</sup> meeting by the President and CEO. The “State of Good Repair Capital Program Update” (TCHC:C2024-18) addresses the impact of Demand Capital Work on the overall FCI.

**Item 3B: Provide Regular Aggregate Tracking of Demand Capital Spending on Projects Being Delivered Relative to Budget**

This information was presented to the Board at the June 25<sup>th</sup> meeting by the President and CEO. The “State of Good Repair Capital Program Update” (TCHC:C2024-18) addresses demand capital spending relative to budget.

Regular tracking of demand capital spend on projects is accomplished through the “Facilities Management Budget Envelope Reallocations” report, reported at each BIFAC meeting. Budget envelope reallocations address spend versus budget across all capital budget envelopes. The most recent report was presented on June 17, 2024, to the BIFAC as “Facilities Management Budget Envelope Reallocations to May 31, 2024” (BIFAC:2024-63).

As of June 2024, the YTD budget for demand capital (COXX) was \$50M compared to an actual spend of \$38.3M. This compares to an actual spend of \$85M for June 2023. The capital plan continues to be reviewed on a weekly basis and any concerns with the demand capital spending trends will be brought to the attention of the BIFAC and Board.

In addition, the 2024 demand capital budget (COXX) was increased to \$100M from \$32M in 2023 to ensure that the budget more accurately reflected the spend.

**Item 4: TCHC to Implement the Measures Described in the Foregoing Action Items as part of the 2025 Budget Process**

These improvements will continue to be implemented as part of the 2025 budget process.

**SIGNATURES:**

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Vice President, Facilities Management

*“Lily Chen”*

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Lily Chen,  
Chief Financial Officer

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