



Toronto Community Housing Corporation's Key Elements of Financial Impact Section of Annual General Meeting ("AGM") Report (for reporting year 2022)

Item 8

June 23, 2023

Building Investment, Finance and Audit Committee

Report: BIFAC:2023-68

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

From: Chief Financial Officer & Treasurer

Date: June 2, 2023

PURPOSE:

The purpose of this report is to provide the Building Investment, Finance and Audit Committee ("BIFAC") with the Key Elements of Financial Impact Section of the Annual General Meeting Report for the reporting year 2022.

RECOMMENDATIONS:

It is recommended that the BIFAC approve the report and forward to the TCHC Board of Directors for approval.

REASONS FOR RECOMMENDATIONS:

The attached report is required to comply with the Shareholder Direction and *Ontario Business Corporations Act* ("OBCA") with respect to TCHC's annual general meeting.

BACKGROUND INFORMATION:

The City of Toronto (the "City") is planning to hold AGMs for the 2022 reporting year at the July 2023 meeting of the City Council.

In past years, the City Manager and Chief Financial Officer & Treasurer have transmitted TCHC's Board-approved annual report and audited financial statements, and any other required reporting, to the Executive Committee for Council consideration. Starting in 2023, City corporations will be required to submit their AGM materials directly to Executive Committee for Committee and City Council consideration. This change is expected to enhance the direct relationship between Boards of City Corporations and City Council.

KEY REPORTING ISSUES:

The attached report details:

1. Summary of operations for the 2022 fiscal year, including any continued impacts of COVID-19 response and recovery on operations.
2. Financial highlights, including a summary of significant assets, liabilities, revenues and expenses and changes in material balances due to/from the City of Toronto or other related parties.
3. Any known or anticipated impacts to the City's Budget or financial position, such as updates pertaining to funding support, dividend payments, reserve fund contributions or withdrawals, initiatives or capital project delivery (current and future years).
4. Any concerns with assets, including with cash balances and flows, uncollectible receivables, impairment of tangible capital assets ("TCA"), and significant TCA additions or disposals (current and future years).
5. Any liability concerns and areas where significant estimates have been applied and any loan payment concerns or financial consequences (current and future years).
6. Results of 2022 audit, including the auditor's opinion, significant findings and/or recommendations and plans to address significant findings and/or recommendations.
7. The future outlook, including any risks, forecasted challenges, impacts of previous/current year commitments on ongoing operations, and how the Corporation's overall outlook may affect the City's budget in 2024 and subsequent years.

SIGNATURE:

“Lily Chen”

Lily Chen
Chief Financial Officer and Treasurer

ATTACHMENT:

1. Appendix A: Key Elements of Financial Impact Section of Annual General Meeting Report (for the reporting year 2022).

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Item 8 – Toronto Community Housing Corporation’s Key Elements of Financial Impact Section of Annual General Meeting (AGM) Report (for reporting year 2022)

Public BIFAC Meeting – June 23, 2023

Report #: BIFAC:2023-68

Attachment 1

Appendix A

Key Elements of Financial Impact Section of Annual General Meeting Report (for reporting year 2022)

1. **Summary of operations for the 2022 fiscal year**, including any continued impacts of COVID-19 response and recovery on operations:

In 2022, TCHC focused on business recovery and fully resuming business operations gradually as pandemic restrictions are lifted. Tenant service hubs were opened across the city, providing access for tenants to obtain information, receive help completing forms and processes and submit service requests and complaints.

TCHC successfully completed two major Tenants First deliverables in 2022:

- 1) Transferred the day to day operations of the 83 senior designated buildings to the Toronto Seniors Housing Corporation (TSHC) on June 1st 2022, while minimizing impact on the tenants. TSHC took over management and focused on meeting the needs of nearly 15000 senior tenants.
- 2) Transferred 843 scattered units to Circle Community Land Trust and Neighborhood Land Trust.

Further, TCHC completed multi-year plan to transition all contract-managed developments to direct management. From January to April 2022, we transitioned a total of 8,365 units in 33 contract-managed properties in East Region, Central Region and the Seniors Housing Unit. The properties were formerly managed on TCHC’s behalf by property management firms Del Management Solutions (Del) and Greenwin.

In May, the City’s Chief Building Official determined that a building in the Swansea Mews Community was uninhabitable due to a ceiling collapse, and staff and support services were rapidly deployed to effectively manage the emergency and relocated the impacted tenants.

In the first year, The Centre for Advancing the Interest of Black People (“The Centre”), started to engage with staff, tenants and community partners to implement the Confronting Anti-Black Racism (CABR) strategy. In 2022, the Centre intentionally laid the foundation and took corrective action towards addressing the historical and ongoing harms of anti-Black racism at TCHC.

TCHC staff as well as labor partners CUPE Local 416, CUPE Local 79, OPSEU Local 529 and the Carpenters Union Local 27 made record breaking \$90K contributions to the united way campaign along with other donors who provided items for silent auction.

2. **Financial Highlights**, including a summary of significant assets, liabilities, revenues and expenses and changes in material balances due to/from the City of Toronto or other related parties:

Statement of Financial Position provides an overview of all resources owned by TCHC, as well as the obligations to stakeholders at the end of reporting period. Significant assets and liabilities and year over year changes are highlighted as follows:

Table 1: Significant Liabilities and Assets, and Year-over-Year Changes

Statement of Financial Position	2022	2021	Change	% Change
Assets				
Cash and cash equivalents	86,497	64,609	21,888	34%
Accounts receivable	72,816	87,002	(14,186)	-16%
Loan receivable	75,693	76,686	(993)	-1%
Grants receivable	61,193	91,498	(30,305)	-33%
Investments	245,295	244,594	701	0%
Housing Project developed	1,682,790	1,684,434	(1,644)	0%
Improvements to housing projects	2,335,628	2,183,376	152,252	7%
Other assets	52,051	57,086	(5,035)	-9%
Total Assets	4,611,963	4,489,285	122,678	3%
Liabilities				
Bank loan and bank indebtedness	58,000	42,700	15,300	36%
Accounts payable and accrued liabilities	223,833	206,598	17,235	8%
Project financing and debenture loans	1,849,249	1,827,570	21,679	1%
Deferred revenue	64,437	66,243	(1,806)	-3%
Employee benefits	74,073	84,921	(10,848)	-13%
Deferred capital contributions	1,369,888	1,242,998	126,890	10%
Other Liabilities	20,205	17,673	2,532	14%
Total Liabilities	3,659,685	3,488,703	170,982	5%
Net Assets	952,278	1,000,582	(48,304)	-5%

- Total assets increased primarily due to the \$364M SOGR capital repairs and \$54M on housing projects developed, offset by depreciation of \$245M.
- Total liabilities increased primarily due to \$207M deferred capital contribution received as grants and forgivable loans offset by amortization of \$79M recognized in the Statement of Operations.
- Net Assets decreased due to the \$36M operating accounting deficit in 2022 and \$13M unrealized losses from the investments portfolio.

Statement of Operations summarizes revenues earned and expenditures incurred in providing social housing services. Below table illustrates total revenue and expenses as well as year over year changes:

Table 2: Total Revenue and Expenses, and Year-over-Year Changes

Statement of Operations	2022	2021	Change	% Change
Subsidies	281,233	246,392	34,841	14%
Rent revenue	371,417	357,811	13,606	4%
Amortization of deferred revenue	79,180	68,862	10,318	15%
Gain on sale of housing projects, land and other capital assets	36,204	5,549	30,655	552%
Safe restart program	0	34,182	(34,182)	-100%
Other	59,462	34,386	25,076	73%
Total Revenue	827,496	747,182	80,314	11%
Operating and maintenance	256,332	255,064	1,268	0%
Utilities	130,332	130,582	(250)	0%
Depreciation	244,668	233,273	11,395	5%
Corporate Service	73,888	66,200	7,688	12%
Non recurring Expenditure (Swansea)	20,129	0	20,129	N/A
Other	138,031	143,601	(5,570)	-4%
Total Expense	863,380	828,720	34,660	4%
Excess of Expenses over Revenue	(35,611)	(81,538)	45,927	-56%

- Revenue increased compared to the prior year mainly due to \$51M gain on land sales which is partially offset by the \$15M loss in the transfer of scattered home; \$8.3M higher joint venture income and profit distribution from partnerships and increase in rent revenue of \$14M following to the lifting the rent freeze restriction which was in effect for 2020 and 2021 due to pandemic.
- TCHC incurred \$19M in COVID expenditures in 2022 compared to the \$34M in 2021 which is included in the operating and maintenance. City's confirmation of the payment to TCHC was given following to the approval of the financial statements by the Board and hence corresponding revenue under Safe restart program is not recognized in 2022.
- Swansea Mews incident costing 20M was recognized as a non-recurring expense.
- Depreciation increased by \$11M compared to previous year due to higher capital spend.
- Annual accounting Loss of \$36M represents the excess of expense over revenue. This is primarily driven by the unplanned financial challenges from Swansea Mews incident and the continued cost pressures caused by pandemic.

3. **Any known or anticipated impacts** to the City's Budget or financial position, such as updates pertaining to funding support, dividend payments, reserve fund contributions or withdrawals, initiatives or capital project delivery (current and future years).
- **COVID:** City and other orders of government have funded TCHC's Covid expenditures in 2020, 2021 and 2022. However, TCHC continues to experience Covid pressures of lost revenue and the related expenditures in 2023.
 - **Swansea Mews:** in 2022 TCHC incurred \$15M expenditures to account for incident response, tenant relocations accommodation, consultants and on-going site maintenances. TCHC will continue to incur costs for the site maintenance, demolition and a rebuild. These costs are unbudgeted and is not currently funded by the City. An insurance claim has been submitted to the insurer and is being reviewed.
 - **SOGR Capital Repairs:** TCHC continued to deliver the annual \$350M SOGR program to address the repair backlog and is on track to meet the FCI target
 - **Line of Credit:** TCHC used line of credit to bridge for the cash shortfall resulting from the capital repairs programs and operating needs which is reflected the yearend balance of \$58M in the line. Quarterly reimbursement of capital expenditures by the funders has resulted in more frequent use of line and significant increases in interest expenses.
 - **Development/Revitalization Projects:** Shortfall over the next 10 years (2023-2032) is expected to be \$172M which currently is not funded. As in the previous years, TCHC expects to include the annual project funding shortfall in the City Budget submission.
 - **Reducing Greenhouse Gas Emissions to Net Zero by 2040:** Of 58,000 units it is estimated 48,413 are natural gas. Cost estimates to convert to net zero have come in between \$125,000 - \$160,000 per unit or \$6.1 - \$7.7B

Based on our projection, additional funding required is \$6.1B aiming for 80% of the \$7.7B by 2040 and these are not adjusted for inflation.

4. **Any concerns with assets**, including with cash balances and flows, uncollectible receivables, impairment of tangible capital assets, and significant TCA additions or disposals (current and future years).
- **Asset Retirement Obligation (ARO):** The new accounting standard is effective for fiscal years beginning on or after April 1st 2022. The ARO

standard address the recognition, measurement, presentation and disclosure of legal obligations associated with the retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral part of cost of owning and operating Tangible Capital Asset (TCA). The standard requires the public sector entity to recognize a liability related to future costs of any legal obligation to be incurred upon retirement of any controlled tangible capital asset. The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. TCHC will implement the ARO in fiscal year 2023.

- **Investments:** To grow the rate of return in the investment portfolio including the annual \$9M sinking fund contribution is required to meet the repayment requirement of bonds when they become due in 2037 and 2040 and to meet TCHC's working capital and building capital needs. The investments are made up of NIA deposits, US and Canadian equity pooled funds and fixed income securities. Performance of stock market plays a significant role in the value of the equity pooled funds and fixed income securities which poses the inherent risk.
- **SOGR Funding:** Quarterly reimbursements from the City exposes TCHC to use the line of credit to fund the expenses resulting in higher interest costs. The interest on line of credit can be avoided if City can fund TCHC \$40M quarterly in advance and reconcile spend at the end of the year.
- **Development Funding Shortfall:** TCHC expects to include the annual project funding shortfall in the City Budget submission.

5. **Any liability concerns** and areas where significant estimates have been applied and any loan payment concerns or financial consequences (current and future years).

- The cost of demolition for Swansea at year end cannot be determined and therefore the liability associated with such was not included in the financial statements. However, such costs when incurred have be funded by TCHC's line of credit pending reimbursement from the City.
- Consequent to the implementation of ARO, TCHC will have to consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset. TCHC will have to review legal requirements, governmental directives and legislation in relation to all controlled Tangible Capital Assets to determine if any legal obligations exist with respect to the asset retirements.

6. **Results of 2022 Audit**, including the auditor's opinion, significant findings and/or recommendations and plans to address significant findings and/or recommendations

KPMG has issued a clean audit report for 2022 which has been consistent with the previous years. There are no any fraud risks or control risks identified.

KPMG's audit findings report summarizes the audit results of the consolidated financial statements of TCHC. Summary of key matters discussed in the report are as follows:

- a) Revenues, Deferred Revenue and Accounts Receivable:

Residential and commercial revenue recognized during the year amounted to \$352M and \$18M respectively. The related receivables of \$64M and \$3M are outstanding at year end. Of these receivables, a total of \$60M and \$3M have been provided in allowance for doubtful debts in accordance with the accounting policy.

- b) Swansea Mews:

An amount of \$20M has been expensed as "Non-recurring item" in the statement of operations. This includes \$5M related to the net book value of capital improvements to date recorded as impairment loss and the remaining \$15M are related to costs such as relocation, maintenance and security, shoring, abatement and engineering costs.

- c) Tangible Capital Assets and deferred capital contributions:

During the year TCHC recognized a net gain of \$36M from gain on sale of lands, housing projects, agency homes, scattered homes and other capital assets. Further, \$3.4M of additional properties were classified as held for sale and the transfer price for the properties designated as being held for sale was determined to be \$1.4M.

- d) Employee benefits:

As part of the transition agreement, 256 employees were transferred to Toronto Seniors Housing Corporation (TSHC). The associated liabilities of vacation and lieu time of \$1.2M is included in the accounts payable and accrued liabilities.

Further, the post-retirement benefit obligation of \$4M related to the staff transferred is included under the long term payable.

e) Project financing and debenture loans:

During the year, TCHC received CMHC repayable loans of \$82M and made principal repayments to CMHC and other lenders totaling to \$61M. Based on claims submitted till 2022, TCHC received \$470M from CMHC comprising of \$256M in repayable loans and \$214M in forgivable loans.

f) Toronto Seniors Housing Corporation (TSHC):

TSHC began its operations as a senior focused housing provider and assumed the responsibility of operations of the 83 senior designated buildings owned by TCHC in June 2022.

Since TCHC continues to own the buildings, the capital expenditures on such buildings is the responsibility of TCHC. Net proceeds from the revenue received from the senior designated properties less the building operating costs was remitted to TSHC totaling \$20.5M to cover for its operating and maintenance expenditures. The un-spent balance of \$1.4M is included in the accounts receivable from TSHC at year end. During 2022, TCHC recognized \$5.4M by providing shared services to TSHC.

7. The future outlook, including any risks, forecasted challenges, impacts of previous/current year commitments on ongoing operations, and how the Corporation's overall outlook may affect the City's budget in 2024 and subsequent years.

- TCHC will be continued to be impacted by COVID-19, it is expected that spend will be about \$11M in 2023 and will look to other orders of Governments to fund the expenditures.
- Swansea costs are expected to continue until demolition which TCHC needs to fund from the line of credit while the insurer assesses the claim and in the absence of funding from the City.
- To cover the shortfall in the 2023 budget, TCHC is expected to withdraw \$13M from the reserves.
- TCHC engaged Ernst & Young (EY) to develop a new strategic financial sustainability plan including developing a roadmap with financial implications

and resources estimation. EY's findings and recommendations will be shared with the City.