



Institute of Urban Studies
University of Winnipeg



THE UNIVERSITY OF
WINNIPEG

Phase 1 Report

**The Expiry of Operating Agreements:
Preparing Manitoba's Non-Profit Housing Sector**

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Expiry of Operating Agreements: Preparing Manitoba's Non-Profit Housing Sector

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Additional Materials attached to this Report:

- ❖ *Expiring Operating Agreements: A Planning Guide for BC's Non-Profit Housing Society.*
- ❖ Memorandum of Understanding with BCNPHA

The Institute of Urban Studies (IUS) is an independent research arm of the University of Winnipeg. Since 1969, the IUS has been both an academic and an applied research centre, committed to examining urban development issues in a broad, nonpartisan manner. The Institute examines inner city, environmental, Aboriginal and community development issues. In addition to its ongoing involvement in research, IUS brings in visiting scholars, hosts workshops, seminars and conferences, and acts in partnership with other organizations in the community to effect positive change.

Expiry of Operating Agreements: Preparing Manitoba's Non-Profit Housing Sector

Phase 1: Survey Report

Part I: Background

The Manitoba Non-Profit Housing Association (MNPFA) contracted the Institute of Urban Studies (IUS) at The University of Winnipeg to undertake research on the End of Operating Agreements (EOA) in Manitoba. The ultimate goals of the project are to assist social housing providers in Manitoba plan and prepare for the end of their individual agreements, to strengthen each provider's capacity, and to increase their sustainability. The primary intended outcome is the development of a comprehensive 'training' program or tool that can be used to assist individual providers with the creation of individualized plans for EOA.

The research consists of three phases:

Phase 1:

- Gathering data on the context of EOA in Manitoba and an environmental scan to identify key risk factors, strategies, and resources available for housing providers facing EOA (see Appendix 1 below for summary of key findings). These were used to inform the development of a survey of housing providers in Manitoba.
- A survey of non-profit housing providers across Manitoba to gauge their general level of preparedness for EOA or to collect information on their status and lessons learned post-expiry.

Phase 2:

- Case studies with a sample of housing providers, to provide more in-depth examination of strategies used by those projects planning for and transitioning through EOA, and to identify any issues that might be specific to the local context of Manitoba. **(Possibly happening concurrently with Phase 3.)**

Phase 3:

- Will include the development of resources to assist providers in Manitoba with planning for EOA.

Phase 1 has been completed, and this report provides a brief summary of the findings from Phase 1 activities.

Context

There are approximately 390 non-profit housing projects in Manitoba operating roughly 17,500 units/beds.¹ Basic information on these projects has been provided by Manitoba Housing

¹ As identified by Manitoba Housing data. In addition, there are approximately 17,500 units of Manitoba Housing (Cooper 2015).

(Department of Housing and Community Development, Government of Manitoba). These data group projects into several broad program agreement types, a convention we maintain through Part 1 of this report:

- **Section 95** projects typically have lower RGI² percentages—15% is the minimum—as well as greater income mixing.
- **Section 26/27** projects are mortgage-only agreements. They do not have ongoing subsidies, though some have additional programs ‘layered’ to support operational costs, or to achieve specific purposes under subsequent housing programs.
- **Post 85** agreements are fully targeted and typically include a higher percentage of RGI units. Beginning in 2021, a large number of Post-85 (38%), Co-op (6%), Co-op 85 (6%), and Urban Native (7%) agreements in Manitoba will expire (see Figure 1).
- **Urban Native (UN)** projects mostly comprise scattered site, single-occupancy homes. They are 100% RGI.
- **Rural and Native Housing (RNH)** agreements include native and non-native households in small communities. They are 100% RGI.

Additionally, many projects are **owned by Manitoba Housing**, and some agreements are **associated with Manitoba Health**. Manitoba Housing’s portfolio is 98% RGI (Cooper 2015, p. 146). Manitoba Health is associated with a number of housing projects, many of which are Personal Care Homes in rural communities with Section 95 or Section 26/27 agreements.

Table 1: List of operating agreement program types

Program Type	Agreement Type		Description
	Acronym	Full Name	
CO-OP	CPRE 86	Co-operative, Pre-1986	<i>Pre-86 - covered operating costs - “stacked” subsidies (1/4 low income)</i>
	ILM	Co-operative, Index Linked Mortgage	<i>Mortgage + stacked subsidies</i>
CO-OP85	PRIV NP	Private Non-Profit, Post-1985, Co-operative	<i>Post-85 (from 1986 on) - fully targeted - 25–30% RGI</i>
POST 85	PRIV NP	Private Non-Profit, Post-1985	
	WHRC NP	Winnipeg Housing Renewal Corporation, Non-Profit	
SEC 26/27	ENTREPR	Entrepreneurial	<i>Mortgage only, some with stacked subsidies</i>
SEC 95	PRIVNP PRE	Private Non-Profit, Pre-1986	<i>100% loans, minimum 15% RGI</i>
UN	UN PRE 86	Urban Native, Pre-1986	<i>Mostly scattered site, 100% RGI and therefore higher risk. But these currently have extended commitment from Provincial government.</i>
	UN SP	Urban Native, Special Project	
	UN PST 85	Urban Native, Post-1985	
UNC	UN PST 85	Urban Native, Post-1985, Co-operative	

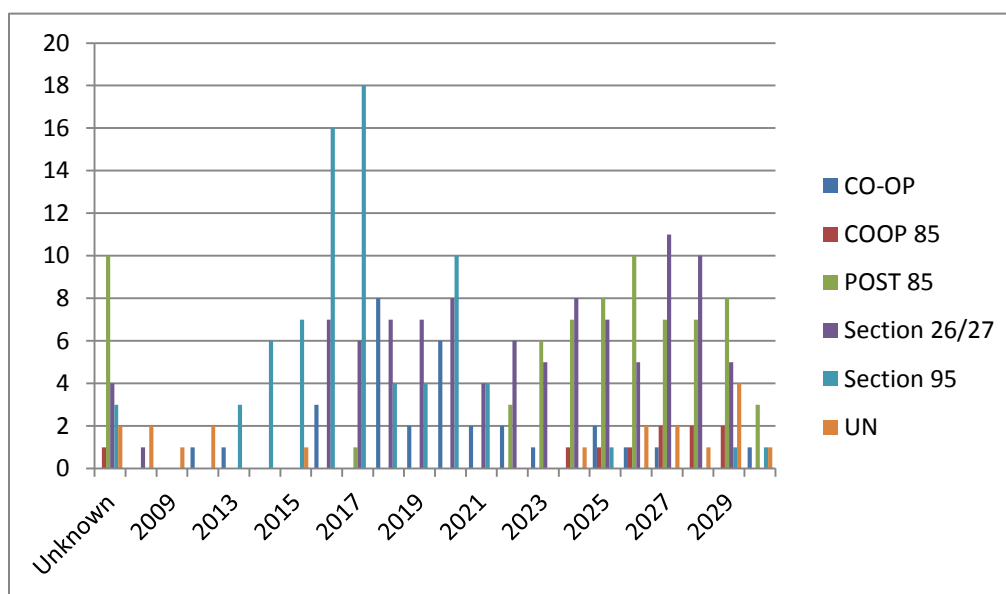
² RGI stands for rent-g geared-to-income, meaning the amount of rent charged is based on pre-tax household income.

According to Manitoba Housing data, of a total of 308 operating agreements set to expire, to date about 11% have expired, representing just under 2,000 units (see Figures 1 and 2). Most (60%) of those have been Section 95 agreements.

- In the next **2 years** (until March 31, 2018), 53 agreements operating about 2,100 units/beds will expire. The majority of these are Section 95 (62%) and Section 26/27 (25%) agreements.
- In the next **5 years** (until March 31, 2021), 102 agreements will expire (48% Section 95, 31% Section 26/27, and 20% Co-op). These represent roughly 5,000 units/beds.
- From the start of the fiscal³ year 2021 until June 2030, 156 agreements will expire. These operate approximately 6,400 units/beds. A higher proportion of these will be Post-85 (38%), Co-op (6%), Co-op 85 (6%), and Urban Native (7%) agreements. **These arguably face greater challenges for sustainability post-expiry, as agreements tend to cover operating costs, are more likely to be fully targeted, and typically have higher proportions of RGI units.**⁴

Projects with expiring agreements are located province-wide. The majority of units (62%) are located in Winnipeg (137 agreements). See Appendix 2 for maps illustrating the distribution of projects across the province and in Winnipeg.

Figure 1: Number of agreements expiring in Manitoba by program type, 2008–2030

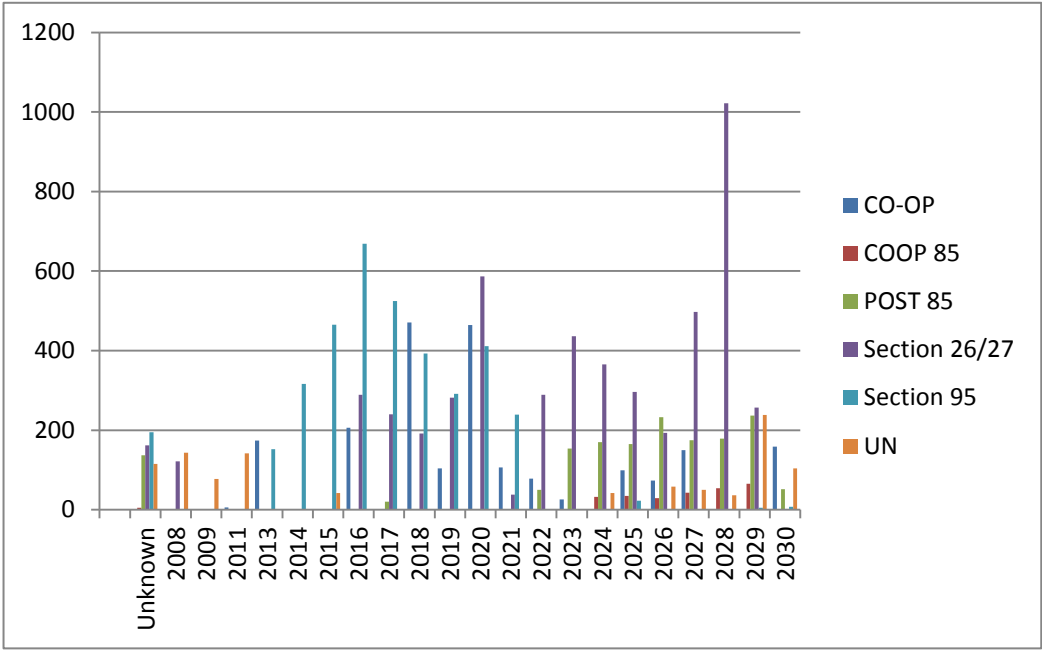


Source: Derived from Manitoba Housing data, July 22, 2015

³ Fiscal year refers to April 1 of any given year until March 31 of the following year.

⁴ See Appendix 1 for overview of risks associated with various program agreement types.

Figure 2: Number of units/beds in expiring agreements by program type, 2008–2030



Source: Derived from Manitoba Housing data, July 22, 2015

Part II: Survey of Housing Providers in Manitoba

In 2015 the IUS conducted a survey of non-profit housing providers across Manitoba to assess their level of awareness and planning regarding the end of their operating agreements or, if their agreements have ended, their status post-expiry. The survey also aimed to identify particular strategies or lessons learned by providers who have already transitioned through the EOA, and if possible to identify organizations in need of assistance. It was decided that an ideal timing for distribution of the survey would be mid-fall, after most organizations had their AGM.

The “End of Operating Agreements in Manitoba” survey closed on December 13, 2015. Invitations to participate in the survey were sent to 203 housing providers/organizations across the province (5 additional organizations could not be contacted). A total of 85 participants completed the survey, constituting a very high response rate of 42%.

The results of the survey are included in this report. Note that these results should be viewed with the understanding that the survey was a sample of the larger total population of non-profit housing providers. There may be some self-selection bias for those that participated—that is, those already engaged with EOA-related issues would be more likely to complete the survey.

Survey distribution:

- 203 invitations to complete the survey were emailed out
- 143 people opened the email (70%)
- 85 total responses (42%) – 69 are complete, 16 are partially complete
 - This is a good response rate; the typical response rate for this type of survey is 15% or less.

Housing providers/organizations were asked to complete the survey on behalf of their entire portfolio. If respondents were the contact for multiple agreements, only some of which had expired, they were directed to answer the “already expired” questions.

In total, we were able to analyze **70 responses**.⁵

- **16 (23%)** respondents completed the survey on behalf of a post-expiry project/portfolio
- **54 (77%)** respondents had operating agreements that had not yet expired

The data collected through the survey were linked to the data provided by Manitoba Housing for analysis. A summary of data analysis of both datasets is included in this report, which provides information on: basic information about housing organizations in Manitoba, their level of awareness and planning regarding the end of their agreements, the long-term financial viability of housing providers, and any resources that have been or might be helpful to housing organizations in Manitoba. Housing providers were also asked about their preferred type of tool/resource and method of communication to assist them in planning for their EOA (a copy of the survey questionnaire is included as Appendix 3).

Providers who indicated they need immediate assistance

One objective of the survey was to identify, if possible, organizations in need of assistance. Through the survey sixteen organizations indicated they “are not comfortable with their level of preparedness, and may require assistance planning for EOA.” Of these:

- 1 expiry occurs this year (March 2016), and 5 in next 5 years (2 of these in Winnipeg)
- 5 of the 16 reported being members of MNPHA

Another 21 respondents indicated they are “not sure” whether their organization is comfortable with its plan for transition through EOA. Of these:

- 4 expire in next 5 years – 2 of them in Winnipeg, only 1 of these is a MNPHA member
- Of all 21, 10 are MNPHA members, 7 are “not sure” if they are members

⁵ The sample size was reduced because some incomplete and duplicate responses could not be analyzed, and one set of responses had to be excluded from analysis because the respondent completed the wrong version of the questionnaire. Also note that not all respondents answered all questions, so the total number of responses for questions will vary.

A strategy to reach all of these organizations should be implemented immediately. Also, note that the 37 organizations identified as potentially requiring assistance likely represents an undercount—presumably there are organizations in the province needing help related to EOA that did not respond to the survey.

Survey findings – Providers whose agreements have ALREADY expired:

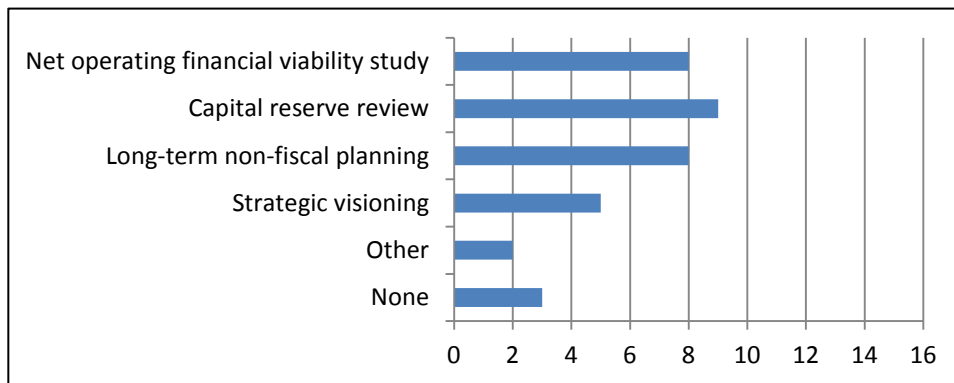
A total of 16 (23%) survey respondents indicated that their operating agreement had already expired (as of December 2015). Of these 16:

- Most agreements had expired recently (past 2–3 years)
- Most of the projects were Section 95 or Urban Native
- There was a relatively even number of small, medium, or large sized projects⁶
- 40% of respondents represented projects/portfolios located in Winnipeg, 60% elsewhere in the province
- Half indicated they are members of MNPHA (5 indicated they were not, and 3 were not sure)
- Most respondents (10/16) were involved in project administration (e.g., project manager, director, CEO, financial/treasurer), and many (5/16) were property managers/landlords. One respondent identified as a board member.

Planning actions and resources

The survey asked for information related to planning leading up to the EOA. Many respondents whose agreements had expired indicated their organizations engaged in some planning activities, and Figure 3 summarizes these results. Of our sample of 16, about half indicated they had engaged in financial planning, conducted a capital reserve review, and/or engaged in non-fiscal long-term organizational planning (e.g., strategies, policies). About one-third also engaged in strategic visioning, which might involve changes to mandate or organizational structure.

Figure 3: Actions taken in planning for EOA

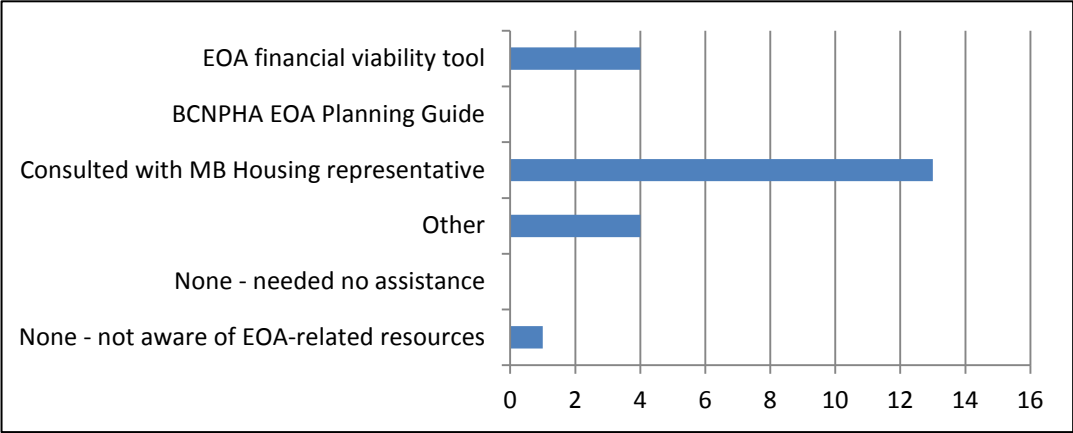


⁶ Size has been defined as follows: “small” as fewer than 30 units, “medium” as 30–80 units, and “large” as more than 80 units. Note that this refers to the size of a project covered by a particular operating agreement, and may not be indicative of the overall size of an organization’s portfolio.

There was a cross-section of actors involved in planning for EOA. These included a relatively evenly distributed mix of board members, property managers and caretakers, and accountants/financial managers. Very few respondents indicated that lawyers/legal services or building trades professionals were involved in their planning. One project (a Section 95) wrote in to indicate that tenants were actively involved in their planning process.

Several respondents specifically referenced the Manitoba Housing Portfolio Officer as a key figure. When asked about EOA-related resources used in planning, all but one provider that did engage in planning (81% of respondents) indicated they consulted with a representative from Manitoba Housing (Figure 4).

Figure 4: Resources used in planning for EOA



One-quarter of respondents used the EOA financial viability assessment tool that is available on the MNPFA website. All of them indicated they are MNPFA members. No one used the *EOA Planning Guide* developed by the BC Non-Profit Housing Association (BCNPHA),⁷ but all of the respondents’ agreements had expired before the guide was launched.

The one Co-op respondent again referenced the CHF 2020 Vision Certification process, and another project hired an accounting firm to determine their financial viability. One respondent noted the Residential Tenancies Branch website was a helpful resource.

The majority of respondents indicated they started planning at least 1–2 years before expiry (69%). Two responded that they undertook no planning specific to EOA, and one of them indicated they were not aware of any EOA-related resources.

⁷ *Expiring Operating Agreements: A Planning Guide for BC’s Non-Profit Housing Societies*. November, 2014. BC Non-Profit Housing Association and BC Housing.

Basic outcomes post-expiry:

- Most projects retained all assets.
 - Only one respondent indicated their portfolio lost assets post-expiry. The project is a small one (with fewer than 30 units), but they did say they have other projects whose agreements will not end until 2021, and they are exploring the possibility of changing rents on expired units to affordable⁸ rates (from RGI) to cover the costs.
- No projects in the sample had lost non-profit status.
- About half of the respondents indicated they raised rental rates because of EOA. There was no noticeable difference between those that did or did not raise rates across agreement program type or project size.
- Just over half of respondents (55%) indicated they did **not** experience a net loss of affordable units; 9% indicated they did.
- 23% experienced a change in their % of RGI units. One project experienced an increase in the % of RGI units, but this is likely due to their overall loss of affordable housing.
 - All projects that experienced a net loss of affordable units also had a decrease in the proportion of RGI units.
 - However, only about half of those who experienced an overall %RGI loss also experienced a net loss of affordable units (indicating they are probably converting RGI units to subsidize other affordable units).

Effects on tenants:

- Two respondents indicated positive effects on tenants:
 - *“Tenants no longer need to provide all of their income figures to us if they do not want to. We have both RGI suites and market rent suites.”*
 - *“Numerous capital infrastructure improvements were initiated to the benefit of both the landlord and the tenants.”*
- Four respondents noted negative effects on tenants. Most cited higher than normal dissatisfaction or confusion and disruption due to renovations.

⁸ To be “affordable” the amount spent on shelter should not exceed 30% of pre-tax household income. In Manitoba's Affordable Housing Rental Program the household pays an affordable rent based on median rents in the private market. Affordable rental rates vary by market, from \$594/month for a two-bedroom apartment (utilities not included) in northern rural areas to \$1,027/month in Winnipeg (utilities included). For complete lists of this program's rental rates, see: <http://www.gov.mb.ca/housing/mh/progs/pil.html#affordable>.

- *“Prior to the transition tenants were worried (stressed) about their RGI rents. Residents meetings helped to resolve their concerns (PowerPoint presentations were very helpful).”*
- *“Disruption due to changes in rent calculations; lack of understanding of the processes now that we have both RGI and market rents.”*

Strategies and Lessons Learned from the Post-Expiry Group:

- **“Early planning is essential.”** At least 2 years of planning prior to expiry was common, and encouraged.
 - Some recommended planning at least 3–4 years in advance, which reduces pressure with adjusting rental rates near the end of the process.
 - Understand the impact of improvements/renovations on the capital fund years in advance of transitioning EOA.
- **Review and update Mission, Vision, and Guiding Principles** of the organization. This process is important when confronting change. Hire a consultant to help update them, if needed. This process takes far more time than organizations anticipated
- **Seek outside assistance:**
 - Seek outside counsel for legal and accounting assistance.
 - Maintain a good working relationship with Manitoba Housing.
 - They have assisted many providers as they transition through EOA.
 - They have negotiated agreement extensions for subsidies for some projects.
 - *“We learned a lot about Manitoba Housing’s expectations. We had not always been compliant. Communication with the Portfolio Officer is very important.”*
 - Several respondents noted that engagement with MNPHA (through workshops and conferences) was helpful through their planning and transition.
- **Determine priorities and plan** for those:
 - Determine tenant population that would be accommodated in a post-expiry reality. (One group determined that they still wanted to have RGI units and established a policy for offering them, creating several budget scenarios.)
- **Confirm financial viability** (internally and with assistance from Manitoba Housing).
 - Engage in current and long-term capital planning—and adhere to that plan.
 - *“To ensure we had a strong reserve, we did a lot of capital planning. Also, an internal subsidy program was developed and is funded by our members to maintain some RGI units—even though it is lower than what it was prior EOA.”*

- **Community and tenant engagement** is an important piece that may be under-recognized. Several respondents emphasized the importance of transparency and communication—of having regular resident meetings and staff involvement to review and discuss options throughout the entire process.
- **Conduct research on rental rates and develop a rent increase strategy.**
 - Raising rental rates on at least some units was a strategy for many projects.
 - Manitoba Housing assisted many providers to determine the market rate in an area and helped them develop a plan to steadily increase rents to ensure sustainability post-expiry.
 - *“Be familiar with and start building a relationship with the Residential Tenancy Branch. Understand their rental structure and terminology.”*
 - Several respondents suggested raising rents as high as possible to have a higher rate registered with RTB before expiry—and then offer discounts to tenants.
- Projects with 100% **RGI units will be “impossible to maintain without subsidies.”**
- Projects that are **mostly single-family housing will experience challenges** with EOA.
- Some projects may be less affected by EOA because of their ties to MB Health.
- There was some loss of affordable housing, but in some cases this may have been to preserve RGI units.

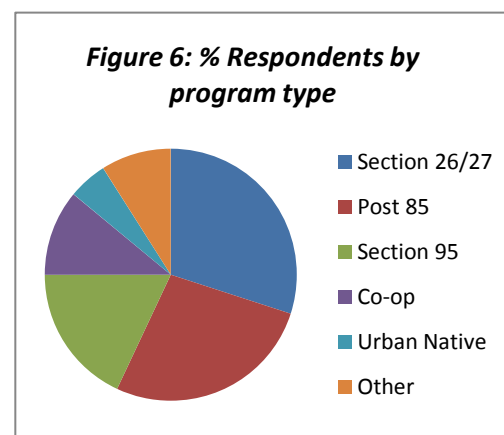
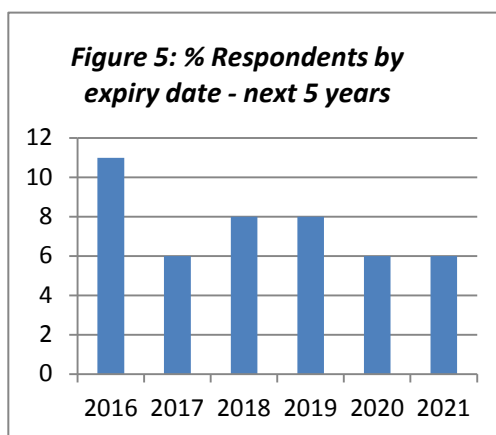
These strategies and lessons learned from organizations that have gone through EOA provide important material for the development of a Manitoba-specific toolkit to help other organizations. Additional information about the experiences of these post-expiry organizations would help fill out such a toolkit. In-depth interviews with organizations (case studies) will deepen our understanding and provide insight on outstanding questions such as:

- Among those organizations that have converted some units to market, or lost affordable/RGI units: to whom are they marketing now? (and how?)
- What are the longer-term impacts of expiration: are post-expiry organizations long-term sustainable?
- How did organizations make a business case? Did they have to change organizational mentality? This may impact the development of the toolkit, particularly in sections related to organizational mandate and visioning.

Survey findings – Providers whose agreements have NOT YET expired:

A total of 54 (77%) survey respondents indicated that their operating agreement had not yet expired (as of December 2015). Of these respondents:

- About half represented projects located in Winnipeg
- The majority of respondents represented projects that were small or medium in size (about 15% represented large projects)⁹
- Of those with a known expiry date, 11% are due to expire this year (2016), and altogether about half (45%) will expire in the next 5 years (Figure 5)
- Most respondents represented Section 26/27 (30%), Post-85 (27%), or Section 95 (18%) agreement program types (Figure 6)



- Just under one-quarter (23%) of respondents are members of MNP/PHA (16% were not, and 45% were not sure)
- Most respondents (31 of 54, or 57%) were property managers/landlords/caretakers (1 caretaker took the survey), many (17 of 54, or 32%) were involved in project administration (e.g., project manager, director, CEO, financial/treasurer), and 6 (11%) were board members.
- The majority of respondents indicated their organizations use accounting, legal, and property management services. Very few use HR professional services.

Planning and level of preparedness for EOA

Awareness of expiry date: More than three-quarters of respondents indicated that the board executives or other primary decision makers of their organization are aware of the expiry date. The remaining one-quarter were either not aware or not sure of the date (though 12 of them did indicate they have a copy of their agreement). The majority (60%) have a copy of their

⁹ Size has been defined as follows: “small” as fewer than 30 units, “medium” as 30–80 units, and “large” as more than 80 units. Note that this refers to the size of a project covered by a particular operating agreement, and may not be indicative of the overall size of an organization’s portfolio.

agreement, but 19% said they did not have a copy of their agreement (22% were not sure). Seven respondents (23%) have done a legal review of their agreement.¹⁰

Planning: More than one-third (35%) have already started planning for transition:

- 4 of them expire in 2016 (one started planning 2 years out, one of them 6 months before, and one of them only 1 month before expiry)
- 1 expires in 2017 and had already been planning for year and a half
- 1 expires in 2019
- 2 expire in 2020, and both had already been planning for about 5 years

Among those who have already engaged in some planning, the average time before expiry date was 5 years (some started as few as 1 month and some more than two decades prior to expiry, but most fell in the 2–5 year range).

Of the 48% who said they had not yet started planning, about one-third intend to engage in planning for EOA, and 4% (2) respondents indicated they are not going to plan (and they both have Section 26/27 operating agreements). Of those who have not begun planning, only 14% are due to expire in the next 5 years—most of them will not expire until after 2021.

Respondents were asked to identify their intention to engage in particular measures related to planning for their EOA. These are summarized in Table 2.

Table 2: Intention to engage in measures related to EOA planning

	Number of respondents (out of 54 total)				
	Will NOT do	Willing to do	Plan to do	Already done	Not sure
Study of financial viability	1	6	22	15	9
Capital reserve review	1	8	17	18	9
Audit/building condition assessment	1	12	12	15	10
Use EOA financial viability assessment tool (Pomeroy)	3	14	11	7	16
Consult BCNPHA <i>EOA Planning Guide</i>	5	14	7	2	20
Long-term organizational planning other than fiscal (e.g., strategies, policies)	2	11	19	5	13
Strategic visioning (e.g., changes to mandate or organizational structure)	4	12	16	5	14
Other planning: raising rents on annual basis	-	-	1	-	6

¹⁰ This number may be artificially low, as there was noted confusion about what a “legal review” entailed.

The majority of respondents have already or plan to assess their financial viability post-expiry (69%) and to conduct a capital reserve review (64%) or a building condition audit (50%). Many also have already or plan to engage in long-term organizational planning (44%) or strategic visioning (39%). Fewer have or plan to consult the Financial Viability Assessment tool developed by Steve Pomeroy (18%) or the *EOA Planning Guide* developed by the BC Non-Profit Housing Association (9%), but many respondents (26%) indicated they would be willing to do so. **Promoting awareness of such tools might encourage their inclusion as part of an organization’s planning process.**

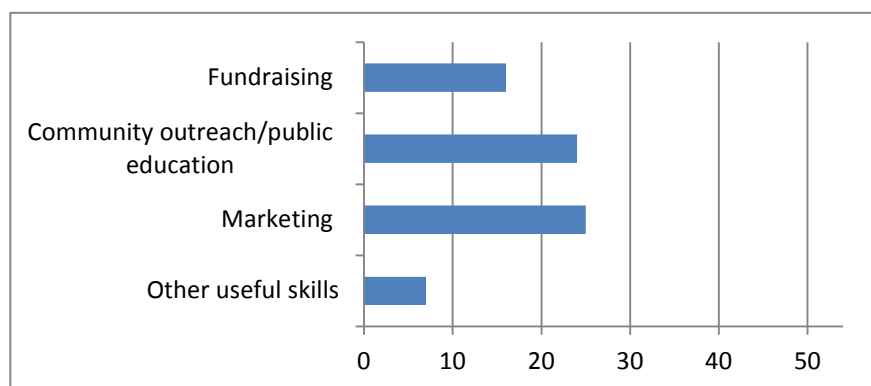
Organizational governance

Respondents overwhelmingly felt their board/primary decision makers are committed to maintaining their current number of affordable¹¹ housing units—80% answered agree or strongly agree (and only 3 respondents, or 6%, indicated disagree or strongly disagree).

Also, board members or other decision makers appear to be engaged in most projects in the survey sample. No participants responded that their board members or decision makers are not engaged in the project (meaning that they meet regularly, hold/attend meetings, record minutes, review policy, approve budgets, etc.). Additionally, all respondents felt their board (or other decision makers) and the property management have a good working relationship. Note that there may be some selection bias to the survey, in that more engaged and functional projects would be those more likely to participate in the survey.

Respondents were also asked about their organizational capacity as it relates to planning for and transition through EOA (Figure 7). Just under half of the 54 respondents indicated they have some expertise in marketing (e.g., advertising properties) and community outreach/public education (e.g., selling their project to the community). About one-third also feel they have experience in fundraising, that is, in raising money outside of government grants.

Figure 7: Organizational skills relevant to transition through EOA



¹¹ To be “affordable” the amount spent on shelter should not exceed 30% of pre-tax household income. See footnote 8 above for the operational definition of affordable housing as referenced in the survey.

Other skills that were mentioned include financial planning capacity and human resources knowledge.

- One organization noted that they have: *“Lots of human resource expertise around collective agreements, workplace health and safety legislation, and a high knowledge around Accessibility for Manitobans Act.”*
- Another said their *“skill set is changing with experienced board members leaving at the end of 2016,”* and they expressed concern about their *“ability to bring on people who will continue to hold the project together.”*

Several respondents indicated that, given a far-off expiry date, it is still too early for them to assess what their organizational capacity will be leading up to transition.

Project viability

Of the 54 respondents whose agreements had not expired, just over 60% believed they were likely or very likely to be able to maintain their current number of units of affordable housing (40% indicated unlikely or unsure).

Many organizations had made large capital improvements recently (61%). These investments appear to relate to the size of the organization. Large and medium sized organizations were more likely to have undertaken capital improvements. Commonly listed major capital replacements included: roofs, windows, exterior envelope, HVAC, fire alarm and suppression systems, water and power-saving renovations, and suite renovations including kitchens, baths, and appliances. Small organizations were less likely to undertake capital improvements. Only small organizations indicated they are not sure whether they will undertake improvements.

Additionally, many organizations (52%) indicated they are anticipating large capital improvements in the short-term. Again, more of these organizations were large and medium sized. Short-term improvements that are planned are similar to those that have been completed, with a strong emphasis on building envelope improvements (siding, windows, doors, roofs).

Respondents were also asked whether their organization would be willing to undertake any of a number of common strategies to improve fiscal viability (cash flow or capital standing). Table 3 summarizes the responses based on 53 respondents.

Table 3: Willingness to undertake strategies to improve fiscal viability

	Very Unlikely	Unlikely	Not Sure	Likely	Very Likely	No Answer
Lower the percentage of units that are RGI	6	14	15	8	6	4
Convert a portion of units to market rental rates to subsidize others	10	13	9	8	8	5
Increase rental rates	2	6	14	15	11	5
Improve energy efficiency performance	3	8	9	24	6	3
Site intensification (add buildings or units)	23	11	11	2	1	5
Site expansion or redevelopment	21	11	9	7	1	4
Sell property	31	4	13	0	0	5
Other	3	1	7	1	1	40

Table 3 indicates that among the survey sample, there is a preference to retain RGI units and avoid loss of affordable housing. However, many housing providers recognize that some rental rates will have to increase to remain financially viable. It also shows that improving the efficiency of buildings is a popular strategy. It is possible that improving efficiency in other ways—such as sharing administration or resources, may be another option for housing organizations. Most organizations surveyed are strongly against site intensification/expansion or redevelopment as strategies, and they are even more strongly against selling assets.

These findings suggest that housing organizations are committed to continuing to provide affordable housing, but that they are reluctant to undertake significant change such as redevelopment. Most organizations indicate that rental rates will have to be increased to attain viability.

Partnering

According to the survey findings, organizations were not in favour of partnering with others (to pool resources for improved efficiency)—45% were opposed or very opposed to partnering, with 32% unsure. Of those in favour of partnering, more were small to medium sized organizations. There did not appear to be a strong relationship between willingness to partner and the location of the organizations (Winnipeg or rural).

Organizations were equally unwilling to consider merging with other housing organizations to achieve economies of scale—46% were opposed or very opposed to merging and 39% were unsure. Only 11% were in favour. Neither the size nor the location of organizations appeared to impact their willingness to merge with other organizations.

Communications

The vast majority of organizations would consult resources or seek assistance related to their EOA transition. Of 52 respondents, 71% would be willing to use EOA-related resources, 4% would not, and 23% were unsure (their willingness would likely depend on the type of resources offered).

Respondents were asked how they would prefer to be contacted. Most organizations are fine with any kind of communication (email, phone, postal, fax). We note, though, that in identifying contact information to send survey invitations, it was very difficult to get a hold of some people by phone. Approximately 13% of organizations indicated that they do not have access to high-speed internet. This would affect their ability to access online video tutorials or other resources requiring online streaming services.

Regarding the preferred method for delivery of EOA-related resources, respondents were strongly in favour of a guidebook (74%), a government contact person (60%), or a workshop (58%). Many survey respondents whose agreements already expired stressed how helpful representatives in MB Housing were in their transition planning. The survey findings suggest that a guidebook and dedicated contact person are likely to see the highest use by organizations. Only 38% of organizations were interested in an online tutorial, and three-quarters of those were from Winnipeg. All respondents without high-speed internet were located outside Winnipeg.

Learnings from the Pre-Expiry Group:

As with the Post-Expiry group of respondents to the survey, there are lessons to be learned from the Pre-Expiry respondents. There is a remarkably strong commitment by housing organizations to maintain affordable housing and to meet their mandates. Many have started planning for EOA, and those that haven't are already thinking of starting. There seems to be a preference among organizations for 'doing it themselves', but there is also a clear need for guidance – and organizations prefer a Guidebook and a Contact Person for questions. There are also opportunities for efficiencies – be they energy efficiency measures or possibly sharing resources amongst organizations. But this does not extend as far as organizations being willing to merge for efficiencies.

Recommendations:

1. **Proceed with Case Studies:** The survey was highly effective at understanding the readiness of organizations. It also helped to raise awareness among organizations. However, it was not designed to elicit details of organizations' experiences or to understand their strategies in-depth. Case studies will allow us to follow up on some questions raised by information collected in the survey, and will provide important outcomes, including:
 - a. More **in-depth examination of the nuts and bolts of strategies** and how providers arrived at and implemented them.
 - b. Details of experiences transitioning through EOA and a better understanding of longer-term impacts.
 - c. **Revealing local conditions.** Through the survey we have identified Manitoba-specific issues that provide context and should be incorporated in the development of an EOA planning toolkit. Any additional local conditions we can identify will be important.

The selection of organizations for follow-up case study will be informed by MNPFA and MB Housing.

2. **Combine Phases 2 and 3 of the project:** In the interest of time, the case studies could be conducted concurrently with the development of a Manitoba EOA Toolkit. In fact, the phases could be carried out in conjunction (e.g., studying the process as a contact person walks an organization through a toolkit draft).
3. **Adapt the BCNPHA EOA Planning Guide for Manitoba.**
 - a. The **BC Planning Guide is recent, and well crafted.** The Guide contains all the strategies and tools identified in the literature.
 - b. For organizations in immediate need of help, the **BC Planning Guide could be used 'As Is'** until a Manitoba-specific toolkit is developed.
 - c. The process to develop the *BC Planning Guide* was nearly **identical to the process** currently being undertaken by the MNPFA and IUS. However, BC's process began much earlier. In BC, the background studies, the survey, and development of tools began in 2012 and continued into 2014. The writing of the *Planning Guide* took 8 months, culminating in release in November 2014. **Duplicating this work would be inefficient** and time-consuming. We believe that Manitoba needs a toolkit immediately. Adoption of the *BC Planning Guide* achieves this objective.
 - d. The *BC Planning Guide* will have to be adapted for the local context. Therefore, MNPFA will still receive a **Manitoba-specific toolkit.**

- e. The BC *Planning Guide* **already contains aspects of planning** that MBNPHA and MB Housing had raised concerns about, for example: reviewing organization mandates; and integration with community plans.
 - f. **Additional modules** for the BC *Planning Guide* are under development. Currently, the BCNPHA is working on expanding information on tenant engagement. They are in discussion with other jurisdictions on additional materials needed and are proposing a cooperative process to develop additional modules.
 - g. The BC *Planning Guide* has been **adopted in other provinces**—by the Ontario Housing Services Corporation and New Brunswick Non-Profit Housing Association. It is currently being reviewed in Quebec. The beginnings of a national EOA-related network and standards of best practice are developing.
4. **Contact Person:** Pursue as quickly as possible the development of a support position for Manitoba housing organizations dedicated to addressing EOA. The role of this position would be to provide planning assistance and information to organizations—to talk them through the process.
- a. Note that the survey revealed that organizations want to manage the process themselves—however, their primary **requests are for a toolkit and a contact person**.
 - b. To a lesser extent, organizations indicated an interest in training, either online or at a workshop.

Appendix 1: Summary of the Literature:

“Better awareness-building amongst small providers and promotion of easy-to-use projection models are worth greater consideration, but it will likely prove more effective to gather data and develop such projections in a more centralized way, at least regionally, and furnish providers with the results, together with recommendations for planning and preparation based on the project-specific results.”

(*Courage Under Fire*, Ward 2011)

Risk Indicators, Planning, and Strategies

More than a dozen studies have looked at the challenges facing non-profit housing providers presented by the End of Operating Agreements. Steve Pomeroy of Focus Consulting / University Ottawa Centre on Governance has been the primary contributor to this discussion since at least 2003. Focus Consulting created the most recognized tool for assessing the viability of housing projects as they transition through EOA—supported by non-profit housing organizations across Canada, including the Manitoba Non-Profit Housing Association. The CMHC, the CHRA, and other authors have contributed to our understanding of the issues around EOA and strategies moving forward.

These studies have identified factors that may indicate a housing project will be under more serious risk as it transitions through EOA. They also point to strategies that organizations can use to address their transition challenges. These risks, challenges, and strategies are summarized below.

Identification of housing projects at-risk

- **Lack of planning:** emerges as the single greatest risk factor for housing organizations. Housing organizations typically require a minimum of 2–3 years of planning to successfully transition EOA. Organizations planning at less than one year can expect significantly higher challenges.
 - **Lack of awareness** of tools that forecast operational viability through EOA is an additional indication of lack of planning/preparation.
 - The literature, as well as the experiences of BCNPHA and MB Housing suggest that as many as **one-third of housing organizations will be unprepared for expiry** of their agreements.
- **A high percentage of RGI units:** housing projects with a high percentage of RGI units – usually over 65% - will have increased financial challenges post EOA, because of the loss of subsidies for those units. This is especially true for organizations that have close to 100% RGI units. This includes public housing, Urban Native projects, and some ‘deep subsidy’ projects. For all of these projects, there is a gap between the rent paid, and the cost of operating the unit. Because the project has a very high percentage of RGI units, there is little opportunity to ‘cross-subsidize’ these units from within the project.

Organizations may have to cover the operating gap by raising rents, lowering the percentage of RGI units, or selling assets. Currently, the Provincial government has committed to c subsidies for Urban Native projects in five-year increments.

- **Small projects** expose the added challenges of lack of resources. Small projects in Manitoba typically would have only a single building or have less than 30 units total.
 - Small projects have fewer resources—capital, funds, administration, and experience—to face the challenges of EOA.
 - Small projects typically have less ability to plan, and are less aware of the challenges of EOA. This is closely related to the lack of resources.
 - Small projects have little financial flexibility—linked to their lower level of capital and lower income streams.
 - Small projects are unable to take advantage of economies of scale—financial, or administrative.
 - These small projects will likely require proactive support from the province or sector.
- Projects with **high capital liabilities** have lower financial viability through EOA. This includes buildings in need of significant repairs or renovations; buildings that have poorly maintained; and many single-occupancy homes.
- **Ineffective boards** have been identified within the literature and by Manitoba Housing as a risk factor for housing organizations. Organizations work most effectively when they have a model that encourages a commitment to a clear direction and vision; organizational capacity, appropriate structures, policies and procedures to achieve this direction; accountability to funders and community stakeholders; sufficient adaptability to meet changing circumstances; the ability of the organization to develop and maintain effective partnerships; and, the ability of the board and staff to work as a team. Addressing the challenges of EOA requires a board to be Committed, to Plan, and to be Active.

Risk by agreement program type

- **Section 95** projects typically have lower RGI percentages—15% is the minimum—as well as greater income mixing. This results in lower viability risk for the project through EOA.
- **Section 26/27** projects are mortgage only agreements provided by CMHC. They do not have ongoing subsidies, though some have additional programs ‘layered’ to support operational costs, or to achieve specific purposes under subsequent housing programs. These projects are usually considered low-risk transitioning through EOA.
- **Post-85** agreements are fully targeted and typically a higher percentage of RGI units. Beginning in 2021, large number of Post-85 (38%), Co-op (6%), Co-op 85 (6%), and Urban Native (7%) agreements will expire. These projects will arguably face greater challenges for sustainability post-expiry, as agreements tend to cover operating costs, are more likely to be fully targeted, and typically have higher proportions of RGI units.

- **Urban Native (UN)** are mostly scattered site, single-occupancy homes. They are 100% RGI. These would be higher risk, but currently have extended commitments from the Manitoba Provincial government in 5-year increments.
- **Rural and Native Housing (RNH)** RNH applies to native and non-native households in small communities. They are 100% RGI and are considered higher risk.
- Many agreements are **associated with provincial government departments**—Manitoba Housing or Manitoba Health. It is unknown how large an effect the loss of subsidies will have on these departments. Manitoba Housing—whose portfolio is 98% RGI—is the largest housing organization in the province and arguably has the largest resource base to draw upon. Manitoba Health is associated with a number of housing projects though these appear to mostly be Personal Care Homes in rural communities and to be mostly Section 95 or Section 26/27. Again, Manitoba Health arguably has a large resource base to draw upon, and these projects are at low risk.
- **To date, the majority of agreements that have ended in Manitoba have been of one of the low-risk categories. As well, in the coming five years the majority of expiring agreements will be Section 95 and Section 26/27. These projects have lower risk and therefore create lower demands for assistance than could be.**

Planning

The following is based on the recommendations from research by Focus Consulting, as well as information from BCNPHA's guide *Expiring Operating Agreements: A Planning Guide for BCs Non-Profit Housing Societies*, the following basic planning steps should be considered a minimum for housing organizations:

1. Review operating agreements:
 - a. Board should be familiar with all agreements especially expiry dates
 - b. Board and administration should review portfolio
 - c. Get legal advice. It is important to understand the agreement, and what options are available once the agreement has expired.
2. Determine Financial Viability:
 - a. Use the financial viability tool *Examining the impact of expiring operating agreements: A Simplified Assessment Tool*.
 - b. Four components: revenue sources, operating expenses, capital replacement reserve fund, and building condition assessments (that include major costs of renovation or repair in the short term).
 - c. The tool will help project future revenue vs. operating expenses + capital replacement and indicate the viability of a project
3. Plan / review all projects in portfolio:
 - a. Plans should be 5–10 years, include actions, and clear pathways to viability

- b. Undertaken long-term operational forecasts, extending through the expiry transition and beyond. Forecast financial requirements.
 - c. Undertaken long-term capital liability forecasts, extending through the expiry transition and beyond.
 - i. Preparation of capital replacement plans based on comprehensive technical audits, determine what contributions could be made to reserves from operating surpluses, plus analyze the levels required for ongoing reserve contributions and for future rent increases.
 - ii. Increase capital reserve contributions (can be project by project, or by overall portfolio)
 - d. Consider energy efficiency initiatives project by project
4. Review other Factors:
- a. Review of legal agreements and Implications. Ensure continuity of non-profit status vs. charity. Assess ability to turn profit and implications.
 - b. Assess Income Tax impact of agreement end
 - c. Assess impact of coming under the Residential Tenancy Act
 - d. Review mandate/vision of provider and clientele served. Changes to the operation of the provider may impact the mandate of the organization.
 - e. Review Social Sustainability – does the provider currently meet the need for which it was originally intended? Is there a mismatch? Design Suitability for target clientele.
 - f. Review how the housing project fits into the housing delivery in the wider community? Is their gaps or opportunities? Does it align with the Community Vision and Plan?
 - g. Examine leased land expiry impacts, refinancing options, renovation impacts, development opportunities
 - h. Review Tenant Concerns; develop strategy to communicate with tenants. Be aware that change can be stressful for tenants. Evaluate the vulnerability of the tenant population. Identify responses to concerns.
 - i. Review organizational Capacity of the provider to undertake strategies.
 - i. Change management experience: critical factor is the ability to manage change and adapt to new processes, systems, culture.
 - ii. Staffing levels able to handle transition?
 - iii. Skills of staff / administration / board
 - iv. Planning tools available: property management software, skilled technical support, and a solid project database; predictive tools
 - v. Time and Resource availability of staff.
 - vi. Possibility of Fund Raising?

Strategies

Based on the recommendations from MB Housing, Focus Consulting, as well as BCNPHA's guide, *Expiring Operating Agreements: A Planning Guide for BCs Non-Profit Housing Societies*, the following strategies should be considered by housing organizations facing EOA challenges:

1. Improve Revenue
 - a. Adjust Rents or Rent Mix
 - i. Raise rents before expiry while project is still exempt from RTB overview (so that when post-expiry, the controlled rent can actually pay the costs of the unit)
 - ii. Increase rents gradually upon expiry
 - iii. Use increased rents to replace reserves
 - iv. Select Higher Income RGI Tenants on Turnover
 - v. Shift RGI Units to Market-Rate Units (thereby cross-subsidizing within project)
 - vi. Abandon RGI rents in favour of low break-even rents
 - vii. Funding for Tenants – improve RGI tenant incomes (improve skills, etc.)
 - viii. Reduce the number of affordable units
 - b. New or Extend the Operating Agreement
 - i. Unlikely, based on circumstances
 - ii. But can buy time
 - c. Cross-subsidize: pool operating and capital reserves and liabilities across a portfolio where better-off projects can help the worse-off.
 - i. For agreements with multiple projects: Do early projects have positive Net Operating Income and later ones negative? This situation has the potential to cross subsidize.
 - ii. Rents can be raised for units within a project to cross-subsidize others.
 - iii. Grouping / moving RGI units: moving tenants from smaller projects to larger projects that can afford to cross-subsidize
 - d. Diversify Portfolio
 - i. Seek additional funding streams
 - ii. Pursue long-term efficiencies
 - e. Refinancing: use the value of portfolio to improve other buildings
 - i. with a low-ratio mortgage
 - ii. with a high-ratio mortgage
 - f. Intensify Building(s) or Land
 - i. Develop new projects: expand, intensify or redevelop existing properties to increase revenue streams and achieve economy of scale
 1. Increase Rent Revenue
 2. Building Modifications (density, or efficiency)
 3. Infill development

- g. Redevelop Site
 - i. Consider building condition
 - ii. Requires significant capital
 - iii. Upgrade / Renovate / Repair units before expiry:
 - 1. To improve marketability (for either ongoing rentals or sale)
 - 2. To improve efficiency – economical management, windows and insulation to lower costs of heating and individual water meters instead of common.
 - 3. Before loss of non-profit status.
 - 4. To justify raising of rents.
 - iv. Ensure development meets the mandate of organization and align with community values.
2. Raise Capital
- a. Land or Asset Sale
 - i. Consider development potential of land
 - ii. Subdivide land for revenue
 - iii. Sell some units to pay for renovations to others, or to bolster capital reserves, and to maintain other units at RGI/market rent
 - iv. Ensure sales meet the mandate of organization and align with community values.
 - b. Borrow against surplus
 - c. Add a capital improvement levy to rents
 - d. Seek provincial approval to increase pre-expiry contributions
 - e. Seek provincial approval to re-amortize and borrow before expiry for replacement
 - f. Seek renewal of funding support from province
 - g. Grants, Donations and Refinancing
 - i. Seek supplementary assistance from funder
 - ii. Demonstrate need
 - iii. Make the business case
3. Find Efficiencies
- a. Look for efficiencies of scale, in both physical assets and administration. Larger portfolios can share many services: maintenance, administration, human resources, management, planning, administration/planning tools (tech support, software, databases, etc.)
 - i. Merge/amalgamate with other organizations. This has been highly recommended by Ward
 - ii. Where merging is not possible, partnerships may help approximate portfolio benefits of merging.
 - iii. Some organizations have sold their professional services to other housing providers (for example, developing a human resources department and then undertaking that responsibility for another organization for a fee)
 - 1. Shared management organization
 - 2. Management contract model

- 3. Service exchange model
 - 4. Share space
 - b. Energy Efficiency Upgrades
 - i. Decrease operating expenses
 - ii. Long-term cost saving opportunities
 - iii. May require significant capital
- 4. Transfer Assets
 - a. Explore advantages of selling some assets
 - b. Assess acquiring assets over long-term
 - c. Ensure asset changes meet the mandate of organization and align with community values.
 - d. Recognize that changing the assets of the organization may change its culture
- 5. Implement Options
 - a. Implement plan
 - b. Seek help and advice – from MNPHA and MB Housing
 - c. Importance of monitoring and assessing implemented changes

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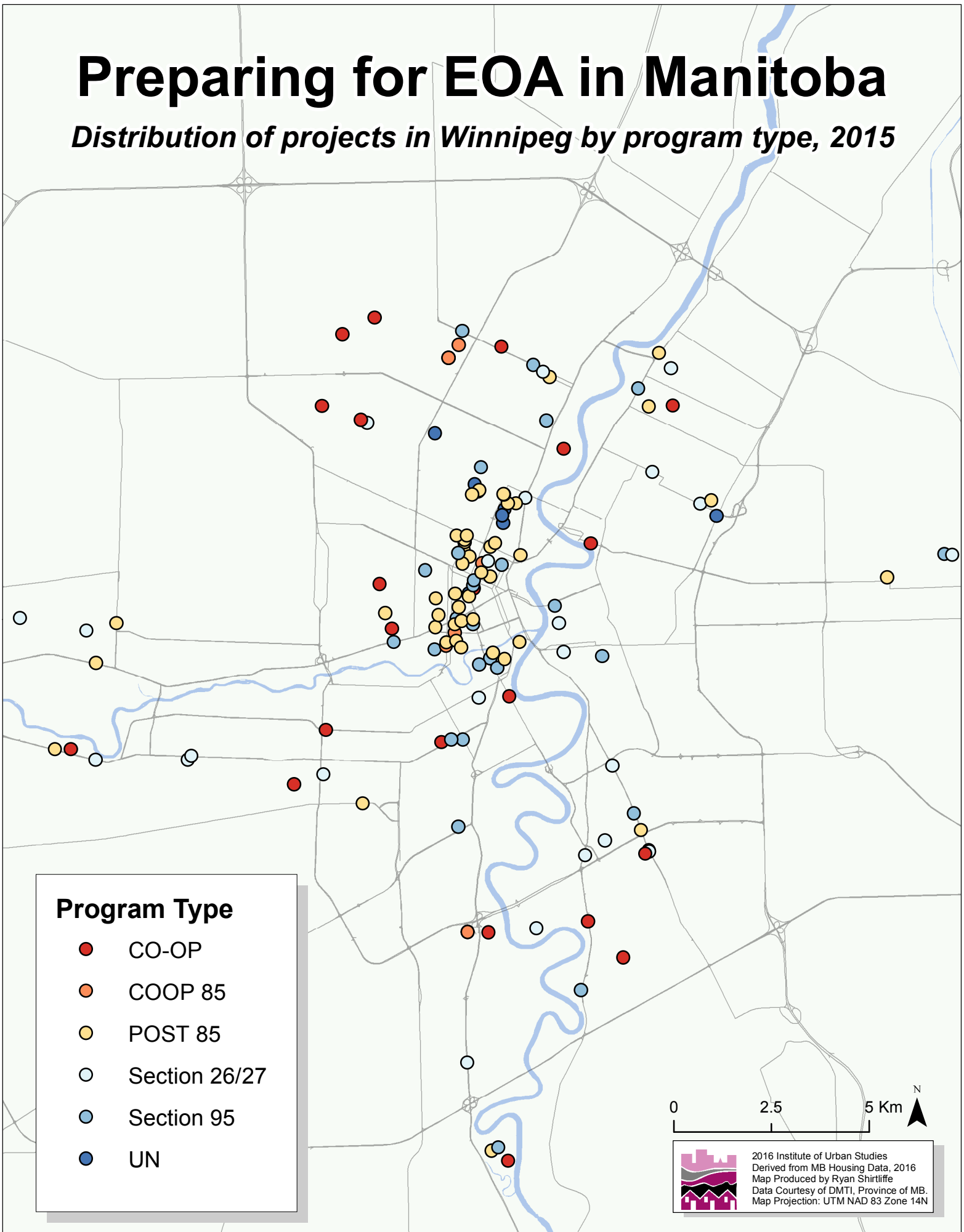
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Appendix 2: Maps of Agreement Locations

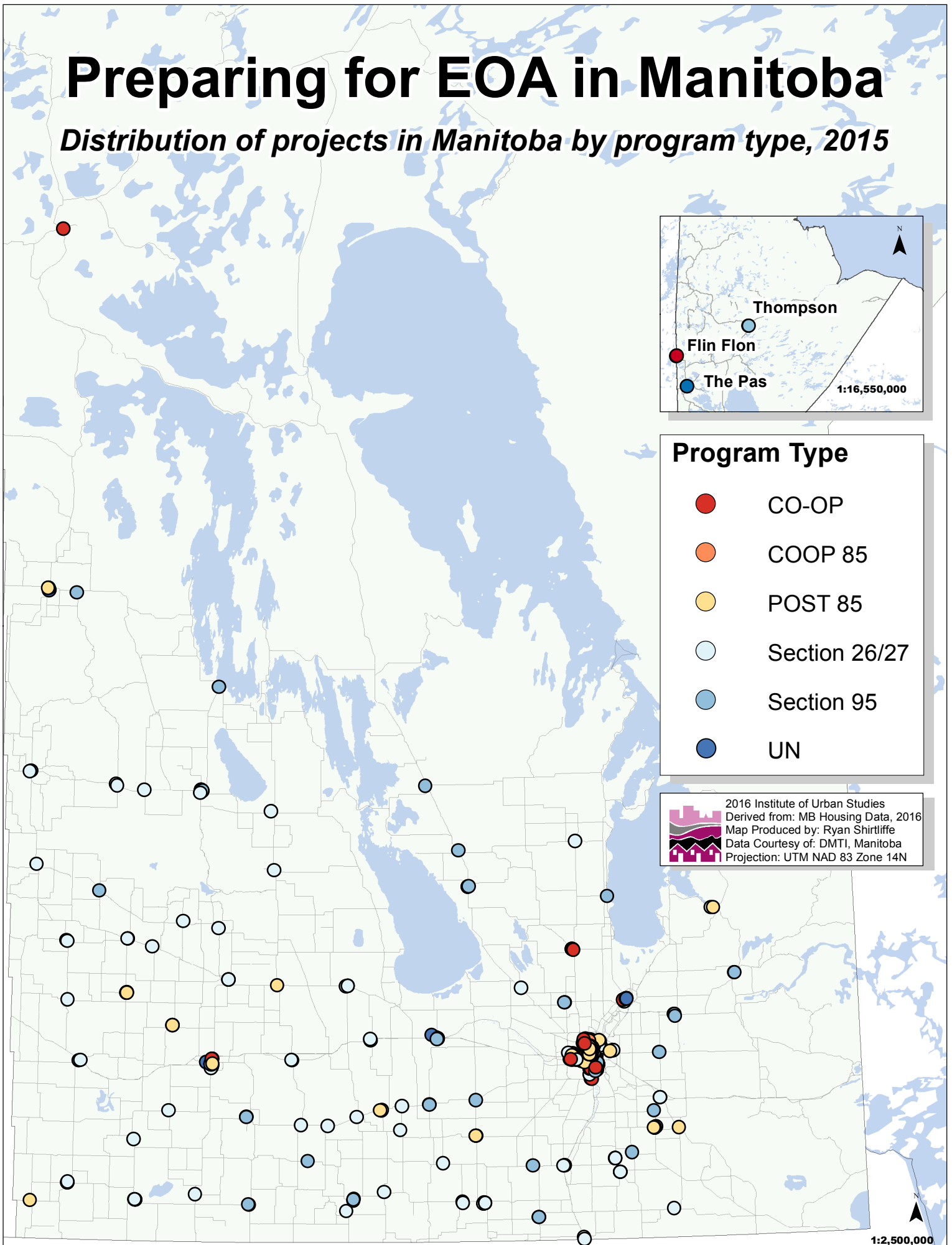
Preparing for EOA in Manitoba

Distribution of projects in Winnipeg by program type, 2015



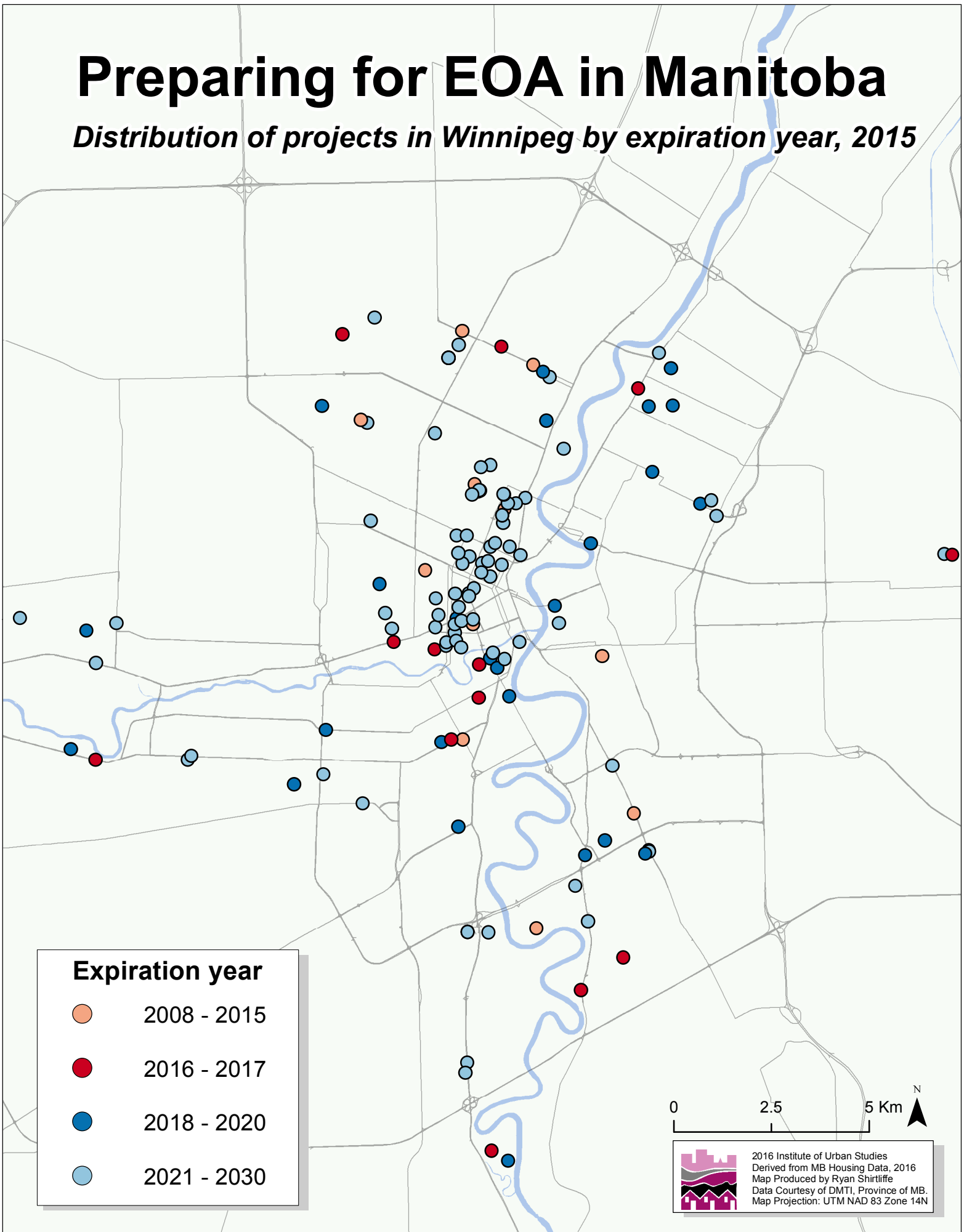
Preparing for EOA in Manitoba

Distribution of projects in Manitoba by program type, 2015



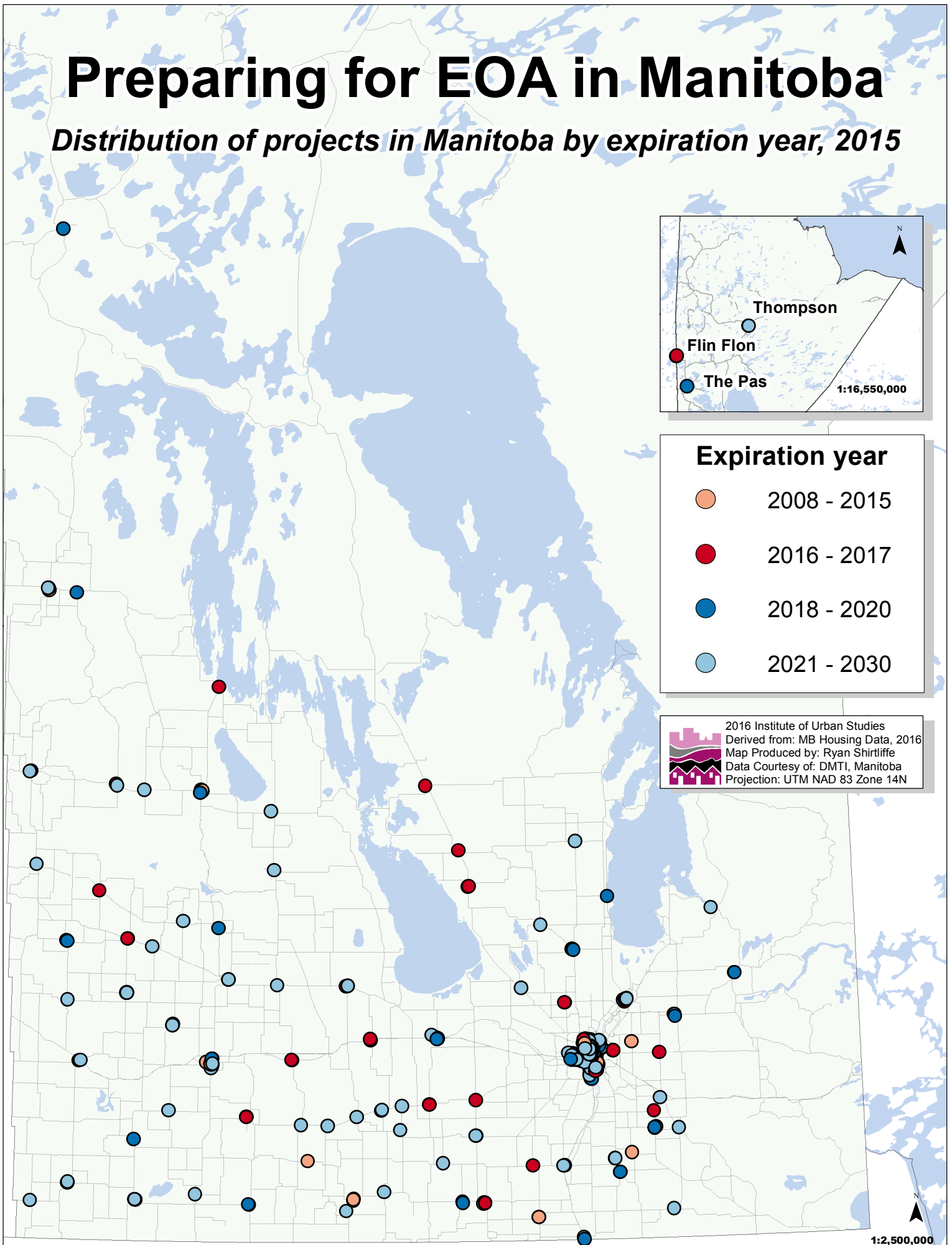
Preparing for EOA in Manitoba

Distribution of projects in Winnipeg by expiration year, 2015



Preparing for EOA in Manitoba

Distribution of projects in Manitoba by expiration year, 2015



Appendix 3: EOA in Manitoba Survey – Hardcopy



INSTITUTE OF URBAN STUDIES

EOA Housing Provider Survey: HARD COPY VERSION

November 12, 2015

NOTE:

PDF or paper copies of this survey will look dramatically different from the online version. Formatting will be different. Questions will be the same, but Skip Logic is not automated. Skip directions have been re-inserted to assist the reader. This version is NOT part of the official survey and is to be used for information only.

INTRODUCTION

Description of the Study

The purpose of this survey on the End of Operating Agreements (EOA) in Manitoba is to understand how housing providers are preparing for the expiration of their operating agreements. Your knowledge and strategies for addressing EOA may be valuable to other organizations. The research is being conducted by the Institute of Urban Studies at the University of Winnipeg on behalf of the Manitoba Non-Profit Housing Association (MNPHA), with funding from the Winnipeg Foundation and Manitoba Housing.

If you complete the survey, your name will be entered in a draw to win a MICROSOFT SURFACE 3 BUNDLE (\$900 estimated value)!

If you have any questions about the survey, please contact:

Scott McCullough, Research Associate, Institute of Urban Studies s.mccullough-ra@uwinnipeg.ca
Sarah Zell, Research Associate, Institute of Urban Studies s.zell@uwinnipeg.ca

Participation and Confidentiality

The responses you provide will only be available to researchers at the Institute of Urban Studies. Your responses will remain confidential in any reports to the MNPHA or Manitoba Housing; responses will be reported in aggregate form only—no identifying information will be linked to your responses. Your participation in this survey is entirely voluntary. You can withdraw from the survey at any time before submitting it. The questionnaire should take no more than 15-20 minutes to complete.

Q1.5 Do you agree to participate in this End of Operating Agreements (EOA) Housing Provider survey?

- Yes, continue to survey now (Go to Question 3.1)
- No, I will return to complete the survey (Go to Question 2.1)

Q2.1 Thank you for your interest in this survey on the End of Operating Agreements in Manitoba. Please return to the survey to complete it at any point until it closes on DECEMBER 13, 2015. Your perspective is valuable and will help the Manitoba Non-Profit Housing Association and Manitoba Housing understand the level of preparation and strategies being used by housing providers facing EOA. Results will be used to inform the development of resources to assist and strengthen the capacity of providers. ***Remember that if you complete the survey, your name will be entered to win a MICROSOFT SURFACE 3 BUNDLE (\$900 estimated value)!***

Q2.2 If you have any questions related to this study, please contact:

Scott McCullough, Research Associate, Institute of Urban Studies s.mccullough-ra@uwinnipeg.ca

Sarah Zell, Research Associate, Institute of Urban Studies s.zell@uwinnipeg.ca

Q2.3 You may wish to refer to the following resources:

End of Operating Financial Assessment Tool (available on MNPHA website) -

<http://mnpha.com/resources/new-eoa-tool/>

EOA Planning Guide developed by BCNPHA and BC Housing -

http://www.bchousing.org/resources/Partner_Resources/EOA/EOA_Planning_Guide.pdf

Q3.1 Instructions:

The survey does not have to be completed all at once. You can complete part of it and return to it at any time before it closes DECEMBER 13, 2015. The survey should take no more than 15-20 minutes to complete. You can complete this survey on your cell phone. Be aware that a few questions ask for written responses, which will require more time when responding by cell phone. Also, the survey may not be compatible with all tablets. ***Please note that you must complete the entire survey before your name will be entered in the draw to win the Microsoft Surface 3 Bundle. Once you have clicked through the entire questionnaire and submitted, you will receive confirmation your name has been entered in the draw.

Q3.2 Please note the following definitions for this survey:

Housing Organization / Provider: The administrative entity which has one or more Operating Agreements and oversees one or more Housing Properties

Housing Project: The housing properties (buildings) associated with a particular Operating Agreement and overseen by a Housing Organization/Provider

EOA: End of Operating Agreement

Rent-Geared-to-Income (RGI): The amount of rent charged is based on pre-tax household income

Affordable Housing: To be affordable the amount spent on shelter should not exceed 30 per cent of before tax household income. In Manitoba's Affordable Housing Rental Program the household pays an affordable rent based on median rents in the private market. Affordable rental rates vary by market, from \$594 for a two-bedroom apartment (utilities not included) in northern rural areas to \$1027 in Winnipeg (utilities included). For complete lists of this program's rental rates, see: <http://www.gov.mb.ca/housing/mh/progs/pil.html#affordable>

Q3.3 Contact Information

Please note that this information is only being collected to enter your name in the draw to win the Microsoft Surface 3 Bundle. Your name and contact information will remain confidential and will not be linked to any of your responses in final reporting.

Name (1)

Phone number (2)

Email address (3)

Q3.4 What is the name of your housing organization (Housing Provider)? (e.g., Brandon Housing Co-op Ltd., Kinew Housing Inc., Winnipeg Housing and Renewal Corp.)

Q3.5 Has the Housing Project's Operating Agreement(s) already expired? ***If you are the contact for multiple agreements, some of which have expired, please indicate "YES" and choose the responses that best correspond with the agreements that are now post-expiry.

- Yes (**Go to Q10.1**)
- No (**Continue to Q4.1**)

Q4.1 Is your organization comfortable with its plan for transition at the end of its Operating Agreement(s)?

- Yes, we are comfortable with planning for EOA, and do not require assistance at this time. (1)
- No, we are not comfortable with our level of preparedness, and may require assistance planning for transition. (2)
- I am not sure. (3)

For Respondents Whose Agreements Have NOT Expired

Q4.2 HOUSING PROVIDER INFORMATION

This section asks for basic information about your housing provider.

Q4.3 What is your current position in relation to the Housing Project? Please indicate the title that best corresponds to your primary role

- Board Member (1)
- Project Manager (2)
- Property Manager (3)
- Landlord (4)
- President (5)
- Caretaker (6)
- Other (7) _____

Q4.4 Is your housing organization currently a member of the Manitoba Non-Profit Housing Association (MNPHA)?

- Yes (1)
- No (2)
- Not sure (3)

Q4.5 Does your housing organization use the following professional services (either have on-staff, or hire regularly)? Please choose all that apply

- Accounting (1)
- Legal (2)
- Human resources (3)
- Property management (4)
- Other, please describe: (5) _____

Q5.1 PLANNING FOR THE END OF OPERATING AGREEMENT (EOA)

This section asks for information related to any planning your housing organization has engaged in for EOA. It also includes questions related to the governance and potential post-expiry viability of the housing project(s).

Q5.2 Are the Board executives (or primary decision makers) of your housing organization aware of the expiry date of the Operating Agreement?

- Yes (1)
- No (2)
- Not sure (3)

Q5.3 Do the Board executives (or primary decision makers) of the housing organization have a copy of the Operating Agreement?

- Yes (1)
- No (2)
- Not sure (3)

Q5.4 Has there been a legal review of the Operating Agreement?

- Yes (1)
- No (2)
- Not sure (3)

Q5.5 Have the Board executives (or primary decision makers) of the housing organization begun planning for the end of the Operating Agreement?

Yes, we began planning for the EOA in approximately (month/year) (1)

- _____
- No (3)
 - Not sure (4)

Q5.6 Is your organization intending to undertake planning for the end of your agreement?

- Yes (1)
- No (2)
- Not sure (3)

Q5.7 Have the Board executives (or primary decision makers) of your housing organization undertaken any of the following measures related to planning for the project's EOA? Please choose all that apply

	Will not do	Willing to do	Plan to Do	Already Done	Not sure
Study of net operating financial viability (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capital reserve review (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Technical audit or building condition assessment (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Use End of Operating financial viability assessment tool (available on MNPFA website) (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Consult EOA Planning Guide developed by BCNPHA and BC Housing (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Long-term organizational planning other than fiscal (e.g., strategies, policies) (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Strategic visioning (e.g., changes to mandate or organizational structure) (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other planning, please describe: (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q6.1 Governance

This section asks for information related to the governance of the housing project(s).

Q6.2 In your opinion, do you feel the Board executives (or primary decision makers) of your organization are committed to maintaining the housing project's current number of affordable housing units. (Affordable Housing means that rental rates are based on median rents in the private market, and should not exceed 30% of household income.)

- Strongly Disagree (1)
- Disagree (2)
- Neither Agree nor Disagree (3)
- Agree (4)
- Strongly Agree (5)

Q6.3 In your opinion, do you feel the Board executives (or primary decision makers) of your organization are engaged in the housing project? (e.g., regularly hold/attend meetings, record minutes, review policy, approve budgets)

- Strongly Disagree (1)
- Disagree (2)
- Neither Agree nor Disagree (3)
- Agree (4)
- Strongly Agree (5)

Q6.4 How often do new members join the Board?

- Almost never (no new members for years) (1)
- Rarely (every 5 years or so) (2)
- Not sure (3)
- As needed (every 2-4 years or so) (4)
- Very often (high turnover) (5)

Q6.5 In your opinion, do you feel the Board (or other primary decision makers) and the Property Manager/Management have a good working relationship?

- Strongly Disagree (1)
- Disagree (2)
- Neither Agree nor Disagree (3)
- Agree (4)
- Strongly Agree (5)

Q6.6 Does your organization have the capacity to undertake any of the following activities (should they become necessary post expiry)? Please choose all that apply

- Fundraising (e.g., raising money outside of government grants) (1)
- Community Outreach / Public Education (e.g., selling your project to the community) (2)
- Marketing (e.g., advertising of properties) (3)
- Other skills in the organization that may be useful for transition through EOA. Please list: (4)

Q7.1 Project Viability

This section asks for information related to the viability of your housing project(s) post-expiry.

Q7.2 In your opinion, how likely is it that your project will be able to maintain its current number of units of affordable housing? (Affordable Housing means that rental rates are based on median rents in the private market, and should not exceed 30% of household income.)

- Very Unlikely (1)
- Unlikely (2)
- Not Sure (3)
- Likely (4)
- Very Likely (5)

Q7.3 Have any recent capital improvements, renovations, or physical upgrades been done? (large enough to draw down the capital reserve and impact viability post-EOA)

- Yes If yes, please list: (1) _____
- No (2)
- Not sure (3)

Q7.4 Are there any planned or anticipated large capital improvements, renovations, or physical upgrades in the short-term?

- Yes If yes, please list: (1) _____
- No (2)
- Not sure (3)

Q7.5 Listed below are some strategies other organizations have used to increase their fiscal viability through EOA. What is the likelihood your housing project would consider undertaking any of the following: Please choose all that apply

	Very Unlikely	Unlikely	Not Sure	Likely	Very Likely
Lower percentage of units that are Rent-Geared-to-Income (RGI) (1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Convert a portion of units to market rental rates (e.g., to subsidize others) (2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Increase rental rates (3)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Improve energy efficiency performance (e.g., improved heating systems, replacing windows) (4)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Site intensification (adding additional buildings or units to project(s)) (5)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Site expansion or redevelopment (6)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sell property (e.g., to finance others) (7)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other strategies you are considering, please describe: (8)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Q7.6 In your opinion, how open would your organization be to partnering with other housing providers/organizations? (e.g., to pool resources for improved efficiency)

- Very Unlikely (1)
- Unlikely (2)
- Not Sure (3)
- Likely (4)
- Very Likely (5)

Q7.7 In your opinion, how open would your organization be to merging with other housing providers/organizations to achieve economies of scale?

- Very Unlikely (1)
- Unlikely (2)
- Not Sure (3)
- Likely (4)
- Very Likely (5)

Q8.1 COMMUNICATION AND EOA-RELATED RESOURCES

This section asks for information about your level of interest in resources or guides that assist with EOA transition.

Q8.2 Would your organization consult resources or seek assistance related to EOA, if available?

- Yes (1)
- No (2)
- Not sure (3)

Q8.3 What is your preferred method of communication? Please choose all that apply

- Email / online (1)
- Phone (2)
- Traditional postal service (Canada Post) (3)
- Fax (4)
- Other (5) _____

Q8.4 Does your housing organization administration have access to a computer with high-speed internet service? (sufficient for streaming online video or tutorials)

- Yes (1)
- No (2)
- Not sure (3)

Q8.5 If resources or assistance regarding EOA were made available, what would be your preferred method of delivery? Choose all that interest you

- A Guidebook (paper or downloadable to use as you require) (1)
- In-person workshop (2)
- Online tutorial (requires high-speed internet) (3)
- Government representative or designated contact to provide in-person guidance/advice (4)
- Other, please describe: (5) _____

Q8.6 You have reached the end of the survey. Do you have any additional comments?

Q9.1 THANK YOU!

Thank you for completing this survey on the End of Operating Agreements in Manitoba. **You must click Continue at the end of this page to submit your completed survey so that your name can be entered in the draw to win the Microsoft Surface 3 Bundle. The winner will be notified by the end of the year.** Your perspective is valuable and will help the Manitoba Non-Profit Housing Association and Manitoba Housing understand the level of preparation and strategies being used by housing providers facing EOA. A summary of results will be made available on the MNPHA website (www.mnpha.com). Results of the study will be used to inform the development of resources to assist and strengthen the capacity of housing providers.

Q9.2 If you have any questions related to this study, please contact:

Scott McCullough, Research Associate, Institute of Urban Studies s.mccullough-ra@uwinnipeg.ca
Sarah Zell, Research Associate, Institute of Urban Studies s.zell@uwinnipeg.ca

Q9.3 You may wish to refer to the following resources:

End of Operating Financial Assessment Tool (available on MNPHA website) -
<http://mnpha.com/resources/new-eoa-tool/>

EOA Planning Guide developed by BCNPHA and BC Housing -
http://www.bchousing.org/resources/Partner_Resources/EOA/EOA_Planning_Guide.pdf

For Respondents Whose Agreements HAVE Expired

Q10.1 HOUSING PROVIDER INFORMATION

This section asks for basic information about your housing provider.

Q10.2 What is your current position in relation to the Housing Project? Please indicate the title that best corresponds to your primary role

- Board Member (1)
- Project Manager (2)
- Property Manager (3)
- Landlord (4)
- President (5)
- Caretaker (6)
- Other (7) _____

Q10.3 Is your organization currently a member of the Manitoba Non-Profit Housing Association (MNPHA)?

- Yes (1)
- No (2)
- Not sure (3)

Q11.1 PLANNING FOR THE END OF OPERATING AGREEMENT (EOA)

This section asks for information related to planning leading up to the expiration of Operating Agreement(s).

Q11.2 Which, if any, of the following measures did your organization undertake in planning for the end of your Operating Agreement? Please choose all that apply

- Net operating financial viability study (1)
- Capital reserve review (2)
- Long-term organizational planning other than fiscal (e.g., strategies, policies) (3)
- Strategic visioning (e.g., changes to mandate or organizational structure) (4)
- Other, please describe: (5) _____
- None (6)

Q11.3 When did your organization begin planning for for the end of your Operating Agreement?

- Did no planning specific for EOA (1)
- Less than 1 year before expiry (2)
- 1-2 years before expiry (3)
- More than 2 years before expiry (4)
- Not sure (5)

Q11.4 Who was involved in planning for the transition at the end of your Operating Agreement? Please choose all that apply

- Board members (1)
- Property manager (2)
- Administrative staff (3)
- Caretaker / Resident manager (4)
- Lawyer / legal services (5)
- Accountant (6)
- Building trades (7)
- Other, please describe: (8) _____
- Not sure (9)

Q11.5 Which, if any, of the following resources did you use in transitioning through the end of your Operating Agreement? Please choose all that apply

- End of Operating financial viability assessment tool (available on MNPHA website) (1)
- EOA Planning Guide developed by BCNPHA and BC Housing (2)
- Consulted with Manitoba Housing representative or other government contact (3)
- Other, please describe: (4) _____
- None, we transitioned post-expiry without assistance (5)
- None, we were not aware of available EOA-related resources (6)
- Not sure (7)

Q12.1 IMPACTS AND OUTCOMES OF EOA

This section asks about the outcomes of the transition through EOA on your housing portfolio.

Q12.2 Has your housing organization retained all of its assets post-expiry?

- Yes (1)
- No (2)
- Not sure (3)

Q12.3 Did any of your housing projects lose non-profit status post-expiry?

- Yes (1)
- No (2)
- Not sure (3)

Q12.4 Have any of your rental rates increased because of the end of your agreement?

- Yes (1)
- No (2)
- Not sure (3)

Q12.5 Has your project experienced a net loss of affordable housing since the end of your agreement? (Affordable Housing means that rental rates are based on median rents in the private market, and should not exceed 30% of household income.)

- Yes (1)
- No (2)
- Not sure (3)

Q12.6 Has the number of units in your project that were Rent-Geared-to-Income (RGI) changed?

- Yes (1)
- No (2)
- Not sure (3)

Q12.7 If Yes, please estimate the change:

Estimated % of units that were RGI before EOA (1)

Estimated % of units that are RGI after EOA (2)

Q12.8 Has there been a change in the normal number of vacancies (turnover of tenants) in your project post-expiry?

- Fewer vacancies post-EOA (1)
- The same number of vacancies (2)
- More vacancies post-EOA (3)
- Not sure (4)

Q12.9 Were there significant positive impacts on tenants related to your project's transition post-expiry?

- Yes (1)
- No (2)
- Not sure (3)

Q12.10 If Yes, please describe briefly: _____

Q12.11 Overall, were tenants negatively impacted by your project's transition post-expiry?

- Yes (1)
- No (2)
- Not sure (3)

Q12.12 If Yes, indicate how tenants were negatively impacted. Please choose all that apply

- Increased rents (1)
- Higher than normal tenant turnover (2)
- Tenant disruption because of renovations (3)
- Higher than normal tenant dissatisfaction (complaints) (4)
- Other, please describe: (5) _____

Q13.1 What were the strategies or measures used by your organization to transition through EOA? Please describe briefly: _____

Q13.2 Please indicate any lessons learned from your experience transitioning through EOA. (e.g., recommendations for other organizations, resources lacking, surprises encountered) _____

Q13.3 You have reached the end of the survey. Do you have any additional comments? _____

Q9.1 THANK YOU!

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http://www.bchousing.org/resources/Partner_Resources/EOA/EOA_Planning_Guide.pdf

Expiring Operating Agreements

A Planning Guide for BC's Non-Profit Housing Societies

November, 2014

FOREWARD

Welcome to the first edition of the Expiry of Operating Agreements – A Planning Guide for BC’s Non-Profit Housing Societies. BC Housing and BC Non-Profit Housing Association have been working for a number of years on the issue of expiring agreements. Much of the work we’ve shared with the sector in the past focused on the research we’ve undertaken to identify what the key issues are and what supports the sector might need in preparing for expiry. Now we’re aiming to turn that research into useful tools and resources for you to use as you plan for the expiry of your operating agreement.

This guide, prepared for BC Housing and BC Non-Profit Housing Association by Cityspaces Consulting Ltd., provides an introduction to a step-by-step planning process you can undertake to ensure that your non-profit is ready for expiry, what your options are pre- and post-expiry, the legal landscape as it relates to expiring agreements, and different models of shared services and mergers. Some of the information may be familiar to you, but we think some of it will also be new.

We see this planning guide as a living document. This is the first edition and our goal is to update it as we get your feedback and as we develop new tools and resources related to expiring agreements.

If you have ideas for future editions of the planning guide, please contact us at:

BCNPHA

CAPITAL PLANNING SUPPORTS:

Warren Jacobs, Capital Planning Manager
Phone: (604) 291-2600 Ext. 227
Email: warren@bcnpha.ca

IDEAS FOR ADDITIONAL TOOLS AND RESOURCES:

Jill Atkey, Director, Research and Education
Phone: (604) 291-2600 Ext. 231
Email: jill@bcnpha.ca

BC Housing

RESEARCH AND ADDITIONAL RESOURCES:

Manager of Research
Phone: (604) 454-2078

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TERMS USED IN THIS GUIDE

A society means an organization constituted under the BC Society Act to provide and operate non-profit housing. For this Guide the word “society” is used throughout, rather than “provider” or “organization”.

A project means one or more buildings that are the subject of an Operating Agreement between a society and BC Housing, Canada Mortgage and Housing (CMHC), or both.

An Operating Agreement (OA) means a contract between a society and BC Housing, CMHC, or both, which sets out the amount, duration and conditions of the subsidy provided for a project.

An **Expiring Operating Agreement (EOA)** is a project which has an OA that sets the date of its expiry, after which the society will have no mortgage payment and will receive no further subsidy.



Click on any of the Contents headings above to go to the corresponding pages in the document.



This symbol indicates key considerations in the section.



Any words highlighted and underlined like [this](#) link to an external website, or to a specific page in the document.



Click the arrow in the bottom right hand corner of each page to return to the Contents page.



CONTEXT

Across Canada, one of the most challenging issues facing non-profit housing societies is the expiration of project operating agreements (EOA). In British Columbia, project operating agreements representing almost 30,000 units will expire by the year 2033 – 5,900 between March 2015 and March 2020.

Operating Agreements (OA) set out the amount, duration and conditions of the subsidy provided by the provincial or federal governments, or both. Their expiry, often tied to a 35-year amortization period, means that when the mortgage expires, societies are solely responsible for the project's ongoing financial viability. The reasoning behind this is that following repayment of the mortgage, a project should be able to generate sufficient revenue to maintain its viability, while continuing to provide affordable housing.

- ▶ To maintain financial viability in a post-EOA environment is more challenging for buildings that house a high percentage of tenants on a Rent Geared to Income (RGI) basis, and those with five or fewer projects in their portfolio. The physical condition of the building may also be a challenge in BC.

PURPOSE OF THIS GUIDE

This Guide was prepared primarily for non-profit housing societies - Boards and administrators to:

- ▶ Raise awareness of the challenges and opportunities with EOAs;
- ▶ Set out a step-by-step process of determining a project's financial viability and social sustainability for EOAs;
- ▶ Present options for consideration pre- and post-EOA; and
- ▶ Provide additional resources related to EOA.

The Guide may also be of interest to local government staff who, potentially, could be involved in reviewing zoning, development permit and building permit applications, if a society chooses to redevelop some or all of the site.

HOW TO NAVIGATE THIS GUIDE

The Guide is an interactive tool for users, allowing those reading on a computer to navigate among sections with hyperlinks. It also includes a number of hyperlinks to external resources that provide greater detail for specific topics. The Guide can also be downloaded and printed.

There are nine sections to the Guide:

1. Introduction
2. Establish a Process
3. STEP A - Review Operating Agreement
4. STEP B - Determine Financial Viability
5. STEP C - Review Other Factors
6. STEP D - Explore and Assess Options
7. STEP E - Consult and Finalize the Preferred Option(s)
8. STEP F - Next Steps
9. In Closing





ESTABLISH A PROCESS

A society's Board of Directors is responsible for the ongoing governance and, together with the society's administration or Executive Director, management of a non-profit housing project, including making decisions about a project's viability as an EOA approaches. To effectively assess the situation, a systematic approach is advised. To assist societies with approaching EOAs, and the implications of a project's viability, a six-step process is suggested, as visually depicted in Figure 1. While this process may not be applicable for every society, it provides an overall framework for reference purposes.

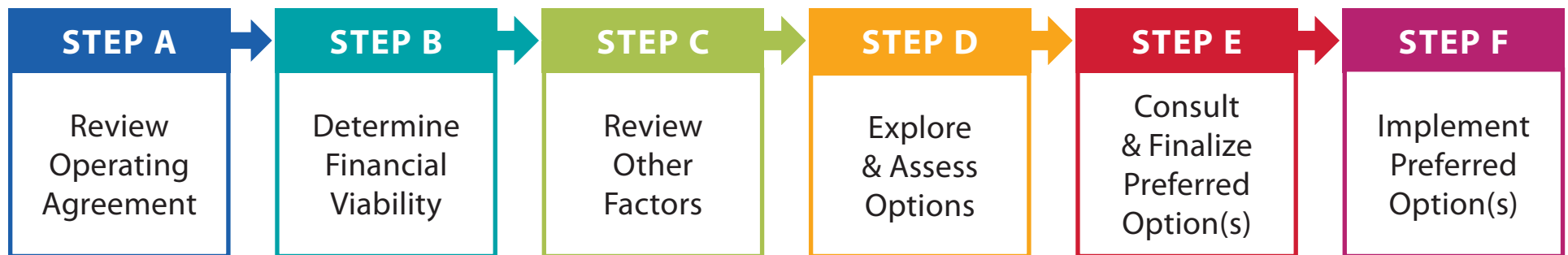
STEP A – REVIEW THE OPERATING AGREEMENT

The first step in the viability assessment process is ensuring that the Board and administrators know and understand the existing Operating Agreements for all projects in their portfolio, especially the expiry dates.

STEP B – DETERMINE FINANCIAL VIABILITY

Four variables feed into the assessment of a project's financial viability: revenue; operating expenses; capital replacement reserve level; and major costs of renovation or repair in the short term.

FIGURE 1: PROPOSED PROCESS



STEP C – REVIEW OTHER FACTORS

There are a number of factors to consider before assessing options in a post-EOA environment. Nine factors are discussed in this Guide.

STEP D – EXPLORE AND ASSESS OPTIONS

With the information generated through steps two and three, there are a number of options to explore and assess. Following a thorough review of the advantages and disadvantages of each option, the Board of Directors will reach a conclusion on the preferred option(s).

STEP E – CONSULT AND FINALIZE THE PREFERRED OPTION(S)

Consulting with tenants and the society's members about the assessment process and the preferred option(s) will assist the Board of Directors in finalizing a preferred option and making plans for its implementation.

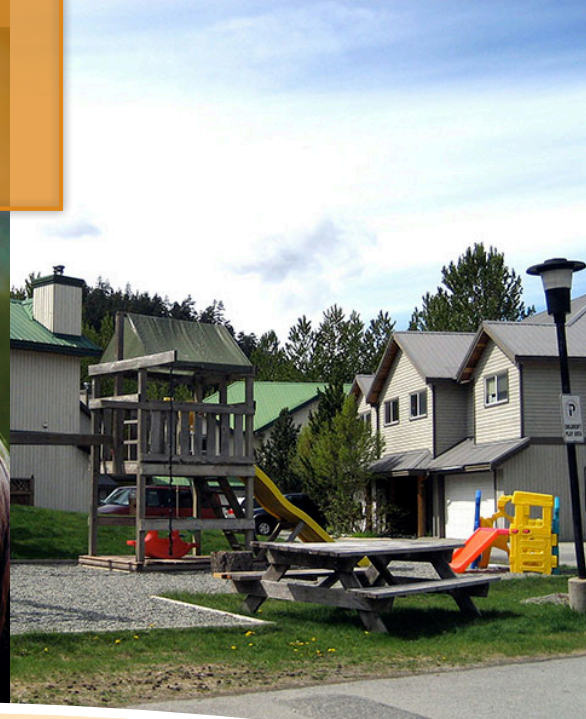
STEP F – IMPLEMENT THE PREFERRED OPTION(S)

The final step in the process is to implement the preferred option(s). Depending on the option(s) chosen, this may be relatively simple or complex. In either situation, a plan is needed to provide the framework for implementation.





STEP A





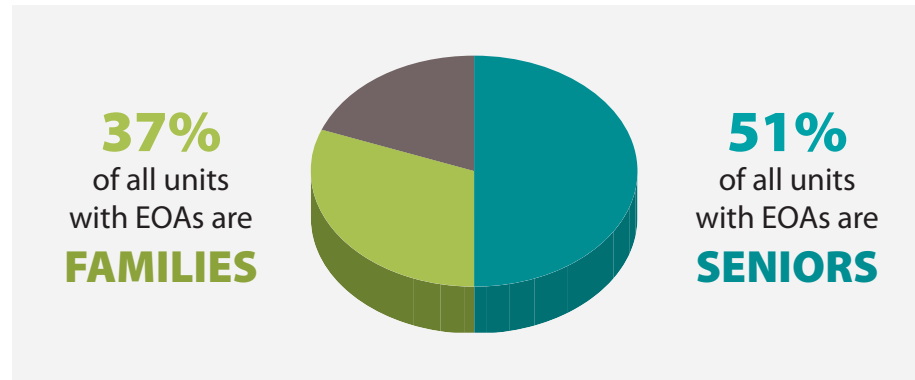
STEP A - REVIEW OPERATING AGREEMENT

THE STATE OF OPERATING AGREEMENTS IN BC

There are about 30 different OAs with societies in BC – each has distinct requirements and restrictions for subsidy delivery and use.

Over 15,000 units of OAs will expire by **2025**

Another 14,000 units of OAs will expire by **2033**



Source: BC Housing

WHAT HAPPENS WHEN AN OPERATING AGREEMENT EXPIRES?

- ▶ Opportunity to explore a range of opportunities for your project, and evaluate options moving forward;
- ▶ There will be no more government subsidy payments;
- ▶ There are no further requirements to make financial and administrative reports to BC Housing or CMHC;
- ▶ Unless the project has been refinanced, there are no more mortgage payments to make; and
- ▶ Although the society will have greater control over the financial management and decision-making processes of a project, it may be vulnerable to revenue deficits, insufficient capital reserves, and major project renovations and repairs.

Societies can speak to the BC Housing Non-Profit Portfolio Manager (NPPM) to ask questions.



The Province of BC has committed to continuing to fund its share in Federal/ Provincial cost-shared housing programs post EOA.





STEP B



B

STEP B - DETERMINE PROJECT VIABILITY

Assessing the financial performance and physical condition of a project is essential for the long-term viability of individual projects, a society's complete portfolio, and the non-profit housing sector as a whole, especially when operating in a post-EOA environment.

This section of the Guide outlines what is involved in assessing project financial viability, as well as up to date information on four variables: project's revenue, operating expenses, capital replacement reserves, and the physical condition.

SIMPLIFIED ASSESSMENT TOOL (SAT)

The SAT is a spreadsheet template developed by Steve Pomeroy for the Canadian Housing and Renewal Association (CHRA), and five provincial housing associations. It is presented in this guide as a tool to assist societies determine project viability currently, and at EOA. An online version of the SAT is available for download [here](#). The process to determine project viability may not be a linear one, but rather draw from the creativity and innovation of societies.

1

REVENUE

In a post-EOA situation, revenues are primarily rents charged to tenants; however, additional revenue sources, if applicable, should be considered.

2

OPERATING EXPENSES

This includes expenses that are required for the ongoing operation of a project. Typically, these include property taxes, utilities, staff, insurance, maintenance and supplies, etc. When assessing a project's viability, operating expenses should exclude mortgage payments (principal and interest).

3

CAPITAL RESERVE REPLACEMENTS

These are the funds available for regular upkeep and maintenance of a project. They typically cover unit repair and replacement, and minor project repairs. Ensuring adequate reserve levels will allow for the ongoing upkeep of a project, and are recommended to be the equivalent of about \$750/unit/year.

4

PHYSICAL CONDITION

It is important to assess the project's physical condition to understand what major capital expenses will be required in the short-to mid-term. Typical major repairs include building envelope/rainscreen, parking garage repair, windows, plumbing, elevators, and perimeter drainage. Also important is to plan for capital improvements.

CONSIDERED BY SAT

NOT CONSIDERED BY SAT



STEP B - DETERMINE PROJECT VIABILITY

SAT INPUTS

The SAT includes a spreadsheet where values are entered, including the year of the OA expiry, number of units, revenue and operating expense amounts, current capital reserves amount, and the amount allocated towards capital reserves on an annual basis. All inputs should represent a single project, and can be found on Annual Financial Statements, or in the society's most recent year-end financial statements.

- ▶ If you have more revenue than expenses and capital costs, then your project is viable
- ▶ If you have more expenses and capital costs than revenue, then your project is non-viable

SAT OUTPUTS

When using the SAT for a project, it will generate four outputs: Net Operating Income (NOI) currently per year; NOI at time of EOA; amount available for capital replacement per unit per year before the EOA; and a project summary that identifies whether the project is financially viable and if there are sufficient capital reserves before EOA.

SAT CONSIDERATIONS

Even if a project is identified as being viable, it is valuable to consider these questions:

- ▶ **Was the annual increase in rents overestimated?** The default value of 1% assumes a portion of units will remain at RGI levels and is a conservative estimate. Increasing the value may overestimate actual revenue and create a false-positive result for a Net Operating Income (NOI).
- ▶ **Was the annual increase in operating expenses underestimated?** The default 2% increase in operating expenses value may not adequately reflect actual increases. Unanticipated or anticipated increases in operating expenses such as insurance and utilities should be carefully considered.
- ▶ **Has there been a recent major expense that has depleted capital reserves?** If yes, then the SAT may classify a project as unviable due to insufficient capital reserves without allowing for adequate replacement reserves to be accrued over the coming years.
- ▶ **Are there significant deferred capital expenses?** The largest variable not considered by the SAT relates to sufficiency of capital reserves. The SAT may generate a false-positive reading for capital reserve sufficiency if the project is not well-maintained and requires significant upcoming investment. For this reason, it is imperative that a physical assessment be conducted.



STEP B - DETERMINE PROJECT VIABILITY

BUILDING CONDITION ASSESSMENT

The condition of buildings is significant in determining viability but is not factored into the SAT. BC Housing has physical condition information for approximately 50% of the social housing stock, measured using the Facility Condition Index¹ (FCI).

The FCI measures and quantifies the physical condition of the social housing stock. It is calculated as the percentage of the total amount of repairs and maintenance needed as a percent of the current replacement value of project components. A lower value corresponds to a better project condition. Current industry benchmarks are:

- ▶ 0 to 5 % is considered good condition;
- ▶ 5 to 10 % is considered fair;
- ▶ 10 to 30 % is considered poor; and
- ▶ More than 30 % is considered critical.

Based on the known condition of buildings for which there is FCI data, and despite the incompleteness of the data, the results are striking. It reveals that 50% of the sample OAs set to expire in the coming decade are in Poor or Critical condition. Buildings in projects with OAs that will expire between 11-20 years are in slightly better shape; however, it is likely that as they age, their general condition will deteriorate.

Societies for which there is no current BC Housing data, and have OAs that are expiring before 2019, are strongly advised that a Building Condition Assessment be professionally conducted.

¹ Facility Condition Index (FCI) is an industry standard asset management tool which measures the "constructed asset's condition at a specific point in time" (US Federal Real Property Council, 2008). It is a functional indicator resulting from an analysis of different but related operational indicators (such as building repair needs) to obtain an overview of a facilities condition as a numerical value.

CAPITAL PLANNING

As a building ages its capital renewal needs increase, and it becomes more important to determine the full extent of a society's liabilities. Undertaking a Capital Planning process will inform a society's strategic planning, particularly for those societies with older buildings and upcoming EOAs.

- ▶ The first step of the Capital Planning process is to identify and prioritize the capital renewal needs of a building – the costs of ongoing maintenance, repair or replacement of building components, and eventual replacement.
- ▶ The second step involves a review of replacement reserves, revenue sources, and operating practices to ensure that the identified capital renewal needs can be met. The results from these two steps are then used to develop a multi-year program.

BC Housing and the BC Non-Profit Housing Association can assist a society to access "asset planning" software that will help in the Capital Planning process. This involves:

- ▶ **Building Condition Assessment.** The assessment begins by conducting detailed interviews with building operators, managers, and maintenance personnel to establish the building's history and outstanding capital needs.
- ▶ **On-site audit.** The audit thoroughly reviews the condition of major building components (what needs to happen in what year), confirms the base building information (number of units, construction type, building area, asset type, etc.) and photographs major building components and required work. The assessor will also look to identify energy saving opportunities within the building.





STEP C



STEP C - REVIEW OTHER FACTORS

The next section of this Guide sets out various options to assess before the date the OA expires. As part of assessing if an option is worth pursuing, there are several considerations that may render the option as favourable, difficult to implement, or unfeasible.

- ▶ Legal Definitions and Implications
- ▶ Mandate and Clientele
- ▶ Social Sustainability
- ▶ Projects on Leased Land
- ▶ Site Assessment
- ▶ Change Management
- ▶ Tenant Concerns
- ▶ Organizational Capacity
- ▶ Fund-raising

LEGAL DEFINITIONS AND IMPLICATIONS

There are several legal matters that may affect what options are pursued. Additional information relating to legal implications can be downloaded [here](#). *The report covers matters related to:*

- ▶ The Canada Revenue Agency and the Income Tax Act
- ▶ Residential Tenancy Act
- ▶ Employment Standards Act
- ▶ The Society Act
- ▶ Co-operative Associations Act
- ▶ Among other legal considerations

CHARITY OR NON-PROFIT ORGANIZATION

The Canada Revenue Agency (CRA) applies different rules about tax-exemption, depending on whether the society is a registered charity or a non-profit organization (NPO).

To confirm that a society is a registered charity, check CRA's database: <http://www.cra-arc.gc.ca/chrts-gvng/lstngs/menu-eng.html>

- ▶ To confirm that a society is a non-profit organization, past tax returns indicate whether the society has a tax-exemption status (T2 and possibly T1044 returns).

GENERATING PROFIT

Both registered charities and NPOs are restricted from pursuing any activities that result in generating a profit. Under current CRA rules, if a society purposefully generates a profit, it no longer qualifies as a NPO and will not be able to retain its tax-exempt status. Only profits that are 'incidental and unanticipated' may be generated. This poses a significant dilemma for societies that want to increase revenue to finance acquisitions, redevelopment, or major repairs. It is advised that societies seek legal counsel related to potential profit generating activities.



MANDATE & CLIENTELE

MANDATE

A society's mandate, which forms part of its constitution, defines its purpose and other fundamental matters. Legally, a society is only allowed to carry out activities that advance its purpose. Typically, a society's mandate includes the purpose of providing safe, secure, and affordable housing. Additionally, its mandate may have additional objectives relating to:

- ▶ **Clientele** – Specific groups may be targeted for housing, such as youth, seniors, families, homeless, single parents, and so on; and
- ▶ **Services** – Additional services may be provided, which directly benefit a particular clientele, such as assisted living for seniors or support services for persons with mental health or addiction issues.

When assessing the options set out in the next Section of the Guide, it is important to consider how an option relates to the society's current mandate. Is it in-line with the mandate, would it require minimal change, or does it entail a radical departure? Options that deviate from the society's mandate are not necessarily bad options to pursue. They do need to be carefully considered, including a possible change of mandate, and subsequent amendment to the society's constitution.

SOCIAL SUSTAINABILITY

For this Guide, social sustainability refers to whether a project is currently meeting the social needs for which it was originally intended. Assessing social sustainability is particularly important for projects with significant turnover or vacancies, which are likely to lead to decreased rental income, and increased operating expenses, such as staff to facilitate move-ins/move-outs.

Many projects are facing challenges in maintaining social sustainability, due to:

- ▶ A mismatch between the needs when the housing was built and current needs; or
- ▶ The design of dwellings and buildings is unsuitable for the households being accommodated.

Need & Demand – Local community needs may have changed since the project was initiated. This may affect current and anticipated housing demand. It is important to assess if the type of housing a society provides is still in strong demand, or if it is unable to satisfy changing needs.

Example: Decreased Demand – The housing demand by independent, low-income seniors is decreasing. Many societies operate exclusively for fully independent households; however, as seniors are living longer and healthier lives, and the availability of the SAFER rent supplement, seniors have more choice to live in market housing, thereby decreasing the demand for non-profit seniors housing.

- ▶ **Example: Increased Need** – There is a growing need for housing offering hospitality and support services for the “fragile elderly”. There are also growing housing needs for people with substance addiction, mental illness, Alzheimer's Disease and other forms of dementia.



STEP C - REVIEW OTHER FACTORS

Design Suitability – The appropriateness of a project’s design relative to the needs and expectations of today’s households is the other main consideration in determining whether a project is socially relevant.

- ▶ **Example: Unit Size** – Seniors’ housing was often designed with a high number of bachelor units, based on the assumption that seniors were singles. These units may be unsuitable today, as survival rates for males means that more seniors are couples. In addition, small units may not provide adequate room to accommodate storage, walkers, scooters and electric wheelchairs.
- ▶ **Example: Overall Project Design** – Projects may not be adaptable to satisfy the needs of older seniors as they may be missing a range of features from handrails in corridors, multi purpose rooms, usable outdoor space, and scooter storage. Additionally, for the very elderly, there is a need for common dining areas, and a kitchen where meals are prepared. For residents with electric wheelchairs, doorways, corridors and common spaces may not provide adequate maneuvering space. Finally, special needs housing may have shared bathrooms, which are not suitable relative to today’s privacy standards.



STEP C - REVIEW OTHER FACTORS

ASSESSING SOCIAL SUSTAINABILITY

There are a number of methods that can be used to assess social sustainability to gain an understanding of how a project may have to adapt to better meet residents' and community needs.

- ▶ **Needs & Demand Study** – BCNPHA and BC Housing jointly developed a template to assist non-profit housing societies in undertaking a needs and demand study. (Download the PDF [here](#))
- ▶ **Vacancies and Turnover** – If a project is experiencing substantial vacancies and turnover, this is a good indicator of a decline in need, or that the project does not meet the requirements of its intended clientele. The society's property manager(s) can provide useful input into why vacancies are occurring. Also, conducting exit interviews with vacating tenants will provide useful feedback on how a project was not meeting their needs.
- ▶ **Interviewing Residents** – Interviewing existing residents provides a clearer understanding of whether a project is satisfying residents' current needs. This could also be done through an anonymous survey.
- ▶ **Building Condition Assessment** – A systematic assessment of the buildings physical condition will also be helpful in assessing social sustainability.



PROJECTS ON LEASED LAND

To assist lowering the capital costs of non-profit housing at the time of the original development, or because the land owner did not wish to relinquish long-term control over the land, many affordable housing projects were developed on leased land, especially lands leased from municipalities. Typically, leases are between 41 – 60 years in length. If a project is on leased land, the following need to be taken into account:

- ▶ **Lease Expiry** – If a lease is not renewed, upon expiry, the land and associated structures transfer ownership to the primary landowner. It is advised that societies review their leases for any restrictions on use (i.e. who can be housed, rent restrictions, etc).
- ▶ **Refinancing** – The typical mortgage amortization period for a non-profit housing project is 35 years, which means its mortgage will expire before its lease. However, if refinancing is chosen as the preferred option, lending bodies will want assurance that a project will exist for the duration of a mortgage. Refinancing will be difficult or impossible without the successful renewal of the lease for a duration that is at least equivalent to the proposed refinancing term.
- ▶ **Renovations or Development** – For societies with adequate capital reserves to implement a development option without refinancing, investing capital into a project is doubtful without the security of a lease renewal. This is particularly true for societies with medium or large portfolios, where capital reserves could be used for development or renovation on properties that have secure land title.



The Province has recently issued an asset transfer program to strengthen the non-profit housing sector by transferring currently leased, provincially-owned properties to non-profit housing societies. More information on this program can be found [here](#).



STEP C - REVIEW OTHER FACTORS

SITE ASSESSMENT

Several options set out in the following section relate to densification, renovation, and changing the uses of the project. To assess if these options are applicable, a society will want to consider:

- ▶ **Site and Building Potential** – A project may have residual capacity for additional development, or for buildings to be modified to a different function. To determine the capacity of a project for potential infill or modification, it is advisable to consult with an urban planning consultant or architect.
- ▶ **Zoning Bylaw** – Municipalities regulate land and building use through the Zoning Bylaw. A rezoning may be needed, particularly for options related to land redevelopment or intensification. It is advisable to consult with the local planning department or an urban planning consultant on this matter.
- ▶ **Covenants on Title** – Land or building use, including possibly clientele, may be restricted through the Land Title Act, Section 219 covenant on title. Understanding if covenants are on the title of projects in a society's portfolio, including associated restrictions, helps in determining the feasibility of options that would entail changing the project's clientele, or modifying a portion of the building(s) or property to provide a different use. The process for modifying or discharging a covenant will likely require legal counsel.

LICENSES, PERMITS & TAX EXEMPTIONS

Depending on proposed use, there are several matters to consider, all of which need to be checked with the local planning department and the CRA.

- ▶ **Permits** – Development permits may be required depending whether the preferred option will result in project modifications. A building permit will always be required.
- ▶ **Licences** – If considering expanding the services provided, or operating a commercial use, a municipal business licence, and possibly provincial licences, consent or certification, may be required, for example, to operate a day care.
- ▶ **Property Tax-exemption** – In some BC municipalities, a registered charity may be granted property tax exemption; however, changes in use may result in loss of eligibility.
- ▶ **GST / PST** – If considering operating a business or commercial use, there may be a requirement to register for GST / PST, and subsequently charge, collect and remit the taxes to governments. For more information, refer to the [GST Guide for Social Housing Providers](#).



Covenants may impose land use or building restrictions, limiting option implementation.



STEP C - REVIEW OTHER FACTORS

TENANT CONCERNS

Building renovations, land intensification and redevelopment are options that are likely to be unsettling for tenants, many of whom have lived in their home for a number of years. If an option is selected that requires tenants to move out of their home, a relocation plan should provide housing options during construction, with the opportunity to move back to the project when it is completed. Strategic partnerships with other nearby societies may provide a transition option depending on available space.

FUND-RAISING

There is increased competition from many charitable and non-profit organizations for philanthropic funding, whether for a one-time capital project or ongoing support for the organization's programs. In relation to the non-profit housing sector:

- ▶ Small societies with limited staffing may not be able to dedicate the time needed to secure grants; while some large societies are perceived as likely to be self-supporting and not needing philanthropic funding.
- ▶ There is a tradition of societies operating independently. However, the current expectation of foundations and other funders is that grant applicants should work together and make joint submissions.

Fund-Raising campaigns can prove very successful, supported through the establishment of a dedicated committee and, often, supported by fund-raising consultants. Grants and funding opportunities may exist through local businesses, business associations, foundations, individual philanthropists, faith-based groups and all levels of government.

ORGANIZATIONAL CAPACITY

With an EOA, there will likely be increased pressures to ensure that the society's portfolio is viable. Smaller societies may have less capacity to implement certain options outlined in the next section, especially options that are complex and require a significant amount of administrative support for successful implementation. This may affect their ability to be strategic, innovative, or seek funding. It is advisable to determine current staff workloads and abilities to understand if there is sufficient capacity to implement an option.

CHANGE MANAGEMENT

The non-profit housing sector is going through change, and individual societies are presented with difficult decisions that may change the way they operate. How change is handled can significantly influence the success a society experiences following an EOA.

Change management is a systematic approach to assist individuals, teams, and organizations transition from the current situation to a desired situation. This approach may involve new procedures, technologies, or corporate strategies. For a non-profit housing society, it can also help their boards and administrative staff, to adapt to new processes, systems, technologies, and culture.

- ▶ Many societies in BC are experiencing organizational changes, while others are anticipating major changes. Applying the Change Management approach can help individual organizations adapt to the changing nature of the sector, support post-EOA implementation of the preferred option. There are certified Change Management consultants that are experienced at supporting a transition and providing strategic advice.





STEP D



STEP D - EXPLORE AND ASSESS OPTIONS

Whether a project has been assessed by a society as viable or unviable, there are options that can be explored to improve the viability of the specific project and a society's portfolio as a whole.

- ▶ Many of the options may be implemented pre-EOA, allowing a society to prepare for when government subsidy ends; however, approval from the other party to the OA will be needed.
- ▶ All options can be considered appropriate after analyzing in Steps A-C, and implemented post-EOA. When reading through the options, it is important to evaluate how they relate to the society's current mandate and the factors discussed in the previous section.

This Guide introduces 15 options that, broadly, fall into four categories, as seen in Figure 2. This figure also identifies whether the option is implementable pre-EOA, conditionally pre-EOA, and post-EOA. The options are not mutually exclusive and, depending on a society's circumstances, there may be more than one option that could be sequentially or concurrently implemented.

- 1. Increase Revenue** – Several options increase revenue, especially if a project is currently or anticipated to have insufficient revenue to cover operating expenses and contribute towards capital reserves.
- 2. Increase Capital** – Several options exist for increasing capital to help fund major or minor repairs. These options may be used in conjunction with revenue increasing options, especially if they are intended to provide capital to ensure long-term viability.
- 3. Find Operational Efficiencies** – While societies already operate with high efficiency, there are options that can increase efficiencies by reducing operating expenses, thereby decreasing the need for added revenue sources.
- 4. Transfer Assets** – Depending on a society's capacity, an option for consideration is to transfer assets to another non-profit society. In so doing, operational efficiencies may be increased, and access to necessary capital may be available, especially if assets are transferred to a larger society with a diverse and viable portfolio.

FIGURE 2: PRE- AND POST-EOA OPTIONS

	IMPLEMENTABLE	
	PRE-EOA	POST-EOA
1. IMPROVING REVENUE		
▶ Adjust rents and/or rent mix	(✓)	✓
▶ Explore options for new or extend subsidy agreement	(✓)	✓
▶ Pursue strategic partnerships	✓	✓
▶ Diversify portfolio	✓	✓
▶ Intensify building(s)/land	(✓)	✓
▶ Planning for site redevelopment	✓	✓
▶ Redevelop entire site	✗	✓
2. RAISING CAPITAL		
▶ Apply for grants	✓	✓
▶ Refinance	(✓)	✓
▶ Sell land/assets	✗	✓
3. FINDING OPERATIONAL EFFICIENCIES		
▶ Share services and/or space	✓	✓
▶ Implement energy efficiency upgrades	✓	✓
4. TRANSFERRING ASSETS		
▶ Acquire assets (property & management)	(✓)	✓
▶ Transfer assets	(✓)	✓

- ✓ Implementable without BC Housing/CMHC approval
- (✓) Implementation conditional to BC Housing/CMHC approval
- ✗ Not implementable



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

ADJUST RENTS OR RENT MIX

Options considered by a society to increase rents or adjust the rental mix may result in decreased affordability for current tenants and, indirectly, for the community at-large. Several rent increase options may be pursued pre-EOA to assist with Net Operating Income, ensuring sufficient revenue at EOA, while other options can only be pursued post-EOA. Some societies have not yet increased rents to 30% of tenants' income, so this could be encouraged as a first step.

INCREASE MARKET-RATE RENTS

Rent increases are governed by the Residential Tenancy Act, which outlines the annual maximum rent increase for existing tenants. In 2014, the allowable rent increase is 2.2%. Upon turnover, rent level increases are not restricted by the legislation.

- ▶ Pre-EOA, annual rent increases may be implemented and will likely impact all tenants. Consideration should therefore be given whether a rent increase will cause significant financial hardship on existing tenants. For example, in cases where low-income tenants occupy a market unit but are awaiting access to a RGI unit, raising rents may not be feasible or desirable. However, many existing market tenants may have capacity to accept a modest increase on an annual basis.
- ▶ By implementing rent increases well before an EOA, revenues can gradually be increased, ideally to a point that the project will be viable at EOA. Post-EOA, annual rent increases can also be implemented to tenants paying market rents. The physical condition of a building will affect the rent level that existing and future market-rate tenants are willing to pay. This should be taken into account when a society considers this option.

Key Considerations

- ✓ Conditionally implementable pre-EOA; implementable post-EOA
- ✓ Confirm the society's mandate
- ✓ Check the OA for restrictions and limitations relating to rent adjustments pre-EOA



Key Considerations

- ✓ Conditionally implementable pre-EOA; implementable post-EOA
- ✓ Adjust rents gradually
- ✓ Building condition will influence desirability for market-rate tenants



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

RGI TENANTS

Tenants who pay RGI have a portion of their rent covered by a subsidy, which stops at EOA. To continue to provide affordable housing while ensuring project and portfolio viability, a society may need to look at options to decrease the expected shortfall. Some societies will have additional revenue as a result of no mortgage payments, and some societies are able to accommodate RGI tenants without a subsidy. Others, however, may still have shortfalls which may result in modifying the tenant and income mix to increase revenues. This may impact the availability of RGI units. The four options that may be implemented relating to RGI tenants include:

1. Select higher income RGI tenants on turnover
2. Shift RGI units to market-rate units
3. Adopt low break-even rents for some units
4. Assist eligible households to apply for rent subsidies (RAP, SAFER)
5. Combination of all or some of the above

1. SELECT HIGHER INCOME RGI TENANTS ON TURNOVER

While new tenants will still be low-income, the portion of their income allocated to rent will increase. This option can be pursued pre-EOA, and may be especially beneficial for projects with operating agreements that require all units to be rented at RGI levels, ensuring sufficient revenue is achieved when subsidy payments stop.

Key Considerations

- Implementable pre-EOA and post-EOA



EASE OF IMPLEMENTATION:



2. SHIFT RGI UNITS TO MARKET-RATE UNITS

Upon turnover of units with RGI tenants, select tenants who are able to pay market rates and do not require subsidy. This option may be pursued pre-EOA if the OA allows for income mixing and the project has more RGI tenants than the minimum number established within the agreement Post-EOA, this option can be pursued without restrictions.

Key Considerations

- Implementable pre-EOA (sometimes) and post-EOA



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

3. ADOPT LOW BREAK-EVEN RENTS

For societies that have OAs for projects that are required to deliver affordable housing without the ability to implement market rents, break-even rents may be adopted. These are set at a level that balances revenue and expenses. Break-even rent levels can be determined pre-EOA, but cannot be implemented until EOA. Existing RGI tenants could be grandfathered post-EOA, with break-even rents implemented only for new incoming tenancies.

Key Considerations

- Implementable post-EOA



EASE OF IMPLEMENTATION:



4. ASSIST ELIGIBLE HOUSEHOLDS TO APPLY FOR FUNDING

Upon EOA, low-income seniors and families may be eligible for the provincial rental assistance programs, which they cannot receive while living in subsidized affordable housing. This option allows the society to increase revenue by increasing rents to market rate (the tenant pays market rents, and receives a subsidy from the government to offset the rental costs). If capacity within the society exists, assistance could be provided to eligible households in applying for rental supplements, which would in turn increase revenue. This option can only be pursued post-EOA, when subsidy ends.

Key Considerations

- Implementable post-EOA



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

NEW OR EXTENDED OA

Some projects may require ongoing subsidy at EOA. There may be circumstances where this option would be desirable, especially if preserving an existing project involves lower long-term expenditures than comparable expenditures for a new development, or if a non-viable project is a vital component of the affordable housing located in a region with significant affordability issues. In addition, this option is advantageous as it would extend the terms and conditions to retain units within the non-profit housing sector, ensuring they continue to serve households in need. If extending an OA is an option a society wishes to pursue, this will need to be discussed with the other party (BC Housing or CMHC), ideally, pre-EOA.

Another option could be to consolidate your operating agreements/ umbrella agreements to allow for block funding. This allows societies to have greater flexibility to cross-subsidize between projects and better positioned to conduct portfolio planning.

PURSUE STRATEGIC PARTNERSHIPS

Strategic partnerships that will allow for revenue increases may be possible. Brainstorming and networking will allow a society's Board to determine if partnership opportunities exist.

- ▶ **Example** – A society may partner with a local job training / placement organization to facilitate onsite training for RGI households. The goal would be to increase tenant employment income, thereby increasing the project's rental revenue.

Key Considerations

- ☑ Conditional pre-EOA and post-EOA
- ☑ Legal assistance required



EASE OF IMPLEMENTATION:



Key Considerations

- ☑ Implementable pre-EOA and post-EOA
- ☑ Brainstorm, considering local and regional factors
- ☑ Ensure additional revenue is not considered a "profit" by CRA



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

DIVERSIFY PORTFOLIO

Portfolio diversification can be achieved in a variety of ways. Generally, it entails expanding the types of services the society offers, for tenants, the community at-large, or both. It is important that a society considering portfolio diversification has considered its mandate, and administrative capacity to implement the option successfully. Depending on the option pursued, portfolio diversification can be implemented pre- or post-EOA.

- ▶ **Example** – A housing society may begin offering services for which there are other governmental funding mechanisms, such as alleviating homelessness or providing employment services. These programs are unlikely to result in significant increases in revenue for a society and may require considerable administrative time.
- ▶ **Example** – A society may wish to establish a social enterprise – a secondary for-profit or non-profit commercial operation with revenues feeding into the ongoing financial viability of its affordable housing. Social enterprises can be developed within an existing building or offsite, ranging from soup kitchens to commercial retail operations. They can also include valuable skills training opportunities for housing tenants, and provide additional opportunities for partnership. Before pursuing this option, and depending on the scale of the social enterprise, a society may need to engage a consultant who is experienced in establishing a social enterprise and knowledgeable of the potential tax consequences.

Key Considerations

- ☑ Implementable pre-EOA and post-EOA
- ☑ Brainstorm, considering local and regional factors
- ☑ May require capital for implementation
- ☑ Check current zoning; may require rezoning or variance



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

INTENSIFY BUILDING(S), OR LAND, OR BOTH

Some projects may have opportunities to increase the number of units on a parcel without redeveloping the entire site, either through infill development, building modifications, or both, thereby increasing rental revenue. Project modifications could include converting large units into multiple smaller units, or converting underutilized space into additional units.

- ▶ Land intensification could include: adding new buildings, especially if a site is underdeveloped relative to existing zoning; adding laneway housing if permitted under current zoning; or subdividing a parcel and building a completely new development without affecting the existing project.
- ▶ Before pursuing this option, and depending on the scale of what is being considered, it is advisable that the society engage a consultant experienced in land intensification, knowledgeable about the site's zoning and other municipal conditions, and able to prepare a comprehensive business plan. If the proposed redevelopment results in tenant displacement, a tenant relocation plan is essential.
 - ▶ Additionally, depending on the scale of the intensification, a society should consider hiring a fund-raising consultant to prepare a capital plan and a specialist in "change management" to assist in the transition.

Key Considerations

- ✓ Conditionally implementable pre-EOA; implementable post-EOA
- ✓ Tenant relocation plan recommended or may be required
- ✓ Consultants required
- ✓ Will require capital for implementation
- ✓ Capital Plan recommended
- ✓ May require rezoning and/or subdivision
- ✓ Implementation may be affected by land tenure or covenants on title
- ✓ Likely to require Change Management



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

REDEVELOP SITE

Site redevelopment is an option that some societies may wish to explore. A major consideration is how existing tenants will be accommodated during the redevelopment process. Planning could begin pre-EOA and, in most cases, implementation of a redevelopment plan would occur post-EOA. There are two primary reasons why redevelopment would be considered.

- ▶ **Building Condition** – A project that requires significant renovations to remain viable, such as a rainscreen retrofit, or high vacancy due to social or physical obsolescence, may need the same or near-same amount of capital to renovate or retrofit the existing project as required for complete redevelopment. Building new may prove especially advantageous if there are additional underlying issues with the building that could be solved through redevelopment, such as unit size and project amenities.
- ▶ **Underutilized Density** – In many jurisdictions, especially in Metro Vancouver and the Capital Region, municipalities may have increased the allowable density on a parcel since a building was originally developed. In exceptional situations, such as in Vancouver, density allowances may have tripled or quadrupled compared to the density achieved in the current project (e.g., redevelopment may allow a 50-unit project to increase to 200-units under current zoning). Redevelopment could result in an increase to the overall number of affordable units on a site. Financing and ongoing revenue requirements may be achieved by renting a portion of the net new units at market rates.
- ▶ This option would result in major changes and would require a solid business plan, tenant relocation plan, capital plan, and Change Management strategy. Potentially, the society may also consider partnering with a private developer.

Key Considerations

- ✓ Implementable post-EOA (planning could occur pre-EOA)
- ✓ Tenant relocation plan needed
- ✓ Consultants required
- ✓ Will require significant capital
- ✓ Capital Plan recommended
- ✓ May require rezoning
- ✓ May be affected by land tenure or covenants on title
- ✓ Likely to require Change Management



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

GRANTS AND DONATIONS

There are several grants that exist for major capital expenses, including grants that are available pre-EOA that are intended for projects requiring significant repair. Completing a Building Condition Assessment will help create a business case to receive grants.

- ▶ Post-EOA, government assistance may be available, especially as governments' subsidy requirements decrease. Additional funding may be generated through fundraising campaigns that aim to raise private donations from local groups and philanthropic organizations. Funds may be raised targeting affordable housing or a specific clientele; alternatively, organizations may be able to provide in-kind services and assistance.

EASE OF IMPLEMENTATION:



REFINANCING

Most OAs restrict any borrowing in addition to the principal mortgage; however, there are circumstances in which societies have refinanced pre-EOA with BC Housing's approval. To secure financing, lenders generally require proof of equity against which borrowed funds are leveraged. There are two primary sources of equity that may be available:

- ▶ **Revenue Surplus** – A society that generates more revenue than expenses may be able to borrow against the positive cash flow to fund major capital expenses. The SAT includes a tab that estimates the amount that can be borrowed against a revenue surplus. Societies may wish to consult with professionals on their ability to borrow.
- ▶ **Land and Building Equity** – Depending on the location and size of a project, land value alone may offer significant equity to borrow against, helping finance repairs, infill development, or redevelopment. In other circumstances, the equity in a project may be sufficient to borrow against, which would be evaluated by a lender based on a Building Condition Assessment and the potential to sell the building if the property went into receivership.
- ▶ Whether borrowing against the equity in the project or the land value alone, a prospective lender will require a solid business plan. Typically, societies look to experienced consultants to assist in preparing this plan.

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

LAND OR ASSET SALE

Land and asset sales may be considered as an option for raising capital. Depending on the current use of the land or asset under consideration, a consequence and important consideration may be a reduction in the number of affordable housing units offered by the society. Societies may also have surplus lands that could be subdivided or sold, which would have no impact on tenants. A sale may provide strategic opportunities for a society to retain part of its portfolio by raising funds from either another housing society or to low-income households.

- ▶ **Example** – A society operates a single project that includes multiple detached homes and townhomes. To replace the roofs of the townhomes, significant capital is required; however, there are insufficient capital reserves to cover the cost, and grants or refinancing are not options. To raise the capital, three of the detached homes are subdivided from the project and sold to low- and moderate-income households, with the capital from the sale used to finance the roof repair. The result is a decrease in the total number of affordable units operated by the society, while allowing for the rest of the project to maintain financial viability. It also allows three low-income families the opportunity for home ownership, which would not be possible in the private market.

- ▶ **Example** – A society with a medium sized portfolio operates a single-building project that requires extraordinary capital to retrofit its building envelope. Portfolio-wide, there are several other buildings requiring repairs, and capital reserves are insufficient to cover all costs. Refinancing is not an option and grants are insufficient. The society sells the building and injects the capital into the maintenance of other buildings in its portfolio.

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

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4. TRANSFERRING ASSETS

SHARED SERVICES, SPACE, OR BOTH

To build capacity and reduce overhead, societies may share services or space with other organization(s). In so doing, this allows societies a way to 'scale-up' their operations and build a more sustainable business model. Sharing with organizations that have pre-existing relationships is a good starting point for ongoing, long-term collaboration.

Shared services may include portfolio management, IT services, human resources, food services, administration, accounting, staff, equipment, tools, and joint purchasing of professional services. Shared space typically involves administrative staff from two or more organizations sharing office space. There are several service and space sharing models.

- ▶ **Shared Management Organization (SMO)** – establishing a new, separate entity to operate specific services for all organizations involved in the shared agreement.
- ▶ **Management Contract Model** – one organization contracts their in-house services to another organization.
- ▶ **Service Exchange Model** – two or more organizations each contribute a service that the other organization(s) need (i.e. exchange IT services in exchange for human resource expertise).
- ▶ **Sharing Space** – co-tenant or co-location, whereby staff share office space to reduce operational expenses.

Societies would need to assess advantages and disadvantages that these models would have on their specific operation. More information on shared services can be found in the Asset Transfers and Shared Services paper ([link to be provided in the near future](#)).

Key Considerations

- ✓ Align with compatible organizations
- ✓ Prepare a business case (consultant needed)
- ✓ Check OA to ensure permissible
- ✓ Prepare a process agreement or Memorandum of Understanding
- ✓ Hold board to board discussions
- ✓ Seek legal counsel to prepare a Shared Services Agreement
- ✓ Calculate 'fair share' of cost
- ✓ Ensure private information is protected per the Personal Information Protection Act
- ✓ Refer to the Employment Standards Act if considering changes in staffing levels, roles and responsibilities
- ✓ Transition to new structure or situation – Change Management



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

ENERGY EFFICIENCY UPGRADES

Depending on the findings of a Building Condition Assessment, efficiency upgrades may significantly decrease operating expenses in the mid- to long-term for a project, depending on the capital required to implement the upgrades and the projected return on investment timeframe. The easiest upgrades include installing high-efficiency lighting fixtures and bulbs, light activating motion sensors, and low-flush toilets in common areas. If the society is responsible for utility costs within the units, lighting and toilets can also be retrofitted as units are vacated, providing additional costs savings. More expensive, and potentially disruptive to tenants, are upgrades including window replacement, improving building insulation, and installing solar panels or wind turbines for energy production and, possibly, water heating.

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

BEING ACQUIRED

Societies experiencing financial hardship and organizational challenges, such as recruiting and retraining board members, may initiate a transfer of their assets to another society that has greater capacity to ensure long-term viability. The transfer, including property assets (land and buildings), debts, and contracts, offers a transitional opportunity to non-profits that are open to restructuring, for both the society acquiring the assets as well as the society 'letting go'. Advantages of an asset transfer include offering enhanced services to clients, and retaining the affordable units.

Transfer of assets is a resource intensive process. Often, the society acquiring the assets takes on the responsibility of managing the larger tasks such as community consultation, conducting building assessments, and jobs planning; however, the society 'letting go' also has a role to play, ensuring due diligence and cooperation to successfully implement the transfer. If considering an asset transfer, it is important to align with a compatible society, obtain endorsement from both boards, and seek legal counsel throughout the process.

- ▶ BCNPHA and BC Housing issued a report on asset transfers, ([link to be provided in the near future](#)).

Key Considerations

- Seek legal counsel
- Align with compatible organizations
- Work jointly on an Asset Transfer Agreement
- Organize records, tenant agreements and data for inheriting organization
- Resolve outstanding organizational issues



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

ACQUIRING ASSETS

Financially stable societies are able to consider acquiring other non-profit housing portfolios, including assets, debts, contractual obligations and OAs. There are several advantages to acquiring assets, including improving operational efficiencies, and building organizational capacity that can allow a society to be increasingly strategic and innovative, and can also make a society more attractive to funders and other partners. In addition, the sector as a whole benefits when assets are acquired, ensuring affordable housing is maintained that otherwise could have been lost.

- ▶ The majority of asset transfers can be completed within a year, typically over an intense and extensive process. First steps include aligning with a compatible society, and determining if the asset transfer is a good fit. Establishing a transition team, who will lead the process, is essential to the viability of the transition, which involves: strategic planning; consultation with the board, tenants, and community; assessing building conditions (and inheriting deferred maintenance); and managing staffing changes, from defining roles and responsibilities to harmonizing salaries. While the technical aspects of the transfer occur over the course of a year, the transition of organizational culture is much more complicated and takes a considerable amount of time to complete, requiring ongoing care and consideration.
- ▶ Consulting advice is likely to be needed at several stages of this process.

Key Considerations

- ☑ Seek legal counsel
- ☑ Align with compatible organizations
- ☑ Prepare a business case
- ☑ Establish a transition team
- ☑ Prepare a Process Agreement or Memorandum of Understanding
- ☑ Map future organizational and governance structure
- ☑ Prepare a jobs plan – refer to the Employment Standards Act
- ☑ Prepare an Asset Transfer Agreement
- ☑ Consider re-branding
- ☑ Prepare and implement communications strategy
- ☑ Transition to new organizational culture – Change Management



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

LEVEL OF DIFFICULTY OF IMPLEMENTING OPTIONS

As referenced in this section, there are varying degrees of difficulty and complexity with the option(s) selected. While no option is without its challenges, Figure 3 shows the options on a 5-point scale, with 1 being the least difficult and 5 being the most difficult.

FIGURE 3: LEVEL OF DIFFICULTY OF IMPLEMENTING OPTIONS





STEP E



STEP E - CONSULT AND FINALIZE THE PREFERRED OPTION(S)

Ultimately, the decision on which option(s) will be implemented in a post-EOA environment, rests with the Board of Directors. Before making this decision, the Board will benefit from communicating and consulting tenants and staff. If those most affected are not communicated with regularly, and consulted at key milestones, there is a likelihood that mis-information will circulate, potentially leading to additional unit vacancies, staff turnover, or both.

COMMUNICATIONS

Leading up to an EOA, it is advisable to communicate in writing about the steps and timing of the process the Board is taking to determine a project's viability and identify a preferred option(s) in a post-EOA environment. Ideally, any communications will come directly from the Board and provide contact information as the process is being carried out.

In addition to speaking with BC Housing, making early contact with the municipality is also advisable. This would likely take the form of letter correspondence to Council, the Planning Department, and the social planner, if that position exists. The objective would be to notify these parties that the society is considering options that may require municipal review and approvals, and providing an indication of the time it will take to go through a process of evaluation.

As earlier identified in the Guide, owing to the complexity and scale of those options that may result in infill or site redevelopment, the society is likely to engage a development consultant. This consultant would establish early contact with municipal staff to advise of what is being considered, and learn what the municipality's expectations are regarding communications and consultations with community stakeholders and the public.

Early and regular communications with nearby neighbours and community stakeholders is suggested through periodic letters or leaflets. All written materials should include the name and contact information of a member of the society's Board or administration.

CONSULTATION

Beyond communicating regularly about what is taking place, and to ensure transparency of decision-making, a society may find it valuable to meet and consult with tenants and staff at key milestones – at determination of project viability, when the short-listed option(s) have been identified, and following the final decision on the preferred option(s). This latter consultation would also provide clarity regarding what changes will occur, and when, during the implementation of the preferred option(s).

Depending on the option(s) that are being considered, it is advisable to include neighbours and community stakeholders to ensure they are informed and have an opportunity to provide comments before the Board makes a final decision. This is particularly important where options are being considered that involve exterior retrofitting, site infill, and site redevelopment.

This consultation could be one or more "drop-by" open houses, which, ideally, would include set times for a short presentation, followed by a "question and answer" period. If the options being considered are potentially controversial, the society may want to consider engaging a neutral, third-party facilitator to coordinate the consultation.





STEP F



IMPLEMENTATION PLAN

The planned implementation of the preferred option(s) will be important for a number of parties, especially if a partial or complete redevelopment of the site is contemplated. These parties include tenants, staff, potential lenders, potential donors, and neighbours of the project.

If the society has sufficient in-house resources, it may choose to develop an implementation plan and carry out the preferred option(s). However, if the option(s) are complex and likely to take months or years to complete, a society will usually need outside resources to assist in carrying out the plan. Consulting resources may be required for:

- ▶ Developing and carrying forward a fund-raising campaign;
- ▶ Assisting Board and staff with change management; and
- ▶ Coordinating municipal approvals, design, tendering, and construction on behalf of the society.

KEY PERFORMANCE INDICATORS

Developing and regularly using Key Performance Indicators (KPIs) will help the society's Board and administration monitor changes in financial viability and social sustainability once the preferred option(s) is completed. Some of these KPIs are:

- ▶ Change in Net Operating Income – dollars;
- ▶ Change in Capital Reserves – dollars;
- ▶ Change in tenant mix – RGI, near-market and market units;
- ▶ Number of turnovers monthly; and
- ▶ Number of vacant units beyond two months.

OTHER RESOURCES

There are a number of reports that provide greater detail on some elements of this Guide.

- ▶ Briefing Memorandum: Legal Considerations & Expiry of Operating Agreements
BCNPHA ([available here](#))
BC Housing ([available here](#))
- ▶ BC Housing Publications, including fact sheets and research reports ([available here](#))
- ▶ Addressing the Expiring Subsidy Challenge:
 - ▶ Options and Remedies ([available here](#))
- ▶ Models of Asset Transfers and Shared Services in BC's Non-Profit Housing Sector (*link to be provided in the near future*)
- ▶ BC Non-Profit Housing Association:
 - ▶ Research Papers ([available here](#))
 - ▶ Resources ([available here](#))



Hundreds of BC's non-profit housing societies will face the expiration of project Operating Agreements by 2033. Some societies, particularly those with small portfolios, may face extra challenges in evaluating their fiscal viability and social sustainability, and making decisions about how best to move into a post-EOA environment, while continuing to provide affordable housing.

This Guide is one way of providing information to societies, and their consultants, on a process for decision-making, including factors to consider and options to be explored and assessed.

This guide is intended to provide readers with general information only. Issues and opportunities related to Expiry of Operating Agreements are complex and can have a variety of causes and solutions. Readers are urged not to rely simply on this guide and to consult with appropriate reputable professionals and specialists where appropriate before taking any specific action.

The authors, contributors, funders, and publishers assume no liability for the accuracy of the statements made or for any damage, loss, injury or expense that may be incurred or suffered as a result of the use of or reliance on the contents of this guide. The views expressed do not necessarily represent those of individual contributors, BC Housing or BC Non-Profit Housing Association.

This report was prepared for BC Housing and BCNPHA
by CitySpaces Consulting Ltd.



Primary research was prepared by:

Jada Basi of CitySpaces Consulting Ltd.

Steve Pomeroy of Focus Consulting Inc.

Cameron Gray, former Director of Housing, City of Vancouver

Margaret Mason of Bull, Housser & Tupper LLP





MEMORANDUM OF UNDERSTANDING

BETWEEN

NEW BRUNSWICK NON-PROFIT HOUSING ASSOCIATION

AND

BC HOUSING

AND

BC NON-PROFIT HOUSING ASSOCIATION

Background:

New Brunswick Non-Profit Housing Association (NBNPHA) wishes to develop and offer a version of the document “Expiring Operating Agreements: A Planning Guide for BC’s Non-Profit Housing Societies” (the “Guide”) for the province of New Brunswick. The Guide, prepared by BC Housing and BC Non-Profit Housing Association (BCNPHA), provides a step-by-step planning process to help non-profit housing providers prepare for expiry of their operating agreements. All intellectual property rights in the Guide rest with and remains with BC Housing and BCNPHA.

Role of the Parties:

The parties desire to enter into this MOU to develop and offer a New Brunswick version of the Guide and commit to the following:

BC Housing shall:

- Provide NBNPHA with a writable version of the most up to date version of the Guide with the understanding that NBNPHA will make a New Brunswick version of the Guide.
- Undertake to get all necessary approvals for the provision of the writable version of the Guide to NBNPHA.
- Assumes no liability for the accuracy of the statements made or for any damage, loss, injury or expenses that may be incurred or suffered as a result of the use of or reliance on the contents of the Guide being reproduced.
- Have no obligation to assist with or provide any financial assistance in the creation of the revised Guide.

NBNPHA shall:

- Undertake a full review, edit and revision of the Guide to address the unique regulatory and operating environment in which social housing is funded and administered in New Brunswick. This includes the creation of resources and materials that are New Brunswick specific as links within the Guide, including but not limited to the Briefing Memorandum prepared by Bull Housser.
- Give credit to BC Housing and BC Non-Profit Housing Association as the original source of the information contained in the revised Guide.
- Not interpret permission to use the Guide as endorsement by BC Housing or BC Non-Profit Housing Association. BC Housing, Government of BC, and BCNPHA's names, logos, official marks or trademarks shall not appear in marketing materials or the publication itself without prior written consent from BC Housing or BCNPHA.
- Provide a draft and final version of the New Brunswick version of the Guide to BC Housing and BCNPHA.
- Bear full financial responsibility for the costs incurred to update, edit and revise the Guide and the associated resources and materials, including but not limited to the Briefing Memorandum prepared by Bull Housser.

- Agree to release and hold harmless BC Housing and BCNPHA, its employees, and contractors from and against any damages, loss or claims related in any way to the revised Guide. In no event will BC Housing or BCNPHA be liable for any damages.
- Include the following disclaimer in the published, revised Guide: “The authors, contributors, funders and publishers of the original Expiring Operating Agreements: A Planning Guide for BC’s Non-Profit Housing Societies assume no liability for the accuracy of the statements made or for any damage, loss, injury or expenses that may be incurred or suffered as a result of the use of reliance on the contents of the material being reproduced. The views expressed in the revised Guide do not necessarily represent those of BC Housing or BC Non-Profit Housing Association.”

BC Housing, BCNPHA and NBNPHA shall agree that if the Canadian Housing and Renewal Association (CHRA) undertakes to create a national version of the EOA guide, all parties will sign a new MOU with CHRA to share their documents with CHRA for integration where full credit is cited.

Timing:

BC Housing shall provide NBNPHA with a writable version of the most up to date version of the Guide within one week of the approval by both parties of the MOU.

Terms:

A New Brunswick version of the Guide developed under this collaboration is the sole property of NBNPHA subject to the sharing of information and resources with BC Housing, BCNPHA and CHRA as noted above. NBNPHA has the right to update the New Brunswick guide content, to distribute and use the revised version in New Brunswick.

Confidential Information:

1. Each of NBNPHA, BC Housing and BCNPHA shall keep confidential any information (the “Confidential Information”) received by it from the other party in connection with the Project. Neither party shall use the Confidential Information received from the other party for any purpose other than for the Project. Each party’s confidentiality obligations shall survive for a term of 3 years from the date of this MOU.

Confidential Information shall not include:

- a. information generally available to the public other than as a result of a breach of these confidentiality obligations;
 - b. information that becomes available to either party through no breach of any contract or law; or
 - c. information that either party develops independent of the information provided to it by the other party.
2. This MOU is governed by the laws of the province of New Brunswick and the laws of Canada applicable in that Province.

Term of Agreement:

This MOU will commence at the date of signing and will proceed to two years following the date of signing.

New Brunswick Non-Profit Housing Association

Timothy Ross, Executive Director

Date

BC Housing

John Bell, Director, Strategic Planning and Corporate Secretary

Date

BC Non-Profit Housing Association

K. Tony Roy, Executive Director

Date