



EXPIRY OF OPERATING AGREEMENTS

A PLANNING GUIDE FOR MANITOBA'S NON-PROFIT HOUSING PROVIDERS

APRIL 2018





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THE MANITOBA NON-PROFIT HOUSING ASSOCIATION APRIL 2018

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With thanks to our Advisory Committee and Reviewers.

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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, non partisan 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.

Why You Should Read This Guide

In Manitoba, many non-profit housing providers will face the expiration of their Operating Agreements by 2030. These agreements define the operational parameters for non-profit housing providers, and after the expiration of their operating agreements (EOA) operational possibilities change. Many providers will face extra challenges evaluating their fiscal viability and social sustainability and making decisions about how best to move forward in a post-EOA environment, while continuing to provide affordable housing.

The end of an agreement offers opportunities but may also present serious challenges. For some groups, the transition will mark the end of mortgage payments, and for others, it may entail the termination of operational subsidies. Post-EOA, non-profit housing providers are **NOT** completely free of regulations and encumbrances, but will be expected to adhere to new policies and requirements and will have to work with government agencies, such as the Residential Tenancies Branch (RTB) or Canada Revenue Agency (CRA), in new ways.

Post-EOA, the relationship non-profit housing providers have with Manitoba Housing will change. After expiry, providers' rents (with the exception of cooperatives¹) will be regulated by the Residential Tenancies Branch (RTB).² Housing providers will have to register their rental rates with the RTB and may only adjust rates in accordance with RTB guidelines. In many cases, establishing an appropriate rent structure is crucial for a provider's viability post-EOA. However, this process of building the rent structure takes time, and **it is recommended that housing providers approaching EOA begin to plan for this process at least 3–5 years in advance.** For some providers who have a high percentage of Rent-Geared-to-Income (RGI) tenants, building a viable rent structure can take even longer.

Housing providers must be aware of other possible implications of EOA. Following the end of their agreements, providers may find themselves at risk, for example, of losing their non-profit status or associated tax credits. Providers may find they need to revisit their organization's mission or guiding principles. Even some providers that started planning early and felt prepared for transition have faced unanticipated challenges.

YES, you can manage the expiry of your Operating Agreement. This guide provides basic information aimed at helping you develop an action plan. You may require additional information or assistance from Manitoba Housing, the Manitoba Residential Tenancies Branch, the Manitoba Non-Profit Housing Association (MNPHA), and professionals such as lawyers, engineers, and financial advisors. Together, this information will help you develop an individualized plan for transition post-EOA and beyond.

1 Housing cooperatives will complete and file their annual returns to the Companies Office to keep up to date on their registration and directors' listing. See [Appendix 3, page 55](#) for more information specific to cooperatives.

2 Note that although the rents are not regulated for projects that have active operating agreements (e.g., Part 9 of the Act), the rest of the Residential Tenancies Act still applies.



Foreword

Welcome to the *Expiry of Operating Agreements: A Planning Guide for Manitoba's Non-Profit Housing Providers*. The Manitoba Non-Profit Housing Association (MNPHA) has been working for a number of years to provide resources for non-profit housing providers as they transition through the end of their operating agreements. These resources have been made available to MNPHA members through our annual conference and the MNPHA website. This Guide provides practical, step-by-step guidance planning for the expiry of your agreement.

In creating this guide, MNPHA engaged the Institute of Urban Studies at the University of Winnipeg to undertake background research, to collect and synthesize Manitoba-specific information, and to develop the Guide. It builds from two previously released guides: *Expiring Operating Agreements: A Planning Guide for Ontario's Former Federal Housing Programs*, released in 2016; and *Expiring Operating Agreements: A Planning Guide for BC's Non-Profit Housing Societies*, released in 2014. Some of the content in this guide was developed by those organizations, and we thank them for their work on EOA and for allowing the use of their material.

This Guide is Manitoba-specific, addressing local challenges and providing local examples. It has been informed by input from MB Housing, the Residential Tenancies Branch, property management companies, the Co-operative Housing Federation of Canada, and through many interviews with housing professionals.

When accessed on a computer, this Guide contains links to other resources, which can also be accessed through the MNPHA website: <http://mnpha.com/>. At the end of this Guide are listed additional resources, and helpful checklists.

This Guide is intended to be a living document and will be updated as needed, based on your feedback and as new information or resources become available. We hope this Guide will become a trusted resource. As you work through this document, your suggestions for future sections or required resources are welcome. Please contact us at execdir@mnpha.com.

Good luck as you plan for the end of your Operating Agreement, and beyond!

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Terms Used in This Guide

Operating Agreement (OA) means a contract between a housing provider and the Province of Manitoba, Canada Mortgage and Housing Corporation (CMHC), or both, which sets out the amount, duration and conditions of the subsidy provided for a housing project.

Project means one or more buildings that are the subject of an Operating Agreement between the housing provider and the Province of Manitoba, CMHC, or both.

Housing provider or **provider** means an organization constituted under the *Manitoba Corporations Act* to provide and operate non-profit housing. Housing providers are the entities that entered into an Operating Agreement with the Province of Manitoba, CMHC, or both.

Expiry of Operating Agreement (EOA) refers to the expiry of the operating agreements that are in place for each housing project which has a term ending date after which the housing provider will have no mortgage payment and/or will receive no further subsidy.³

Affordable Housing: Housing is generally considered “affordable” when **households spend no more than 30% of their before-tax income on housing-related costs** (this is the definition CMHC uses).⁴ The term is often used interchangeably with “social housing”; however, social housing is one category of affordable housing and usually refers to rental housing subsidized by the government. Affordable housing is a much broader term, and it is not synonymous with low-income housing.

The Province of Manitoba defines affordable housing as **housing priced at or below median market rents in the private market**. It is usually restricted to moderate-income households. As a household’s income rises above the threshold for social housing, it becomes eligible for affordable housing, and only households below certain income thresholds are eligible. “Affordable” income limits are established annually by Manitoba Housing. Households with higher incomes can expect to pay full market rate, which in many cases will be much higher than the median rate.⁵

For the purpose of this Guide, the term “affordable” refers to the CMHC definition, unless otherwise specified. It should also be noted that the definition of affordable housing often changes over time and depends on the funding program.

Market and Low-End-of-Market (LEM) Housing: This refers to the primary rental market, which includes rental units in privately initiated apartment structures containing at least three

3 The majority will have their mortgage paid off. In some cases a group was given a workout loan and in some cases the mortgage amortization period was extended for the subsidy term.

4 It should be noted that in reporting average rents, CMHC does not make any adjustments for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water. When calculating average rents, CMHC uses the figure for rent as the amount the owner is asking for the unit, by unit size and geographical sector.

5 For families with very low incomes, “affordable” housing at the posted provincial rates may still be “unaffordable,” even with Rent Assist top-ups. Some argue that that non-profit housing organizations offering affordable housing should be supported so they are able to set their affordable rents at rates that reflect neighbourhood market conditions, based on a local rather than city-wide median market rate (see, e.g., <https://policyfix.ca/2014/11/20/how-affordable-is-affordable-housing/>).

rental units. In this Guide, “market” generally refers to Low-End-of-Market rates, unless otherwise noted. **Low-End-of-Market (LEM)** refers to housing where rental rates are equivalent to rents for comparable units at the lower end of the private market. Typically, this refers to households that would have difficulty affording housing in the private market. (Some define LEM rents as a minimum of 10% below the market rents identified by CMHC.)

In this Guide, LEM refers to **break-even** rates—meaning the point at which the rental rates cover the mortgage, interest and taxes, plus operating expenses.

Public housing is housing that is owned by Manitoba Housing and rented at a subsidized rate, for households with limited or fixed incomes.

Rent-Geared-to-Income (RGI) housing is where the rent charged is set at a proportion of household income (usually 25–30%), for households with limited or fixed incomes.

Acronyms

» APDR	Annual Project Data Report
» BCA	Building Condition Assessment
» CHFC	Co-operative Housing Federation of Canada
» CMHC	Canada Mortgage and Housing Corporation
» CRA	Canada Revenue Agency
» EIA	Employment and Income Assistance
» EMP	Energy Management Plan
» EOA	Expiry of Operating Agreement
» FCI	Facility Condition Index
» KPI	Key Performance Indicator
» LEM	Low-End-of-Market rent
» MB Housing	Manitoba Housing ⁶
» MNPHA	Manitoba Non-Profit Housing Association
» NOI	Net Operating Income
» OA	Operating Agreement
» RGI	Rent Geared to Income
» RRF	Replacement Reserve Fund (aka Capital Reserve Fund)
» RTA	<i>Residential Tenancies Act</i>
» RTB	Residential Tenancies Branch
» SAT	Simplified Assessment Tool
» SIF	Social Infrastructure funding
» UN	Urban Native

⁶ Manitoba Housing’s current full legal name is the Manitoba Housing Renewal Corporation, under the Department of Families, Government of Manitoba. However, it is referred to almost exclusively as Manitoba Housing.



Using this Guide

This Guide is an interactive tool for users, allowing those reading on a computer to navigate among sections with [hyperlinks](#). Links are embedded in the Table of Contents, and throughout the document. Where additional resources are available, links to those resources have been included in the Guide. When viewed on a computer, you can click on the [coloured link](#) to access the resource. A list of [additional resources](#) is also included at the end of this guide.

PRINTING: This Guide has been designed to include few graphics or images and to be easily printable in black and white on a home printer. Please print and share!

MANITOBA EXAMPLE: This guide was strongly informed by interviews with non-profit housing providers from across Manitoba. Interviews were conducted primarily with Board Members of non-profit housing providers, as well as with representatives from the Manitoba Non-Profit Housing Association, property management companies, MB Housing, the Residential Tenancies Branch, and the Co-operative Housing Federation of Canada. Where possible, the Guide provides examples taken from actual experiences of non-profit housing providers transitioning through EOA. These examples are included in text boxes like this one, and labeled **MANITOBA EXAMPLE**.

Introduction

General Context

Across Canada, one of the most challenging issues facing non-profit housing providers is the expiration of project Operating Agreements (EOA). In Manitoba, there are about 135 non-profit housing organizations operating roughly 7,000 units that will be impacted. Between 2015 and 2030 approximately 255 Operating Agreements will come to an end.

Operating Agreements 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, housing providers are solely responsible for the project's ongoing financial viability. The agreements were established with the assumption 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.

However, the reality is that maintaining financial viability in a post-EOA environment can be challenging. This is especially the case for projects that house a high proportion of tenants/members on a Rent-Geared-to-Income (RGI) basis or for those with a low number of units. In both cases, projects may have a more difficult time generating sufficient revenues to meet operating needs. In addition, the physical condition of some buildings may affect viability, where there are not sufficient capital reserves (Replacement Reserve Funds) to meet current and/or future capital needs. Furthermore, housing providers exiting an agreement will be operating in a new and perhaps unfamiliar regulatory environment.

Purpose of this Guide

This Guide was prepared primarily to:

- ♦ Raise awareness of the challenges and opportunities with EOAs in Manitoba;
- ♦ Equip non-profit housing providers with the information required to navigate, assess, and make decisions for projects that are expiring;
- ♦ Set out a step-by-step process for determining a project's viability and social sustainability;
- ♦ Present options for consideration both pre- and post-EOA; and
- ♦ Provide additional resources related to EOA.

The primary intended purpose is to assist housing-providers with the information needed to develop their own individualized plans for transition through the expiry of their agreements.

Disclaimer

Due to the complexities of the funding agreements and the complex legal, regulatory, and taxation environments under which affordable housing is provided in Manitoba, this Guide cannot address the specific circumstances of every housing provider. It is offered as a *general guide and a starting point for planning and discussion* for housing providers' Boards and management.



Background to the Housing Program Agreements

The former federally funded programs refer to two streams of housing programs:

1. Federally funded housing programs (1947–1979)
2. Federal/Provincial cost shared programs (1986–1994).

In 1998, through the Social Housing Agreement (SHA), the Canada Mortgage and Housing Corporation (CMHC) negotiated a devolvement of these programs to the Province of Manitoba. This agreement establishes a funding schedule that declines as mortgages mature. It also establishes program and reporting rules and transfers contingent liability to the province of Manitoba.

The rules and requirements that govern each of these program types differ and therefore how they are affected by EOA also differs. A general overview of these programs and their corresponding rules/regulations follows.

Note: These descriptions are neither exhaustive nor comprehensive. We urge providers to review their individual Agreements and consult with MB Housing to clarify their obligations.

Public Housing

The Public Housing portfolio was developed originally by the federal government. Public housing includes projects that are owned and managed by the Province, through Manitoba Housing. These include about 13,700 units, 98% of which are RGI. In addition, there are approximately 4,000 units owned by the Province that are managed by 70 community-based non-profit housing providers, often referred to as *Sponsor-Managed*.

Section 26/27 Non-Profit (Pre-1986)

Section 26/27 Non-Profits (originally referenced by the CMHC as 15.1) were developed by the federal government. They received a capital contribution and were provided long term fixed mortgages through the CMHC. The rents are set at lower-end-of-market (LEM) rates or in many cases, well below market rate. Generally, when the mortgage is paid off, the operating agreement ends and the housing provider has no further program obligations.

Section 95 Non-Profit (Pre-1986)

Section 95 Non-Profits (originally referenced as 56.1) are often referred to as 2% write down projects. The operating subsidy provided is through a write-down calculation based on the eligible capital costs (shelter only) for 35-year amortization at the current direct lending interest rate minus the same eligible capital costs at 2%. Other features of this program are:

- There was no capital contribution for this program, all projects are debt financed.
- Rental structures were typically mixed between low-end-of-market (LEM) and RGI rates.
- The intent was for an internal subsidy (the 2% write-down) to reduce rents based on income for some tenants/members, to bridge the gap between RGI and break-even rents.

Section 95 projects typically have a lower percentage or ratio of RGI units compared to low-end-of-market (LEM) or market rental units, as well as greater income mixing. When the mortgage is paid off, the Operating Agreement ends and the housing provider has no further program obligations.

Post-85 Federal/Provincial Non-Profit Commitments (Fully Funded)

Projects committed after 1985 are often referred to as Fully Funded, where the rental structure is comprised entirely of RGI units. The subsidy for the Post-85 projects is based on the operating costs necessary to maintain a rental structure dedicated to RGI units. Beginning in 2021, a large number of Post-85 project agreements in Manitoba will expire.

Urban Native (UN)

Operating agreements that are representative of Indigenous non-profit housing providers with projects mostly comprised of scattered single-detached family housing units, located in six different urban centers. Similar to the Post-85 Fully Funded, the UN projects are 100% RGI and have ongoing operating subsidies.

Cooperative Housing

Cooperative Housing is present in each of the Sec-95, Post-85, and UN programs. As such the operating subsidies provided to cooperative non-profit housing providers is varied but specific to each relevant program and Operating agreement. More information on Cooperatives is compiled in [Appendix 3, page 55](#).

What Happens When Your Agreement Expires?

What happens when an Operating Agreement expires?

- ◆ Unless the project has been refinanced there are no more mortgage payments.
- ◆ There are no more government subsidy payments.
- ◆ There are no further requirements to make financial and administrative reports to Manitoba Housing.
- ◆ No approvals are needed from Manitoba Housing regarding operations, capital repairs, or replacement reserve funding or expenditures.
- ◆ Non-profit housing providers, excluding housing cooperatives, will register rents with the Residential Tenancies Branch. (Housing cooperatives will complete and file their annual returns to the Companies Office.)
- ◆ Housing providers will have greater control over the financial management and decision-making processes of a project and may refinance or leverage equity in their property. However, the project may be vulnerable because of revenue deficits, insufficient capital reserves, and major project renovations and repairs.
- ◆ The expiry of an Operating Agreement can provide a chance to explore a range of opportunities for a housing provider and project.

The steps detailed in the following pages suggest that the first step is to develop a plan to understand the viability of the project, its future need and use, and what opportunities may be available. In addition to this Guide, we strongly recommend that housing providers seek assistance in understanding their particular situation, from Manitoba Housing, the Residential Tenancies Branch, the Manitoba Non-Profit Housing Association (MNPFA), and other qualified professionals as needed.

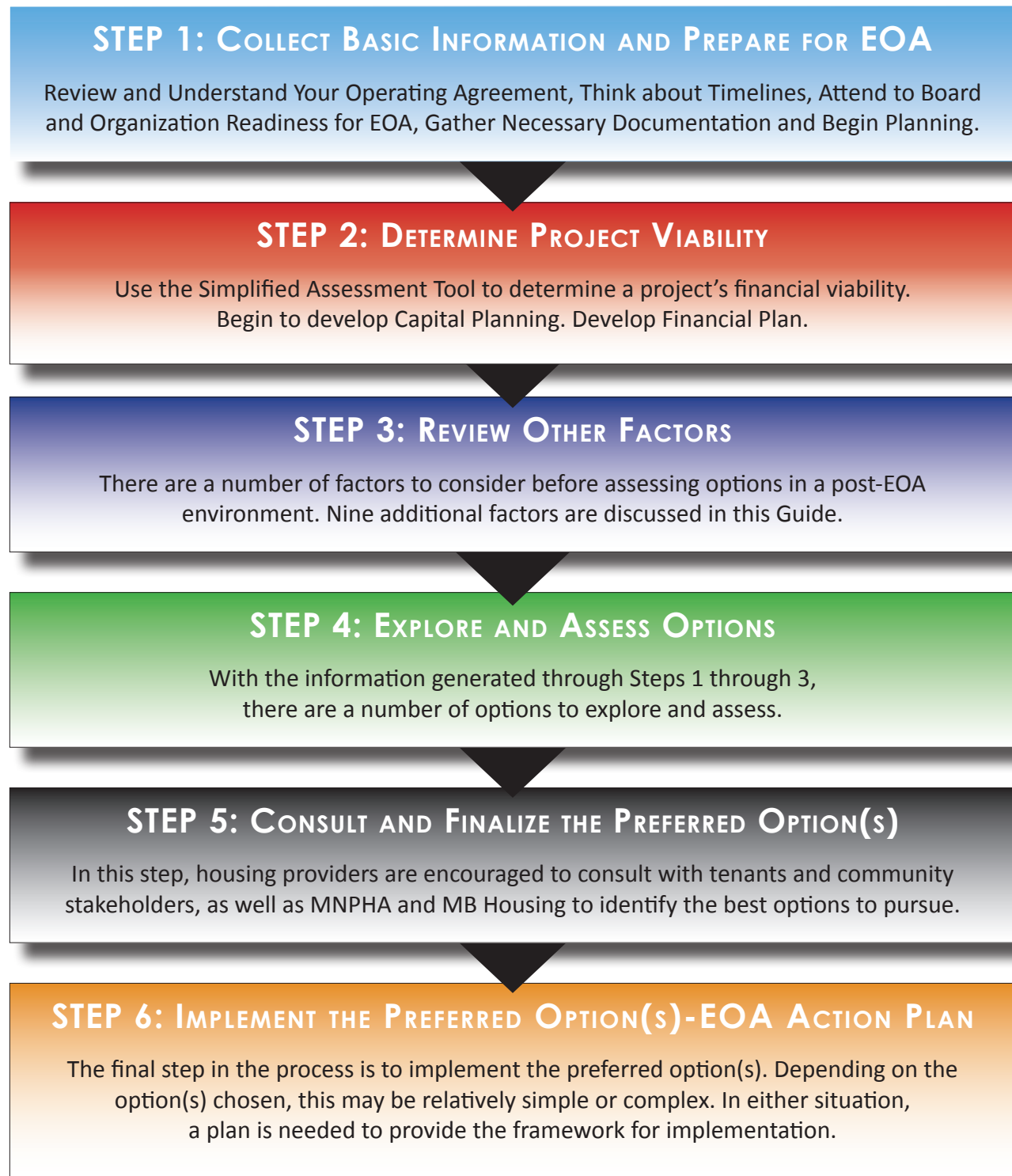


Start Planning

A housing provider's Board of Directors is responsible for the ongoing governance and, together with the administration or Executive Director, management of a non-profit housing project, including making decisions about a project's viability leading up to EOA. To assist housing providers with planning for EOA a systematic, six-step process is suggested, as visually depicted in Figure 1 on the facing page. Not all steps in this process will be applicable for every housing provider or project, but it provides an overall framework for reference from which to build an individualized plan for EOA.

The number one question to ask when planning for EOA is whether the project will be viable once subsidy ends. Only once the project's financial position is known can you begin planning for the future.

Figure 1: A Six-Step Process



Step 1: Collect Basic Information and Prepare for EOA

Review and Understand Your Operating Agreement

The first step in the viability assessment and planning 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. If you have questions about your Agreement or expiry dates, you can consult with Manitoba Housing. Be aware of any criteria or conditions that may impact EOA for your program/agreement type, such as required level of Rent-Geared-to-Income (RGI) units.

Some projects also have additional agreements with Manitoba Housing, such as forgivable loans or Rent Supplement Agreements. It is important to review these, as supplement payments end with the expiry of an Agreement and may significantly impact the viability of a project. The non-profit housing provider is responsible for understanding other agreements that may be in place with Manitoba Housing and whether these will impact EOA-related planning.

Lastly, the Board should clarify ownership of the land on which a project is located. Many housing projects were originally developed on leased land, leased for example from municipalities or faith-based organizations. Land ownership may impact options available post-EOA.

Think about Timelines

It is important to think about timelines well in advance of the expiry of your Agreement. Specifically, understanding the physical condition of a project and the timelines related to future capital demands will guide the development of an EOA plan. In addition, understanding timing related to the registration and adjustment of rental rate levels is critical to EOA planning.

In Manitoba, after an Agreement expires, authority over the rental-rate of non-profit housers shifts from MB Housing to the Residential Tenancies Branch (RTB).⁷ At expiry, the rental rates of your housing project will be effectively 'locked in' at their current rate—they must be registered with RTB at that rate and any subsequent changes to rates (and any other charges) will fall under RTB guidelines and controls. This may have profound impacts on both the time it takes to plan for the expiry of your Agreement and the potential viability of your project.

It is recommended that, once providers have assessed the viability of a project, they determine target rental rates for the year of expiry and work backwards, so that if changes to rent structure are necessary there will be sufficient time before expiry to adjust rental rates to a desired level.

Because the RTB restricts the amount rates can be increased each year, it is recommended that providers build an appropriate rent structure over a 3–5 year period leading up to expiry.

For a housing provider to register a particular rent with RTB at expiry, this rate must appear in the lease one full lease-term in advance of expiry;

⁷ Housing cooperatives will complete and file their annual returns to the the Companies Office to keep up to date on their registration and directors' listing. See [Appendix 3, page 55](#) for more information specific to cooperatives.

- ★ For example, if your Operating Agreement expires December 31, 2020 and your leases expire on June 30 each year, then the rental rates would need to be set out in the lease of June 30, 2018—which is 18 months in advance of expiry.

See *Step 2: Assessing and Building a Viable Rent Structure* for more on building an appropriate rent structure and registering rates with RTB.

Attend to Board and Organization Readiness for EOA

The Board of Directors is responsible for the ongoing governance and management of a non-profit housing project, including making decisions about a project's viability as EOA approaches. Board engagement is essential, and there will be significant decision-making and actions to take leading up to and following EOA. Now is the time to make sure your Board is ready to tackle the challenge of EOA.

The strength and diversity of your Board is critical. Board capacity should include a diversity of skills, including for example: expertise in accounting, property management, real estate, legal matters, construction/maintenance, human resources, or financial or business management. Knowledge of relevant legislation as well as tax and regulatory contexts are also strengths. While a Board doesn't need every one of these skill sets, they do need to know how and where to look for information or advice and be willing to learn and undertake challenges. Boards need to be active decision-makers when addressing the challenge of EOA. They should ensure Board reports are adequate, should be aware of relevant regulations and monitor compliance, and should seek opportunities for continuous learning and development. When applying for a mortgage or refinancing, a financial institution might evaluate organizational capacity as part of its consideration process.

For the Board and Administration, consider the following questions:

- ◆ Does the Board have the capacity for transition? Does it have the knowledge needed?
- ◆ Does the Board have Succession Planning in place? Is there need for new members?
 - ↳ How is knowledge transfer ensured? Is there Board orientation and training?
- ◆ Review your Vision, Mission, Mandate, and Guiding Principles.
 - ↳ Will your mission change in a post-expiry environment?
 - ↳ Do you see any barriers or challenges to continuing your mission? To expanding or changing it?
 - ↳ What opportunities would you like to explore?
- ◆ Review your bylaws, policies, etc. to determine if any changes need to be made to prepare for post-expiry.
- ◆ Administration should ensure they are familiar with policies and requirements of the Residential Tenancies Branch.
- ◆ Is the Board and Administration up to date and in compliance with with legal responsibilities? (e.g., regarding Employment Standards, Workplace Health and Safety, or Human Rights regulations)



Gather Necessary Documentation and Prepare for Planning

Collect Documentation

Gather all the information you need for planning and decision-making. Required documents may include:

- ◆ Operating Agreement
- ◆ Any additional funding agreements (such as Economic Stimulus or SIF)
- ◆ Organization Bylaws and/or Strategic Plan
 - Purpose / Mandate / Mission
 - Vision and Values
 - Guiding Principles
 - Articles and Bylaws
- ◆ Audited Financial Statement and any recent year-end financial statements
- ◆ Building Condition Assessment (BCA)
- ◆ Any Capital Plan, Strategic Plan, or Business Plan
- ◆ Annual Project Data Report (APDR)
- ◆ Land ownership records

MANITOBA EXAMPLE: SHIFTING MENTALITY? –

THE IMPORTANCE OF REVIEWING ORGANIZATIONAL MISSION

A large faith-based non-profit reached expiry in September 2015. This provider managed the transition through EOA on its own without significant problems. Following a meeting with stakeholders to speak about their strengths and priorities, one of the first steps the Board took in planning for EOA was a review of the organization's mission and vision statements. The Board found that the review reinforced their commitment to providing affordable housing. They spent time determining their own internal definition of "affordable" housing. The Board then wrote Guiding Principles, which were useful in identifying priorities for action, guiding planning decisions, as well as in addressing questions raised by residents.

Another housing group expressed anxiety about their increased responsibility post-expiry. They appreciated the guidance and assistance they had received from Manitoba Housing, and recognized their own capacity was limited. One Board member expressed: "We feel we are providing an amazing community service for housing. ...We are non-profits...and we are working for free for the government; we're doing their job. Now we are on our own...." The Board realized succession planning would be even more important going forward, and they chose to purchase liability insurance.

The Board of another mid-sized project knew they needed to be more comfortable thinking commercially and recognized their need to have greater financial literacy. The Board actively recruited new members through the volunteer bureau and personal contacts; they intentionally expanded and targeted particular skill sets, and at the time of expiry they had a very active, high-capacity board. The Board was prepared for their Section 95 Agreement to expire; as one member said, with excitement, "We're in charge of our own destiny now."

Engage with MB Housing, RTB, Other Non-Profits

Providers should talk with MB Housing and are encouraged to meet with MNPHA. These organizations can assist with the development of an EOA plan, can help determine an appropriate rent structure before expiry, and can provide resources and address questions.

Providers can connect with RTB for information on building a rent structure, registering rents (if not a co-op), and the post-expiry regulatory context.

A provider may choose to make connections with other non-profit housing providers, to learn from their experiences and to assess if there are possibilities for relationships or partnerships.

MANITOBA EXAMPLE: OVERSTRETCHED BOARD – BOARD CAPACITY AND SUCCESSION

A very small Winnipeg non-profit providing low-cost housing for older adults transitioned through the end of its Section 26/27 Agreement in early 2016. The project had extremely small-sized units and exceptionally low rental rates. Prior to expiry, the Board had been managing all day-to-day operations and maintenance, at times using volunteers from the community to undertake general repairs.

A Board member had been doing bookkeeping in-house, on a volunteer basis, and it became a “thankless task.” As they were approaching EOA, the Board met with MB Housing and RTB and realized there would be a large amount of paperwork related to the transition, as well as new rules and processes they would have to learn. At this point the overstretched board recognized they did not have the capacity, background, knowledge, or supports to manage EOA on their own.

They sought outside assistance in the form of a professional non-profit property management company, which assisted them in rebuilding their rent structure. The management company also helped eligible tenants to apply to Rent Assist.

Though many Boards will be able to manage the transition through EOA on their own, contracting a professional property management company should be considered one means of mitigating Board member burnout, enhancing planning, and supporting project viability, though it may be an expensive option for smaller organizations.

This Board found the transition through EOA (including the transition year under the property management company) extremely challenging. However, the project has since stabilized and, with the burden of property management lifted, the Board can now focus on bigger picture planning. The Board has sold land and is now considering future options for expansion.



Step 2: Determine Operational Viability

Planning for EOA must start with a full understanding of the financial performance and physical condition of the project. Determining an accurate picture of the long-term viability of an individual project or portfolio is essential and forms the foundation upon which further discussion and decisions can be made about operating post-EOA.

This section of the Guide outlines what is involved in assessing project viability based on four variables: project revenue, operating expenses, capital reserves, and physical condition. As the single largest project operating expense is typically the mortgage payment, what does the forecast look like once there are no more mortgage payments?

- ♦ Will the current rent structure allow for sustainability well into the future?
- ♦ How well funded is the Replacement Reserve?
- ♦ What is the cost of capital repairs and replacements over the next 10–20 years?

Only once the project's full financial position is known can you effectively plan for the future and develop an action plan.

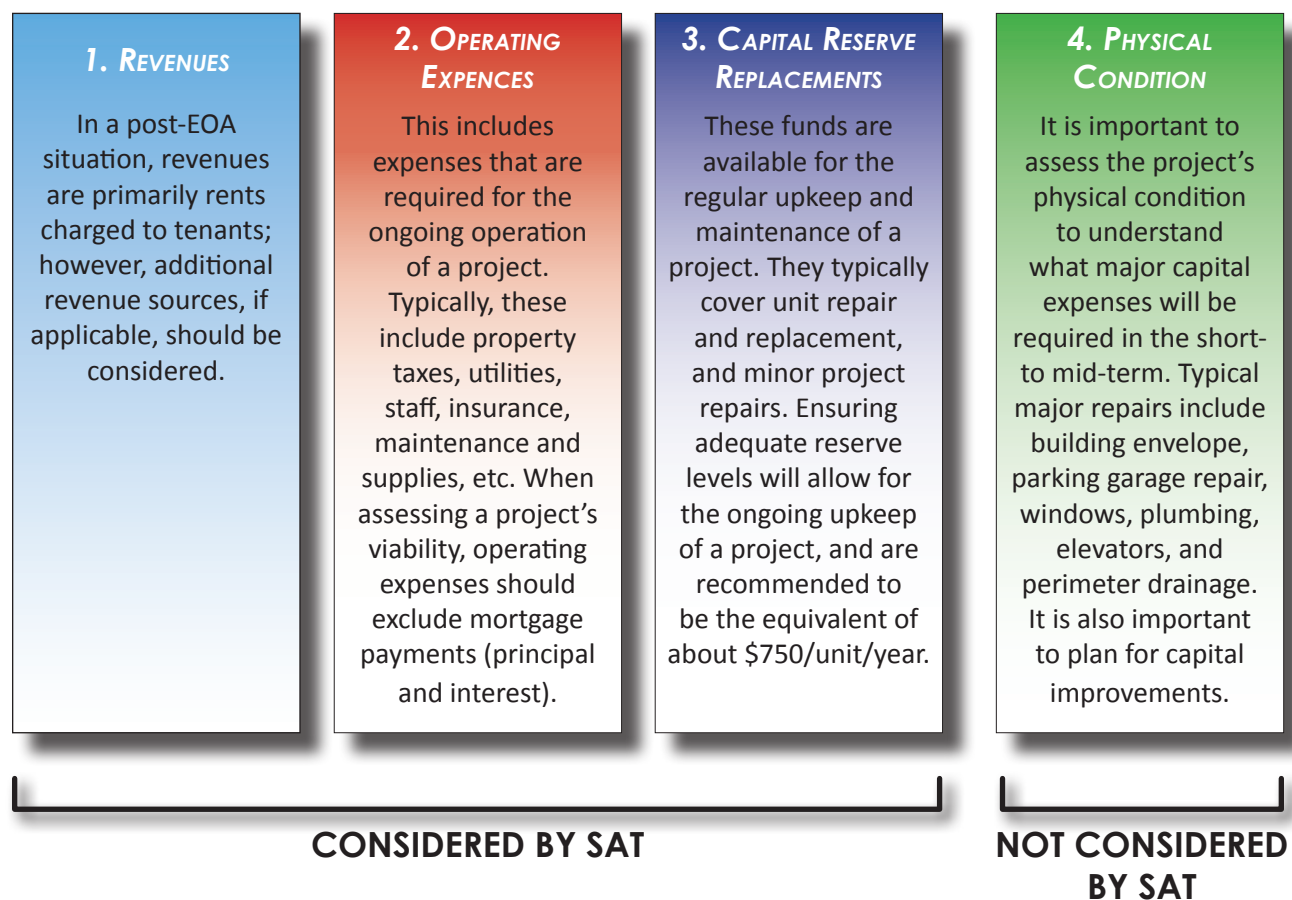
Assessing Financial Viability: the Simplified Assessment Tool (SAT)

The Simplified Assessment Tool (SAT) is a spreadsheet template developed by Focus Consulting Inc. for the Canadian Housing and Renewal Association (CHRA) and five provincial housing associations including MNPHA. It is presented in this Guide as a tool to determine project viability currently and at EOA. The SAT is available for download from the MNPHA [website](#).

The SAT is premised on both the mortgage and any subsidy ending, and calculates financial viability in the absence of both. The tool also provides a basic test to explore whether the project's capital replacement reserve is sufficient to manage normal replacement. The model uses a proxy of \$750 per unit per year in capital replacement for the remainder of the operating term (i.e., through to expiry). It is important to note that the tool does not include any information on the physical condition of the building or adequacy of reserves to address identified capital need in the building. If there is deferral of required capital activity which has allowed the reserve to accumulate, or if the reserve is underfunded, the SAT may generate a false reading. Therefore a provider should calculate viability using a range of values for capital replacement, understanding that this value should be guided by the capital planning for the project.

Capital Planning should be undertaken in conjunction with a Replacement Reserve Fund (RRF) analysis to assess the project's Reserve Fund adequacy. Information obtained from the analysis can be used during the annual operating budget review to establish appropriate revenue targets and annual RRF allocation. Further information on Capital Planning is available for download from the MNPHA [website](#), and a number of resources are available for those wanting to conduct an RRF adequacy analysis, including through MB Housing and the CMHC. MNPHA can help connect you with these resources.

Figure 2: Factors Covered by SAT



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 housing provider's most recent year-end financial statements. Note that:

- If there is **more revenue** than expenses and capital costs, then the project is assessed as **viable** post-expiry.
- If there are **more expenses and capital costs** than revenue then, under the current circumstances, the project is assessed as **non-viable** post-expiry.

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 the SAT identifies a project 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 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 nonviable 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.

There are detailed instructions on the use of the SAT within the tool, which can be found on MNPHA's [website](#).

Assessing and Building a Viable Rent Structure

Many non-profit housing providers will need to assess their rent structure and ensure viability post-EOA and over the long-term. Establishing an appropriate rent structure is crucial for a provider's viability post-EOA. **Note that building a viable rent structure does not necessarily mean raising the actual rents paid by tenants.**

What is a Rent Structure?

The 'rent structure' is the aggregation of all the rents charged to each type of unit in a project, along with the various discounts or subsidies attached to each of those units. The net total of all rents and discounts generally constitutes the primary revenue in the housing provider's budget.

Prior to EOA, most housing providers will need to determine their rents and any potential increase in rents in their budgeting process with MB Housing. Once their OA expires, providers' rents (with the exception of cooperatives⁸) will be regulated by the Residential Tenancies Branch (RTB). Providers must register their rental rates, along with any *discount* offered (see below), with the RTB. They may only adjust their rates in accordance with RTB guidelines (as per the *Residential Rent Regulation*). Housing cooperatives will complete and file their annual returns to the Companies Office.

⁸ Housing cooperatives will complete and file their annual returns to the Companies Office to keep up to date on their registration and directors' listing. See [Appendix 3, page 55](#) for more information specific to cooperatives.

The process of building the rent structure takes time, and **it is recommended that housing providers approaching EOA begin to plan for this process at least 3–5 years in advance.** Some non-profits will need to adjust rents before the expiry of their OA, and this should be done over a number of years.⁹ A review of market rent in the area is helpful in determining reasonable rental rates and may also impact vacancies.¹⁰

If a provider has a large proportion of Rent-Geared-to-Income (RGI) units, it may take even longer to build an appropriate rent structure. A number of strategies related to adjusting the rent mix, specifically with regard to RGI units, are outlined in *Step 4: Adjust Rents or Rent Mix*.

What is a Discount?

Under RTB, all landlords (whether non-profit or for-profit) have the option of setting rents at a *maximum authorized rate*, and then offering a discount from that rate to tenants. This gives the landlord the option of providing housing that is more affordable or attractive in the market, while also providing flexibility should circumstances require an adjustment of rates.

There are three ‘types’ of rent listed on a standard tenancy agreement, which also appear on any Notice of Rent Increase. These are:

- ♦ **Basic Rent:** This is the rent a tenant pays which does not include ‘other charges’ (such as parking) or discounts if offered by the housing provider.
- ♦ **Rent Payable:** This is the Basic Rent plus any other charges, such as parking, laundry, or utilities, if included.
- ♦ **Actual Amount Tenant Must Pay:** This is the rent payable less the discount if offered.

Example for a single unit of housing: Prior to EOA, a hypothetical housing provider offered units at the rate of \$500/month—well below average market rates for similar providers in their area. Approaching EOA, the provider wishes to maintain these low rates for tenants, while also registering the rent at the market rate with RTB. The provider registers the *Basic Rent* with RTB at \$700/month, while creating a tenancy agreement that states this *Basic Rent* rate along with a discount of \$200/month. The agreement will indicate the *Actual Amount Tenant Must Pay* is \$500/month. Any discount offered must be in writing and agreed upon by the tenant (signed by the tenant in an agreement).

9 MB Housing may allow non-profit providers approaching the end of their agreement to raise rents in years leading up to expiry.

10 Be aware that CMHC data on market rents are only available for larger urban areas including Morden, Thompson, Brandon, and Winnipeg. CMHC data are available at <https://www03.cmhc-schl.gc.ca/hmip-pimh/en/Profile>. Other factors also need to be considered, such as amenities and unit size, etc.



Building the Rent Structure

Working with Simplified Assessment Tool (SAT), a provider can test various rent rates and proportions of RGI units **across all units** to ensure viability post-EOA.

Example for housing project: A non-profit housing provider has a project consisting of 40 units with a rental rate of \$500/month for all units. Total monthly rental revenue for the project is \$20,000. This example project has no RGI units. Using the SAT, the provider determines that the project will not be viable post-EOA. To make up for the anticipated shortfall, and with approval from MB Housing, the provider increases rents by 5% per year in each of the two years prior to expiry, resulting in a final rent of \$551/month by the date of OA expiry ($\$500 \times 1.05 = \$525.00 \times 1.05 = \$551.25$). This increases total rental revenue to \$22,040 a month, which is viable for this example project.

At the same time, the provider enters into rental agreements with each tenant indicating a *Basic Rent* of \$800/month, which reflects the market rate, along with a *Discount* of \$249/month, resulting in an *Actual Amount Tenant Must Pay* of \$551/month. The two rental amounts (the Basic Rent and Actual Amount Tenant Must Pay) are registered with RTB at expiry. In the following year, increases to rent are limited to annual provincial guideline. For example, if the guideline is set at 2% (this varies on an annual basis) and the provider decides to increase rents that year, the Basic Rent for a unit would increase to \$816/month. If the provider decides not to adjust the Discount (e.g., it remains at \$249), the Actual Amount Tenant Must Pay is \$567/month. (The maximum rent increase guideline for a given year is determined on an annual basis by RTB.¹¹ Note that any amounts included in the Rent Payable—e.g., parking, laundry—are also subject to the maximum increase rate.)

MANITOBA EXAMPLE: START BUILDING A RENT STRUCTURE EARLY

A small rural non-profit housing provider was one of the first in Manitoba to reach the end of its Agreement. The Board considered the project to be in a relatively good financial position. They had a sufficient reserve fund and looked forward to paying off their mortgage. They began to address EOA about a year before their Agreement expired. They soon realized, however, that to register a more viable rent structure for the project at expiry, they would have needed to start adjusting their rental rates much earlier (in part so they could provide tenants adequate notice). They had not realized that they would be registering rental rates with RTB once their Agreement ended, and they were not familiar with RTB rental rate policies and procedures. They were in danger of having their rates “locked in” at extremely low levels without much flexibility, which would place them in a financially precarious position following expiry.

The Board for the project especially noted challenges in adjusting internal processes as they moved to registering rental rates and reporting to RTB. Also, in building their rent structure, they encountered difficulty determining market rental rates for their area. CMHC does not publish market rates for rural areas, and the organization had to undertake a survey of similar style housing in area communities to establish rates.

¹¹ RTB Guidelines for allowable rent increases vary and are determined annually and posted on the RTB website at: <http://www.gov.mb.ca/cca/rtb/rentincreaseguideline/currentrentguideline.html>

It is recommended that, once providers have assessed the viability of a project, they determine target rental rates for the year of expiry and work backwards, so that if changes to rent structure are necessary there will be sufficient time before expiry to adjust the rent mix and rental rates to desired levels.

As indicated, building the appropriate rent structure for a project can take many years, for two primary reasons:

First, if a provider wants to register a particular rate with RTB at expiry, that rate must be set out in a tenancy agreement at least one full lease-term in advance of expiry (including the additional time required to provide notice of an increase, this is often at least 18 months).

MANITOBA EXAMPLE: UNEXPECTED LOSS OF TAX REBATES

At one point in time, a Winnipeg-based, large housing provider's building was considered a "municipality" under the CRA standards for GST. This meant that for all costs spent on common areas, they would receive 70% of their GST back. For any spending on RGI suites—be it a fridge, a window, or a service—100% of the GST would be returned. As they approached expiry of their Agreement, in 2014, the Board slowly started to adjust the income mix, converting some RGI units to higher rental rates (not as high as market rates, but flat rates considered "affordable" according to their internal definition). As the proportion of RGI units in the building changed, however, so too did the amount of returned GST. They reduced the number of RGI units through attrition. However, once they reached expiry in 2014, their project lost municipal designation. The loss of the associated tax rebate was significant (approximately \$20,000).

- ★ The threshold for loss of municipal status is 40%; if at least 40% of your funding comes from government organizations, then you can apply for the GST rebate.

At the same time, they were marketing to tenants who could afford higher rents, at higher income levels. Because of the overall increase in rental rates, the project also lost its Elderly and Infirm Persons License tax rebate (which cost them approximately \$100,000/year).

- ★ The Elderly and Infirm Persons License tax rebate is a municipal tax break available if a certain percentage of tenant incomes fall below a threshold level.

The loss of these tax rebates was an unforeseen consequence of adjusting the rent structure, one that was not accounted for in their budget projections. To maintain viability, the Board decided to explore other funding sources, and they decided to pursue social enterprise options, both of which they hope to expand in the coming years. They have opened a store internally and have established a service-based organization that provides hospitality/catering, housekeeping services, and community outreach.

Tax claims related to municipal designation and charitable status may constitute a substantial portion of a project's budget and should be considered in financial projections. Note also that some groups in other jurisdictions are seeing profits; they are in danger of losing their non-profit status without a capital plan that justifies the increased cash flow.



Second, if rental rates are very low or a project has a high proportion of RGI units, adjustments may have to be made gradually over many years, in consideration of the tenants and/or as possible through unit turnover.

It is also important to note that reductions in the number of RGI units or the loss of an operating subsidy from a government or municipality may result in the loss of municipal designation for GST rebate purposes or other tax exemptions. Loss of this designation will result in the loss of GST rebates, which can be a significant revenue source for non-profit housing providers. As of early 2018, it is not clear whether non-profit housing providers that reach the end of their OAs will still qualify for municipal designation and GST rebates. It is important for providers to work with their financial advisor in addressing their specific case.

Asset Management

Capital Planning

As buildings age, their capital renewal needs increase, and it becomes more important to determine the full extent of a housing provider's liabilities. For example, typically a building starts to need major replacements around the 25-year mark, and these building needs are high-priced items. The roof, the furnace, and the building envelope all need to be assessed and likely either repaired to extend the lifespan, or completely replaced. It is important to forecast these expenditures so that the project has enough money to complete these capital replacements when the time comes. Capital Planning should be one of the many necessary tasks to complete when managing an asset and planning for the future. A Capital Plan is vital in ensuring that the funds are available as the building or grounds are in need of capital repair or replacement. It also allows the housing provider to plan ahead and determine how they will invest their Replacement Reserve Fund (RRF) to better yield investments. Capital planning will determine a large part of a housing provider's strategic plan, particularly for those housing providers 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. To identify the needs of a building, housing providers should have a Building Condition Assessment (BCA) completed. This report will alert the housing provider of the life cycle of each building component, when they need to be replaced, and what repairs can be done to extend the life of the component; will identify any life and safety issues; and will apply an associated cost to all the work needed. A list of capital items is available on the MNPHA [website](#), and in [Appendix 4, page 59](#).
- ♦ 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. This is called a **Replacement Reserve Fund Forecast** (sometimes called a Capital Reserve Fund). This step will apply the monies available to the needs of the project. This step is usually completed in the BCA as well. When a BCA is completed or procured, it is important to request a Replacement Reserve Fund (RRF) Forecast as well. Different financial reserve fund scenarios can be developed to look at different projections. For example, for a project with an EOA year of 2025 a request

can be made to show how much funding is needed to reach a target reserve fund balance by 2025. The scenarios will allow the housing provider to understand what is needed in order to maintain a viable building.

As previously mentioned, Capital Planning should be undertaken in conjunction with Replacement Reserve Fund analysis to assess the project's Reserve Fund adequacy. Information obtained from the Replacement Reserve Fund analysis can be used during the annual operating budget review to establish appropriate revenue targets and annual RRF allocation. Seek confirmation with Manitoba Housing that your Reserve Fund allocation is adequate.

Building Condition Assessment and Facility Condition Index

There are two key tools when considering the long-term capital planning for all buildings in your portfolio: 1) Building Condition Assessment; and 2) Facility Condition Index.

A **Building Condition Assessment (BCA)** Report comprises a technical inspection of a project and its major components and assesses the future maintenance needs of a project. A BCA provides:

- ♦ Current condition rating (good, fair, poor, and critical);
- ♦ Serviceable life remaining on major components;
- ♦ Timeline for when repairs or replacements will be required moving forward;
- ♦ A forecast of replacement needs over the extended operating period of the building (up to 30 years) using standard useful life estimates; and
- ♦ Estimates of capital costs for replacement/repairs, identified for each element and rolled up to help provide a cumulative annual picture of projected costs over time.

The assessment report should include a condition and financial analysis, recommendations and a capital replacement study table, and a capital replacement 20-year schedule.

A thorough BCA should be used in preparing a long-term capital plan. It will also help you avoid surprise capital expenses as you approach expiry. It is strongly recommended that projects heading into EOA undertake a BCA conducted by a professional engineering firm experienced with this work. BCAs should typically be completed every five years.

For additional information, the Housing Services Corporation of Ontario has produced a webinar on Building Condition Assessments and capital planning called, *"The ABCs of BCAs: Their Value in Asset Management and Planning."* <https://share.hscorp.ca/news-article/webinar-oct-28-2015/>

MNPHA offers preferred pricing on BCAs for active members of MNPHA or CHFC. For more information and application forms for this program, see the MNPHA website.

<http://mnpha.com/building-condition-assessment-reports-grant-program/>



The **Facility Condition Index (FCI)**¹² measures and quantifies the physical condition of the housing building. It allows a comparison of apartment buildings, townhome complexes, and scattered units by communicating the condition of all types of buildings into one translatable number as a percentage. It is calculated as the percentage of the total amount of repairs, replacements, and maintenance needed divided by the current replacement value of the project components.

$$\text{FCI} = \frac{\text{Maintenance, Repair, and Replacement Needs}}{\text{Current Replacement Value of the Project}} (\times 100)$$

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**.

EXAMPLE: a large housing project with a replacement value assessed at \$20 million, requires some refurbishments including: a new HVAC uptake unit costing \$1 million, sixteen renovated kitchens and bathrooms costing \$25,000 each, and renovated public entry costing \$200,000

$$\frac{\$1,000,000 + (16 \times \$25,000) + \$200,000}{\$20,000,000} = \frac{1,600,000}{20,000,000} = .08 \times 100 = \mathbf{8\% \text{ FCI} = \text{Fair}}$$

Housing providers are highly encouraged to undertake a Building Condition Assessment and Facility Condition Index as key tools in understanding their buildings for asset management.

Capital Planning Resources

Capital planning can be an overwhelming process. Some providers find the use of asset-planning software helpful in the process. The MNPHA has developed several resources to assist housing providers. These tools are posted on the MNPHA [website](http://mnpha.com/eoa-resources/) (<http://mnpha.com/eoa-resources/>).

- ◆ Capital Planning Simplified Spreadsheet (MB Housing)
- ◆ Capital Replacement Planning Manual (CMHC)
- ◆ Remaining Useful Life of Capital Items (CMHC)
- ◆ Replacement Reserve Guide (CMHC)
- ◆ Capital Reserve Planning – A Guide for Federal Co-ops (CHFC)

¹² 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 operational indicators (such as building repair needs) to obtain an overview of a facilities condition as a numerical value.

MANITOBA EXAMPLE:**IMPORTANCE OF GETTING A COMPREHENSIVE BUILDING CONDITION ASSESSMENT (BCA)**

A large non-profit providing low-cost housing for older adults transitioned through the end of their Section 95 Agreement in late 2016. This project was well prepared approaching EOA, with a 6-year plan in place, an active, effective Board, and professional property management. One of the Board's strategies was to ensure the building was in the best shape possible before expiry. They had its condition assessed, and based on the review they replaced the elevators, updated the front entrance, and installed a new roof and boiler system. They also adjusted their rent structure, raising rates closer to market levels while offering discounts (to keep them at the same actual level for tenants). Their projections indicated they would be viable post-expiry and could continue to offer RGI rates to half of their units through internal subsidies.

One year before expiry, the building unexpectedly suffered a significant envelope failure, which presented an immediate health and safety concern. Previous cursory building assessments had not identified the problem. Although their reserve fund was in relatively good shape, with the maximum allowed, but it was insufficient to address the scale of this new and unanticipated problem. Under the Agreement, they needed an exception to take out an additional loan. In the end they obtained a line of credit to cover the expense. Post-expiry, this provider has sufficient cash flow to manage the new mortgage, and they are in the process of rebuilding their reserve fund. Their experience serves as a cautionary tale about the importance of the BCA.

It is strongly recommended that projects undertake a thorough, professional Building Condition Assessment (BCA), conducted by a professional engineering firm experienced with this work. In many cases, the BCA should guide much planning and decision-making for a project—especially leading up to EOA. The BCA should be done years in advance and any associated assessment and repair costs should be included in the budget and planning for EOA and beyond. (Some groups recommend having a BCA done every 5 years.) It is important to note that more cursory building inspections may not identify all potential problems. Additionally, providers considering post-expiry financial options such as mortgages should keep in mind that financial institutions require a BCA or similar appraisal.

MNPHA offers preferred pricing on BCAs for active members of MNPHA or CHFC. For more information and application forms for this program, see the MNPHA website:

<http://mnpha.com/building-condition-assessment-reports-grant-program/>



Step 3: Review Other Factors

In addition to determining your project's financial viability, it is also important for housing providers to understand their legal requirements and any other factors that might make future options possible, difficult to implement, or completely unfeasible. Eight additional areas every housing provider should consider are covered below.

1. Legal Definitions and Implications

There are several legal matters that may affect what options can be pursued. It is strongly encouraged that each provider seeks legal advice regarding their particular Agreement and obligations.

Relevant Legislation

- ◆ *The Corporations Act* (Manitoba)
- ◆ *The Residential Tenancies Act* (Manitoba)
- ◆ *The Cooperatives Act* (Manitoba)
- ◆ The Canada Revenue Agency and the *Income Tax Act* (Canada)
- ◆ *The Employment Standards Act* (Manitoba)
- ◆ Compliance with Municipal Bylaws
- ◆ Compliance with your Organization's Bylaws

Non-Profit or Charity Status

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

- ◆ To confirm that a housing provider is a non-profit organization, check past tax returns. They indicate whether the provider has a tax-exemption status (T2 and possibly T1044 returns).
- ◆ To confirm that a housing provider is a registered charity, check CRA's database: <http://www.cra-arc.gc.ca/chrts-gvng/lstngs/menu-eng.html>

Generating Profit

Both registered charities and non-profits are limited in pursuing activities that result in generating a profit. Under current CRA rules, if a housing provider purposefully generates a profit, it no longer qualifies as a non-profit 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 housing providers that want to increase revenue to subsidize housing units or to finance acquisitions, redevelopment, or major repairs. It is advised that housing providers seek legal counsel related to potential profit generating activities.

Reductions in the number of RGI units and/or operating subsidy may result in the loss of 'municipal designation' for GST purposes. As of early 2018, it is not clear whether non-profit housing providers that reach the end of their Agreements will still qualify for municipal designation and GST rebates.

It is important for providers to work with their financial advisor in addressing their specific case.
(See: Licenses, Permits and Tax Exemptions below.)

Additionally, non-profits who wish to start a profit-generating sideline to subsidize housing or provide additional services for tenants/members (such as social enterprises, daycares, or renting out space) need to be aware of the associated risks and challenges of running said enterprises. A non-profit should carefully consider the capacity of the organization to undertake such activities including the level of business acumen, ability to take on risk, and capacity to manage staff, and inventory. Sub-letting space may be an easier option for many non-profits, and has been a successful strategy for several projects in Manitoba.

2. Organizational Purpose and Tenant/Member Mix

A housing provider's defined purpose forms part of its constitution, and guides activities it is allowed to undertake. The purpose statement is usually included in the organization's bylaws and typically includes the provision of safe, secure, and affordable housing. Additionally, a housing provider may have a mandate defined in its Operating Agreement relating to:

Tenants/Members: Specific groups may be targeted for housing, such as youth, older adults, families, homeless, single parents, and so on; and

Services: Additional services may be provided which directly benefit a particular resident mix, such as assisted living for older adults 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 housing provider's current mission. Is it in line with the mission, would it require minimal change, or does it entail a radical departure? Options that deviate from the housing provider's objects are not necessarily bad options to pursue. However, options do need to be carefully considered, including a possible change of mission, and subsequent amendment to the housing provider's constitution.

Once an Operating Agreement has ended, any mandates defined in that agreement but not in the housing provider's constitution (or set out in any other agreement) are no longer required by law. The housing provider is free to pursue a different resident mix as long as it is consistent with its constitution.



3. 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 hiring 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 and 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 project offers is still in strong demand, or if it is unable to satisfy changing needs.

EXAMPLE: DECREASED DEMAND

The housing demand by independent, low-income older adults is decreasing. Many housing providers operate exclusively for fully independent households; however, as older adults are living longer and healthier lives, and have more choices, this sometimes changing demand for affordable housing.

EXAMPLE: INCREASED NEED

There is a growing need for housing offering home care and support services for older adults needing these supports. There are also growing housing needs for people with mental illness, substance addiction, Alzheimer's disease and other forms of dementia.

Design Suitability: The appropriateness of a project's design relative to the needs and expectations of today's households is another consideration in determining whether a project is socially relevant.

EXAMPLE: UNIT SIZE

Housing for older adults was often designed with a high number of small bachelor units, based on the assumption that older adults were singles. These units may be unsuitable today, as more older adults require suites suitable for couples. In addition, small units may not provide adequate space to accommodate current active lifestyles including space for storage, walkers, scooters, and electric wheelchairs. Many housing providers in Manitoba have reported this challenge and responded by combining some units into more appropriate sized suites.

EXAMPLE: OVERALL PROJECT DESIGN

Projects may not be adaptable to satisfy the needs of older adults 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.

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.

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 housing provider's property manager(s) can provide useful input into why vacancies are occurring. The Building Condition Assessment can provide insight into why vacancies are occurring or how a project is or is not meeting the requirements of tenants/members. Also, conducting exit interviews with vacating residents will provide useful feedback on how a project was not meeting their needs. A review of market rental rates in the neighbourhood is also critical to evaluating vacancies. (Few vacancies could also mean that there is room to increase rents.)

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.

MANITOBA EXAMPLE: SHIFT IN TENANT PROFILE

The Board of a mid-sized non-profit providing housing to older adults engaged in a comprehensive review of their organizational mission. As part of the review and EOA planning process, they surveyed residents and those on their waitlist about levels of satisfaction and current and anticipated needs. While still firmly committed to providing affordable housing, post-expiry they have noted a shift in tenant selection. A staff person performs an intake assessment to ensure suitability and to assess whether a potential tenant could live independently. They have started to decline applicants based on suitability, often referring them to assisted living or supportive housing options. Overall, this has resulted in more successful tenancies for this provider, with residents increasingly aging in place.

4. 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 of these projects were developed on leased land, especially lands leased from municipalities and faith-based organizations. If a project is on leased land, the following needs 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 housing providers review their leases for any restrictions on use (i.e., who can be housed, rent restrictions, etc.).

Refinancing: The mortgage amortization period for some federal housing projects is 35 years, which means the mortgage may expire before the lease. However, if refinancing is chosen as a 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 housing providers 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 housing providers with medium or large portfolios, where capital reserves could be used for development or renovation on properties that have secure land title.

5. 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 housing provider 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 a planning consultant or architect.

MANITOBA EXAMPLE: CONSIDERING SITE DEVELOPMENT

Post-expiry, a small provider had managed to remain financially viable, though it had to raise rents significantly and did suffer some corresponding tenant turnover. The Board wanted to be in a stronger financial position. Now that their Agreement had expired, they were considering options for expansion. They had some exceptionally small units, growing community demand, and a large amount of land with room to expand. However, there was a sense that the Board lacked the vision and capacity to engage in the kind of work involved in developing a new project. In the end, they chose instead to combine some existing units, converting a number of bachelors into two-bedroom suites. They found the size change was successful, as the larger, renovated units appealed to their target population and were more marketable. Rather than expanding their own project, they sold some of the land they owned. A developer is putting in a condo project, and the housing provider is buying a few units in that development to rent out. They will use the added rental income to help support their existing building.

Zoning Bylaw: Municipalities and Rural Municipalities regulate land and building use through the Zoning Bylaw. Rezoning may be needed, particularly for options related to land redevelopment or intensification. It is advisable to consult with the local planning department or a planning consultant on this matter. If a housing provider is also looking to add commercial use to the redevelopment or repurposing of the property, this rezoning should also be investigated through a planning consultant or architect prior to putting plans in motion.

Covenants on Title: Land or building use, including possibly clientele, may be restricted through the Real Property Act. Understanding if covenants, including associated restrictions, are on the title of projects in a housing provider's portfolio 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.

6. Tenant/Member Concerns

Building renovations, land intensification, and redevelopment are options that are likely to be unsettling for residents, many of whom have lived in their homes for a number of years. If an option is selected that requires residents 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. Any planning should ensure compliance with RTB regulations. Strategic partnerships with other nearby housing providers may provide a transition option depending on available space. See tenant [Communications and Consultation](#) on [page 40](#).

7. Licenses, Permits, and Tax Exemptions

Depending on the proposed use, there are several matters to consider, all of which need to be checked with the local planning department and the CRA. Additional information relating to legal implications can be downloaded from the MNPHA [website](http://mnpha.com/ea-resources/) (mnpha.com/ea-resources/).

Permits: Development permits may be required depending on whether the preferred option will result in project modifications. A building permit will always be required.

Licenses: If considering expanding services provided or operating a commercial use, a municipal business license, and possibly provincial licenses, consent, or certification, may be required (e.g., to operate a daycare).

Property Tax Exemption: In Manitoba, a registered charity or non-profit may be granted a property tax exemption; however, changes in use may result in loss of eligibility

GST: A qualifying non-profit organization (a non-profit organization or prescribed government organization whose percentage of government funding is at least 40% of its total revenue) is eligible for a 50% GST rebate. Non-profit organizations may also apply for ‘municipal designation’ which allows them to recover 100% of the GST paid on eligible purchases and expenses for which they must maintain a minimum number of RGI units. Reductions in the number of RGI units or the loss of an operating subsidy from a government or municipality may result in the loss of municipal designation for GST rebate purposes. For further information on GST rebates see the Government of Canada Guides:

- ♦ **Public Service Bodies’ Rebate:** <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4034.html>
- ♦ **GST/HST Information for Municipalities:** <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4049.html>

As of early 2018, it is not clear whether non-profit housing providers that reach the end of their Agreements will still qualify for municipal designation and GST rebates. **It is important for providers who are either approaching the end of their agreements, or wishing to apply for GST rebates, to work with their financial advisor in addressing their specific case.**

Additionally, if a housing provider is considering operating a business or other for-profit enterprise, there may be a requirement to change the provider’s GST status, and subsequently to charge, collect, and remit the taxes to governments.



8. Fundraising

There is increased competition from many non-profit and charitable 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 housing providers with limited staffing may not be able to dedicate the time needed to secure grants, and some large housing providers are perceived as likely to be self-supporting and not in need of philanthropic funding.
- ♦ There is a tradition of housing providers operating independently. However, the current expectation of foundations and other funders is that grant applicants should work together and make joint submissions.

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

Step 4: Explore and Assess Options

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

Many of the options may be implemented pre-EOA, allowing time to prepare for when the Operating Agreement and associated government subsidy ends. For many providers in Manitoba it is important to determine and begin building a rent structure that will be viable post-EOA, a process that may take years. Pre-EOA, approval from MB Housing will be necessary before a number of options can be undertaken, including any changes to rental rates. All options can be considered appropriate and implemented post-EOA. When reading through the options, it is important to evaluate how they relate to a provider's mission.

In all cases, housing providers are encouraged to engage with MB Housing and except for co-ops, with the Residential Tenancies Branch. Conversation with these representatives can help identify how you may be able to continue with your mission and ensure the ongoing affordability of the housing you offer.

This Guide introduces twelve options that, broadly, fall into four categories:

- A. Improving 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.
- B. 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.

- C. Find Operational Efficiencies** – While housing providers already operate with high efficiency, there are options that can increase efficiencies by reducing operating expenses, thereby decreasing the need for added revenue sources.
- D. Transfer Assets** – Depending on a housing provider’s capacity, an option for consideration is to transfer assets to another housing provider or a large charity. In so doing, operational efficiencies may be increased, and access to necessary capital may be available, especially if assets are transferred to a larger corporation with a diverse and viable portfolio.

Each of these categories describes the options available and how they can be assessed. The twelve options are detailed in the following pages and in Figure 3 below. The missing piece, however, is for the provider and its board to understand the mission for the project going forward. This is a great time to engage in discussions about what your project means to the community you serve and your ambitions for the future. The mission you wish to pursue should be your guide through the process of exploring and assessing your options outlined in this section.

Figure 3: Twelve Options

IMPLEMENTABLE		
A. IMPROVING REVENUE	PRE-EOA	POST-EOA
1. Adjust rents and/or rent mix	(✓)	✓
2. Pursue strategic partnerships	✓	✓
3. Diversify portfolio (not possible for some projects)	x	✓
4. Intensify building(s)/land	(✓)	✓
5. Redevelop entire site or building	x	✓
B. INCREASING CAPITAL	PRE-EOA	POST-EOA
6. Apply for grants	✓	✓
7. Refinance	(✓)	✓
8. Sell land/assets	x	✓
C. FINDING OPERATIONAL EFFICIENCIES	PRE-EOA	POST-EOA
9. Share services and/or space	✓	✓
10. Implement energy efficiency upgrades	✓	✓
D. TRANSFERRING ASSETS	PRE-EOA	POST-EOA
11. Acquire assets (property & management)	(✓)	✓
12. Transfer assets	(✓)	✓

- ✓ Implementable without MB Housing approval
- (✓) Implementable conditional to MB Housing approval
- x Not implementable



A. Improving Revenue

1. Adjust Rents or Rent Mix

Several rent increase options may be pursued pre-EOA to assist with Net Operating Income, ensuring sufficient revenue at EOA. Some options can only be pursued post-EOA. Providers can also consider a downward adjustment in the number of RGI units by replacing them at move-out with residents paying (low-end-of) market rates. This may require MB Housing approval. Reducing RGI units is not an option to Urban Native or Post-85 Agreements which are set at 100% RGI. It should be noted that options considered by a housing provider to increase rents or adjust the rental mix may result in decreased affordability for current residents and, indirectly, for the community at large. The associated loss of mission for the provider may be a key consideration in any decision about adjusting the rent mix.

Increase Market-Rate Rents

After EOA, rent increases are governed by the Residential Tenancies Act, which outlines the annual maximum rent increase for existing tenants (but not for cooperatives). Pre-EOA, annual rent increases may be implemented on market units without reference to the allowable maximum rent increase in the RTA, though increases must be done in conjunction with MB Housing. Consideration should be given to whether a rent increase will cause significant financial hardship on existing residents. For example, in cases where low-income tenants occupy a market-rate unit but are awaiting access to a RGI unit, raising rents may not be feasible or desirable. However, many existing tenants paying market rates may have capacity to accept a modest increase on an annual basis.

Some Manitoba non-profit housing providers have rents that are well below the actual market-rate rents. Providers may consider setting the Basic Rent rate at or near average market rates for their area and providing tenants with a discount. Housing providers can access CMHC information about market rental rates at: <https://www03.cmhc-schl.gc.ca/hmip-pimh/en/Profile>. 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,

market rental rates can be increased by the annual allowable amount. The physical condition of a building will affect the rent level that current and future market-rate tenants are willing to pay. This should be taken into account when a housing provider considers this option. More detail about building the Rent Structure is in *Step 2: Assessing and Building a Viable Rent Structure*.

KEY CONSIDERATIONS

- ◆ Confirm the housing provider's mission.
- ◆ Review Rent Supplement Agreement (if applicable) with MB Housing to determine if there are any restrictions and limitations relating to rent adjustments.
- ◆ Adjust rents gradually.
- ◆ Building condition will influence the desirability for market-rate tenants.

RGI Tenants/Members

To continue to provide housing that is affordable while ensuring project and portfolio viability, a housing provider may need to look at options to decrease the expected shortfall. Some housing providers will have additional revenue as a result of no mortgage payments, and some will be

able to accommodate RGI residents 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 five options that may be implemented relating to RGI tenants/members include:

- a. Select higher-income RGI residents on turnover.
 ↳ (Set a higher income requirement for RGI units.)
- b. Shift RGI units to market-rate units.
- c. Adopt low break-even rents for some or all units.
- d. Assist eligible households to apply for rent subsidies (e.g., Rent Assist).
- e. Combination of all or some of the above.

It should be noted that options considered by a housing provider to increase rents or adjust the rental mix may result in decreased affordability for current tenants and, indirectly, for the community at large. The associated loss of mission for the provider may be a key consideration in any decision about adjusting the rent mix.

To determine if any of these options are available to you, it is important to first know if the RGI subsidy currently being provided is under a Rent Supplement Agreement, as part of the Operating Agreement, or an internal RGI. If it is being provided under a Rent Supplement Agreement, then you must discuss these options with MB Housing and seek approval. The subsidy surplus fund that most housing providers maintain could be a source of funding to internally subsidize tenants/members when the MB Housing subsidy ceases post-EOA.

a. Select higher income RGI tenants/members on turnover (Set a higher income requirement for RGI units)

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

KEY CONSIDERATIONS

- ◆ Implementable pre- and post-EOA.
- ◆ Confirm that changes align with provider's mission.
- ◆ Only available to some Agreement types

b. Shift RGI units to market-rate units

Upon turnover of units with RGI tenants/members, the provider may wish to select incoming tenants who are able to pay "market" rates and do not require subsidy. This option may be pursued pre-EOA with MB Housing approval or if the Operating Agreement 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.
- ◆ Reductions in the number of RGI units will decrease GST rebates. This can result in a significant income loss.
- ◆ Reductions in the number of RGI units and/or operating subsidy may result in the loss of municipal designation for GST purposes.



c. Adopt low break-even rents

For housing providers that wish to adopt market rental rates (shifting RGI units to market, for example), break-even rents may be adopted. These are set at a level that balances revenue and expenses. In some cases, break-even rent levels can be determined pre-EOA, but cannot be implemented until expiry. Existing RGI tenants could be grandfathered post-EOA, with break-even rents implemented only for new incoming tenancies.

KEY CONSIDERATIONS

- ♦ Implementable post-EOA.
- ♦ Reductions in the number of RGI units will decrease GST rebates. This can result in a significant income loss.
- ♦ Reductions in the number of RGI units (below the designated threshold), and/or operating subsidy may result in the loss of municipal designation for GST purposes.

d. Assist Eligible Households to Apply For Funding

Upon EOA, low-income older adults and families may be eligible for the provincial rental assistance program, which they cannot receive while living in subsidized housing. This option allows the housing provider to increase revenue by increasing rents to market rates (the tenant pays market rents and receives a subsidy from the government to offset the rental costs). Tenants or members that are paying “market” rents/housing charges are eligible to apply for Rent Assist pre- and post-EOA. RGI tenants are not eligible pre-EOA but post-EOA they become eligible to apply.

Rent Assist is a financial benefit for individuals who receive Employment and Income Assistance (EIA) and have housing costs to cover. It is also available to other low-income private renters. See the Government of Manitoba’s webpage: https://www.gov.mb.ca/fs/eia/rent_assist.html for **Fact Sheets** and application forms.

If capacity within the housing provider exists, assistance can be provided to eligible households in applying for Rent Assist, which would in turn increase revenue. This option can only be pursued post-EOA, when subsidy ends.

KEY CONSIDERATIONS

- ♦ Implementable post-EOA.

2. Pursue Strategic Partnerships

A partnership may offer operating efficiencies through partnering with other housing providers in the area to share legal, audit, accounting, procurement, or property management services. Considerable efficiencies could be achieved in sharing staff resources or in bulking procured services for a volume discount. Other partnership models, which involve the creation of strategic alliances and mergers, are being explored. One option, for example, involves merging boards for a one-board, multiple facility model. Networking through associations (such as MNPHA and CHF) may help to identify potential partnership possibilities.

Many non-profit housing providers and cooperatives have expressed hesitation about pursuing strategic partnerships with other providers. Engaging in options such as pooling resources, sharing administration costs, and even merging boards does not necessarily entail a loss of autonomy. Building capacity to create alliances or mergers can strengthen the viability and sustainability of all providers involved.

KEY CONSIDERATIONS

- ◆ Implementable pre- and post-EOA.
- ◆ Review of organizational mission and capacity may be required.
- ◆ Legal assistance may be required.

3. *Diversify Portfolio*

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

Example: Diversifying Services: A housing provider 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 housing provider and may require considerable administrative time.

Example: Diversifying Revenue Streams: A housing provider 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 and can range in nature, from soup kitchens to commercial retail operations. They can also include valuable skills training opportunities for residents and provide additional opportunities for partnership. Social enterprises also have the challenge of operating in a competitive environment. The housing provider should ensure its capacity to manage a social enterprise in addition to other responsibilities. Before pursuing this option, and depending on the scale of the social enterprise, a housing provider should 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.
- ◆ May require capital for implementation.
- ◆ Check current zoning; may require rezoning or variance.
- ◆ Engage a tax expert who can ensure provider continues to meet CRA rules and that new revenue is not considered a “profit.”
- ◆ If considering expanding the services provided or operating a commercial use, a municipal business license, and possibly provincial licenses, consent or certification may be required (e.g., to operate a daycare).



4. Intensify Building(s), Use of Building, or of Land

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 additions to a building, converting large units into multiple smaller units, or converting underutilized space into additional units. Be aware that many older projects would not meet current zoning code standards and would not be able to be expanded – though they have the right to continue as is.

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. Adding new buildings has been a very successful strategy for several projects in Manitoba.

Before pursuing this option, and depending on the scale of what is being considered, it is advisable that the housing provider 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 resident displacement, a relocation plan is essential.

Additionally, depending on the scale of the intensification, a housing provider should consider hiring a 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.

5. Redevelop Entire Site or Building

Site redevelopment is an option that some housing providers may wish to explore. A major consideration is how existing tenants will be accommodated during the redevelopment process. Planning should 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, such as a building envelope retrofit, to remain viable or that has 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, such as unit size and project amenities, that could be solved through redevelopment.

Underutilized Density – Municipalities may have increased the allowable density on a parcel since a building was originally developed. Check current zoning to determine if redevelopment is possible because of increased allowable density. 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 housing provider may also consider partnering with a private developer.

KEY CONSIDERATIONS

- ◆ Conditionally implementable pre-EOA; implementable post-EOA.
- ◆ Tenant relocation plan recommended or may be required.
- ◆ Consultants required.
- ◆ Will require significant capital.
- ◆ Capital Plan recommended.
- ◆ May require rezoning.
- ◆ Implementation may be affected by land tenure or covenants on title.
- ◆ Likely to require change management.

B. Increase Capital

6. Consider Access To Grants, Federal Programs, And Donations

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

Post-EOA, government assistance may be available, especially as governments' subsidy requirements decrease. The social-housing landscape is continuously evolving, with ongoing changes to programs and funding opportunities. For instance, the National Housing Strategy (<https://www.placetocallhome.ca/>) is launching a program in the spring of 2018 to assist federally administered community housing projects transition through the end of their agreements:

<https://www.cmhc-schl.gc.ca/en/nhs/federal-community-housing-initiative-phase-1>

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. In-kind contributions and volunteers can have a significant impact on maintenance costs and revenue streams.

KEY CONSIDERATIONS

- ◆ A current (less than three years old) Building Condition Assessment is recommended and may be required.



7. Refinancing

A housing provider considering leveraging their asset is encouraged to consult with MB Housing. Accessing new financing may be possible post-EOA. 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 provider 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. Housing providers 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; it would be evaluated by a lender based on a BCA and the potential to sell the building if the property went into receivership.

KEY CONSIDERATIONS

- ♦ Whether borrowing against equity in the project or the land value alone, a prospective lender will require a solid business plan.
- ♦ A current (less than three years old) Building Condition Assessment should be in place.

8. 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 provider. Housing providers 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 provider to retain part of its portfolio by raising funds from either another housing provider or to low-income households.

KEY CONSIDERATIONS

- ♦ Legal expertise required for all transactions, particularly for severing properties.
- ♦ Need to engage consultant for proper valuation.
- ♦ May require rezoning and/or subdivision.
- ♦ Implementation may be affected by land tenure or covenants on title.

EXAMPLE: SALE TO OPTIMIZE PORTFOLIO

A provider 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 provider sells the building and injects the capital into the maintenance of other buildings in its portfolio.

EXAMPLE: SALE TO FINANCE CAPITAL REPAIR, MAINTAIN VIABILITY

A provider 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 provider, 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.

C. Finding Operational Efficiencies

9. Shared Services, Space, or Both

To build capacity and reduce overhead, housing providers may share services or space with other organization(s). In so doing, housing providers may ‘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.

KEY CONSIDERATIONS

- ◆ Pre-EOA, check if permissible under OA.
- ◆ Align with compatible organizations.
- ◆ May require a business plan.
- ◆ Prepare a process agreement or Memorandum of Understanding.
- ◆ Seek legal counsel to prepare a Shared Services Agreement.
- ◆ Calculate ‘fair share’ of cost.
- ◆ Ensure private information is protected per the Personal Information Protection and Electronic Documents Act (PIPEDA).
- ◆ Refer to the Employment Standards Act if considering changes in staffing levels, roles, and responsibilities.
- ◆ May require change management.

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 for human resources expertise).
- ◆ **Sharing Space** – co-tenant or co-location, whereby staff share office space to reduce operational expenses.

Housing providers would need to assess advantages and disadvantages these models would have for their specific operation.



10. Energy Efficiency and Conservation

Utility expenses comprise a large portion of a building's operating costs. Completing energy efficiency upgrades and implementing conservation strategies can significantly reduce energy and water consumption, thereby lowering operating expenses. 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 and bulbs, light activating motion sensors, and low-flush toilets in common areas. If the provider is responsible for utility costs within the units, lighting and toilets can also be retrofitted as units are vacated, providing additional cost savings. More expensive, and potentially disruptive to residents, are upgrades including window replacement, improving building insulation, and installing solar panels or wind turbines for energy production and, possibly, water heating.

Housing providers can achieve cost effective and long-term results by strategically implementing both conservation and efficiency actions and developing a long-term Energy Management Plan (EMP) to follow. An EMP is a living document that describes the steps and approaches to be taken to maximize efficiencies and conserve energy in all areas of a building. When creating or implementing an EMP, providers should be looking at their EOA date(s) as well as capital plans to see where energy savings opportunities can be realized. The goal should be to maximize savings by the EOA date(s) where possible.

The EMP includes a building profile, short- and long-term energy reduction strategies, reduction targets, staff responsibilities, financial considerations, and evaluation methods. A Building Condition Assessment and Energy Audit are necessary documents that inform the development of the EMP. Ongoing energy consumption monitoring is essential to energy management because it helps track progress and identify issues.

A Building Condition Assessment describes the physical condition of all areas of the building and should include a focus on energy-related upgrades. An Energy Audit provides more detailed energy efficiency recommendations than a BCA and should also be completed at least once every five years. An Energy Audit identifies how a building's systems and equipment use energy, and it recommends low, medium, and high cost energy saving measures. These measures may be:

- ◆ Easy, low, or no-cost projects that can be completed quickly, such as:
 - Ongoing tenant and staff engagement that encourages energy-conserving behaviours.
 - Improved operations and maintenance procedures.
 - Regularly cleaning fans and filters.
 - Lowering the temperature on hot water heaters.
 - Changing to compact fluorescent light bulbs and LEDs.
 - Changing exterior lighting to more efficient technology.
 - Installing water saving products such as low-flow showerheads and aerators, which local utility companies may offer for free, including free installation.

- ♦ Moderately complex with a mid-range cost but relatively short payback period, such as:
 - ↳ Installing low-flow toilets.
 - ↳ Replacing refrigerators that are more than 15 years old.
 - ↳ Replacing caulking on low-rise buildings and townhouses.
 - ↳ Installing motion sensors with lighting, which is especially effective in common rooms.
- ♦ Higher cost, complex upgrades that typically require advance planning and usually involve contractors and engineers working together on a project's design and implementation.

Financial incentives may be available from utility companies for energy audits, simple equipment improvements, and major equipment replacement.

D. Transfer Assets

11. Being Acquired

Non-profit housing providers experiencing financial hardship and organizational challenges, such as recruiting and retraining board members, may wish to consider a transfer of their assets to another housing provider or larger charity that has greater capacity to ensure long-term viability. The transfer, including property assets (land and buildings), debts, and contracts, offers an opportunity to providers that are open to restructuring, for both the corporation acquiring the assets as well as the housing provider “letting go.” Advantages of an asset transfer include offering enhanced services to clients, retaining the affordable units, and ensuring the long-term sustainability of the affordable units.

Transfer of assets is a resource intensive process. Often, the corporation acquiring the assets takes on the responsibility of managing the larger tasks such as community consultation, conducting BCAs, and jobs planning; however, the provider “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 organization, obtain endorsement from both boards, and seek legal counsel throughout the process. There are restrictions for organizations classified as non-profit and for cooperatives.

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.



12. Acquiring Assets

Financially stable providers are able to consider acquiring other housing portfolios, including assets, debts, contractual obligations, and operating agreements. There are several advantages to acquiring assets, including improving operational efficiencies and building organizational capacity, which can allow a provider to be increasingly strategic and innovative and 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 organization and determining if the asset transfer is a good fit. Establishing a transition team that will lead the process is essential to the viability of the transition; this 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.

KEY CONSIDERATIONS

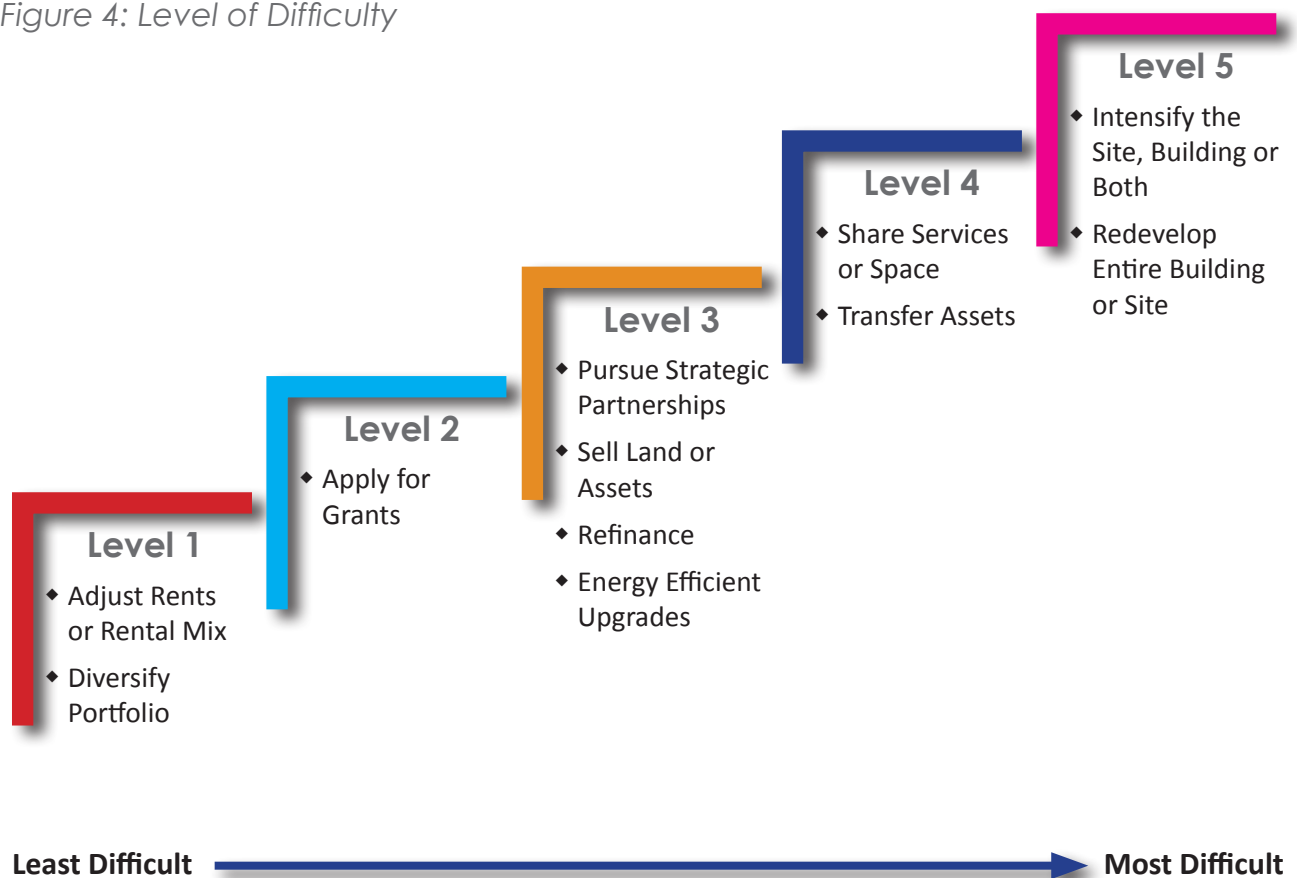
- ♦ Seek legal counsel.
- ♦ Align with compatible organizations.
- ♦ Prepare a business case.
- ♦ Establish a transition team.
- ♦ Prepare a Process Agreement or Memorandum of Understanding.
- ♦ Prepare an Asset Transfer Agreement.
- ♦ Map future organizational and governance structure.
- ♦ Prepare and implement communications strategy.
- ♦ Transition to new organizational culture; likely to require change management.

Consulting advice is likely to be needed at several stages of this process. Ownership transfers have occurred in the Manitoba context. MNPHA may be able to provide relevant information or direct you to an organization with experience.

Level of Difficulty of Implementing Options

There are varying degrees of difficulty and complexity with the option(s) presented in this Guide. While no option is without its challenges, the following figure shows the options on a 5-point scale, with 1 being the least difficult and 5 being the most difficult

Figure 4: Level of Difficulty



Step 5: 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. The question they must respond to is: “What are the options that best contribute to the long-term viability of the project/portfolio?”

Before making this decision, the Board will benefit from communicating with and consulting residents and staff. If those most affected are not communicated with regularly, and consulted at key milestones, there is a likelihood that misinformation will circulate, potentially leading to additional challenges and stresses such as unit vacancies, staff turnover, or both.

Organizational Capacity

With the expiry of an OA, there will likely be increased pressures to ensure that the housing provider’s portfolio is viable. Smaller housing providers may have less capacity to implement certain options outlined in the next section, especially those that are complex and require a significant amount of administrative support for successful implementation. This may affect their ability to be strategic and innovative or to seek funding. It is advisable to assess current Board and 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 housing providers are presented with difficult decisions that may change the way they operate. How change is handled can significantly influence the success a provider 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 housing provider, it can also help their boards and administrative staff to adapt to new processes, systems, technologies, and culture.

Applying a 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.

It is also important that the Board clearly record the selected options and reasoning for pursuing those options in its Minutes, records, and hopefully an EOA Action Plan (see Step 6). These decisions must be carried forward by future Board members and such a Plan can be advantageous.

Communications and Consultation

Tenant communication is key to a successful transition. Communications begin with meetings before anything is done in writing. Leading up to an EOA, it is advisable to communicate in writing to tenants and staff 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.

Communication with the residents is a key component leading to the successful implementation of any of the suggestions outlined in this Guide. Your residents can be the champions of your vision if they are included in the process through early engagement and ongoing communication. **It is also critical that a housing provider communicates clearly and maintains relationships with MB Housing and (if not a co-op) RTB.**

For those providers pursuing options such as infill or site redevelopment, there is need for early contact with municipal staff to advise them of what is being considered and to ascertain the municipality's expectations regarding communications and consultations with community stakeholders and the public. Early and regular communications with nearby neighbours through periodic letters or leaflets, for example, is suggested.

MANITOBA EXAMPLE: TENANT ENGAGEMENT AND COMMUNICATIONS

About two years prior to expiry, the Board of one faith-based, larger non-profit providing housing to older adults decided to review their mission and vision statements. As part of the review, they conducted a community survey (through an online survey platform), which targeted all residents, staff, home care workers, and volunteers as well as the wider community, including residents' families, guests to their dining room, and members of supporting churches.

The survey assessed respondents' level of satisfaction and was useful in identifying priorities and next steps for the organization. It also helped identify needs; for example, the survey indicated the proportion of their existing waitlist that would require some level of affordable housing. The information shaped their vision and their approach to tenant engagement.

This group held frequent resident meetings to discuss EOA and future plans. Meetings took place a couple years in advance, and used powerpoint and visuals. Their advice is to:

- ♦ Engagement should be regular and ongoing.
- ♦ Be sure to talk about tenant concerns. Change is scary, for both tenants and staff, and a change management approach to EOA is recommended.
- ♦ Be transparent. Tenants want and deserve clarity.
- ♦ Explain that RTB rent increases are based on cost of living (which can provide reassurance to them, as cost of living increases are built into CPP).
- ♦ Define and explain terminology, particularly with respect to 'discounts' offered in rents.

This group did a lot of work with tenants to help them understand discounted rents (and how it would appear differently on their tenancy agreements). Understanding the discount, they found, helped tenants understand and appreciate the value of their housing.

They engaged with tenants through meetings and by mail to address tenant concerns. Discussing planning for EOA also served as a reminder of the importance of long-term organizational sustainability. This provider held a celebration at the end of their Agreement. The Board viewed it as an opportunity both to talk about sustainability and to engage the next generation. They found the celebration helped alleviate some uncertainty and settle nerves.

As part of their community engagement plan, the provider also developed a website, which they have found useful for directing people to information leading up to and post-expiry. They hope to expand the site to include a tenant-specific portal.



Consultation

Beyond communicating regularly about what is taking place, and to ensure transparency of decision-making, a provider may find it valuable to meet and consult with tenants/members 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). This consultation can be especially effective when engaging tenant associations and with cooperative housing members.

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, site redevelopment, and changing the services offered.

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 housing provider may want to consider engaging a neutral, third-party facilitator to coordinate the consultation.

Finally, in order to ensure that you have addressed all of your obligations and have taken advantage of every opportunity available to you, it is important that you consult with MB Housing early in your planning process.

Step 6: Implement Preferred Options – the EOA Action Plan

Implementation Plan

After deciding which option(s) will be implemented, a housing provider may choose to develop an implementation plan or EOA action plan. If the option(s) are complex and likely to take months or years to complete, a provider will usually need outside resources to assist in carrying out the plan. Consulting resources may be required for:

- ♦ Developing and carrying forward a fundraising campaign;
- ♦ Securing financing;
- ♦ Legal advice;
- ♦ Assisting Board and staff with change management; and
- ♦ Coordinating municipal approvals, design, tendering, and construction on behalf of the provider.

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, municipalities, potential lenders, potential donors, and neighbours of the project. See the MNPHA website (<http://mnpha.com/eoa-resources/>) for a link to a sample EOA Action Plan from the Ontario Non-Profit Housing Association.

Key Performance Indicators

It is important to monitor changes as a housing provider transitions through its EOA and beyond. A Board should consider what is working and what is not working and should continually re-evaluate. Developing and regularly using Key Performance Indicators (KPIs) will help the housing provider's Board and administration monitor changes in financial viability and social sustainability once the preferred option(s) is completed. Some of these KPIs are:

- ♦ Net Operating Income – dollars;
- ♦ Change in Capital Reserves (Replacement Reserve Fund) – dollars;
- ♦ Change in resident income mix – RGI, Low-End-of-Market, Affordable, average Market;
- ♦ Number of turnovers monthly; and
- ♦ Number of vacant units beyond two months.

It is recommended that, in addition to the KPIs listed here, you develop your own indicators to track your progress as you move forward with your EOA action plan.

Other Resources

There are a number of resources available that provide additional information about the expiry of Operating Agreements. These resources have been gathered on the MNPHA website and are organized to follow the structure of this Guide. These resources are also listed in [Appendix 2, page 53](#) of this Guide.

In Closing

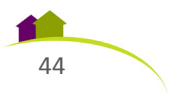
Many of Manitoba's non-profit housing providers will face the expiration of project Operating Agreements by 2030. Many providers will face challenges evaluating their fiscal viability and social sustainability and making decisions about how best to move forward in a post-EOA environment, while continuing to provide affordable housing. We hope this Guide will serve as a first step and valuable resource in planning for the successful transition through the expiry of your Agreement.

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.

Good luck as you plan for the end of your Operating Agreement, and beyond!



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Appendix 1: Checklists and Strategy List

Follows are three checklists that may be useful to the reader. These lists are not exhaustive of all actions that could be taken for EOA, but include many good-practices to consider when preparing for the expiry of your agreement. The first checklist closely follows the organization of this guide; the second list—labeled “PILLARS - Considerations - Steps”—was used at the EOA Workshops hosted by MNPHA; the third list—labeled “Potential Strategies”—consolidates strategies from multiple sources and includes a few details not in the body of this Guide.

Checklist 1:

Start Planning:

- ☒ Understand the Primary Question
- ☐ A Six-Step Process

Step 1: Collect Basic Information and Prepare for EOA:

- ☐ Review and Understand Your Operating Agreement
- ☐ Think about Timelines
- ☐ Attend to Board and Organization Readiness for EOA
- ☐ Gather Necessary Documentation and Prepare for Planning
- ☐ Engage with MB Housing, RTB, Other Non-Profits

Step 2: Determine Operational Viability:

- ☐ Assess Financial Viability: the Simplified Assessment Tool (SAT)
- ☐ Assess and Build a Viable Rent Structure
 - ☐ Understand the Components of Rent Structure
- ☐ Undertake Asset Management:
 - ☐ Undertake Capital Planning
 - ☐ Get a Current Building Condition Assessment
 - ☐ Get a Current Facility Condition Index



Step 3: Review Other Factors:

- ☐ Review Legal Issues and Implications
 - ☐ Review Relevant Legislation
 - ☐ Review Your Non-Profit or Charity Status
 - ☐ Understand the Implications of Profit
- ☐ Review Organizational Purpose and Tenant Mix
- ☐ Review Social Sustainability of the Project
- ☐ Consider the Implications of Projects on Leased Land
- ☐ Undertake Site Assessment for Future Potential
- ☐ Consider Licenses, Permits & Tax Exemptions
- ☐ Consider Fundraising

Step 4: Explore and Assess Options

A. Improving Revenue

- ☐ 1. Adjust Rents or Rent Mix
 - ☐ i. Increase Market-Rate Rents
 - ☐ ii. Options Regarding RGI Tenants
- ☐ 2. Pursue Strategic Partnerships
- ☐ 3. Diversify Portfolio
- ☐ 4. Intensify Building(s) or Land
- ☐ 5. Redevelop Entire Site or Building

B. Increase Capital

- ☐ 6. Access Grants, Federal Programs, Donations
- ☐ 7. Consider Refinance Options
- ☐ 8. Sell Assets or land

C. Find Operational Efficiencies

- ☐ 9. Share Services, Spaces, or Both
- ☐ 10. Energy Efficiency and Conservation

D. Transfer Assets

- ☐ 11. Being Acquired
- ☐ 12. Acquiring Assets
- ☐ Review the Level of Difficulty of Implementing Options

Step 5: Consult and Finalize the Preferred Option(s)

- ☐ Consider Your Organizational Capacity
- ☐ Utilize Change Management
- ☐ Communicate with Tenants
- ☐ Ongoing Consultation at Key Decision-Points

Step 6: Implement Preferred Options – the EOA Action Plan

- ☐ Develop Action Plan
- ☐ Develop Key Performance Indicators to Track Your Progress



Checklist 2: PILLARS - Considerations - Steps

Expiry of Operating Agreements (EOA) PILLARS - Steps -		
Organization & Governance	Operational Viability	Look at Other Factors
Organization <ul style="list-style-type: none"> • Operating Agreement • Strategic Plan <ul style="list-style-type: none"> – Mandate/Mission/Purpose – Vision and Values – Guiding Principles – Articles and By-laws • Audited Financial Statement • Building Condition Assessment (BCA) • Business Plan • EOA Action Plan • Annual Project Data Report (APDR) • Land Ownership Governance <ul style="list-style-type: none"> • Board reports - adequacy • Board capacity for transition • Board orientation and training • Board succession and renewal • Board evaluation process • Review policies • Know relevant Legislation & Codes, monitor compliance • Build connections with other PNP Housing Providers • Education - seek opportunities for continuous learning for all to benefit and further the purpose of the organization 	Categories <ul style="list-style-type: none"> • Revenue • Operating Expenses • Asset Management: <ul style="list-style-type: none"> – Capital Repairs and Replacement Reserve – Major Costs of Repair or Reno: Short Term Full Understanding of Financial Performance & Physical Condition <ul style="list-style-type: none"> • Determine Project Viability Simplified Assessment Tool (SAT) {Revenue, Operational Expenses, Capital Replacement Reserves} <ul style="list-style-type: none"> – Consider EOA rent structure – Rent regulations, controls – Register rents at EOA • Re-evaluate or develop a Capital Plan • Review Replacement Reserve • Review Preventive Maintenance Plan • Consider PNP tax exemptions, rebates and credits Post EOA • Consider access to grants, federal programs, etc. • Review capacity for debt-servicing Post EOA • Develop a long-term financial plan • Understand and encourage Rent Assist Program 	<i>Understand legal requirements, articulate and understand any other factors that might make future options possible, difficult to implement or completely unfeasible.</i> 1. Legal Definitions & Implications <ul style="list-style-type: none"> • Charity or Non-Profit Organization • Generating Profit • Mandate and Tenant Mix 2. Social Sustainability-Assessing <ul style="list-style-type: none"> • Vacancies and Turnover • Interviewing Tenants • Building Condition Assessment (BCA) 3. Projects on Leased Land 4. Site Assessment <ul style="list-style-type: none"> • Site and Building Potential • Zoning By-law • Covenants on Title • Licenses, Permits and Tax Exemptions 5. Tenant Concerns 6. Fundraising 7. Organizational Capacity 8. Change Management

Private Non-Profit (PNP) Housing Considerations

Explore & Assess Options	Consult & Finalize Preferred Options	Implement Preferred Options – EOA Action Plan
<p>Options that can be explored to improve the viability of a project and portfolio.</p> <p>15 Options in 4 Broad Categories</p> <p>1. Increase Revenue</p> <ul style="list-style-type: none"> Adjust Rents or Rent Mix Increase Market-Rate Tenants RGI Tenants – Options Pursue Strategic Partnerships Diversify Portfolio Intensify Building(s), or Land, or Both Redevelop Site <p>2. Increase Capital</p> <ul style="list-style-type: none"> Grants and Donations Refinancing Land or Asset Sale Shared Services, Space, or Both <p>3. Find Operational Efficiencies</p> <ul style="list-style-type: none"> Energy Efficiency and Conservation Improved Operations and Maintenance Procedures <p>4. Transfer Assets</p> <ul style="list-style-type: none"> Being Acquired Acquiring 	<p>Decision Making Time</p> <p>WHAT ARE THE OPTIONS THAT BEST CONTRIBUTE TO THE LONG-TERM VIABILITY OF THE PROJECT/ PORTFOLIO?</p> <p>Record the selected options</p> <p>Communications</p> <ul style="list-style-type: none"> Communicate in writing Steps taking Timing of the process Identify preferred options Tenant communication is key to a successful transition <p>Consultations</p> <ul style="list-style-type: none"> Meet and consult with staff and tenants at key milestones Determination of project viability When short-listed options have been identified Following the final decision on preferred options May include neighbours and stakeholders depending on options 	<p>Develop Action Plan</p> <ul style="list-style-type: none"> If options preferred are more complex may need a consultant for: <ul style="list-style-type: none"> Securing financing Legal advise Co-ordinating municipal approvals, designs, tendering, and construction on behalf of the provider <p>Monitor Implemented Changes</p> <ul style="list-style-type: none"> What is working? What is not? Re-evaluate <p>Key Performance Indicators</p> <ul style="list-style-type: none"> Change in Net Operating Income (NOI) – dollars Change in Replacement Reserves – dollars Change in tenant mix – RGI, Low(er) End of Market, Affordable Rents, Market Number of turnovers monthly Number of vacant units beyond two months Other resources

Checklist 3: Potential Strategy List

Based on recommendations from MB Housing and 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:

Improve Revenue

1. Adjust Rents or Rent Mix
 - a. 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)
 - b. Increase rents gradually upon expiry
 - c. Use increased rents to replace reserves
 - d. Select Higher Income RGI Tenants on Turnover (Set a higher income requirement for RGI units)
 - e. Shift RGI Units to Market-Rate Units (thereby cross-subsidizing within project)
 - f. Abandon RGI rents in favour of low break-even rents
 - g. Funding for Tenants – improve RGI tenant incomes (improve skills, etc.)
 - h. Reduce the number of affordable units
2. Cross-subsidize: pool operating and capital reserves and liabilities across a portfolio where better-off projects can help the worse-off.
 - a. 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.
 - b. Rents can be raised for units within a project to cross-subsidize others.
 - c. Grouping / moving RGI units: moving tenants from smaller projects to larger projects that can afford to cross-subsidize
3. Diversify Portfolio
 - a. Seek additional funding streams
 - b. Pursue long-term efficiencies
4. Refinancing: use the value of portfolio to improve other buildings
 - a. with a low-ratio mortgage
 - b. with a high-ratio mortgage
5. Intensify Building(s) or Land
 - a. Develop new projects: expand, intensify or redevelop existing properties to increase revenue streams and achieve economy of scale
 - i. Increase Rent Revenue
 - ii. Building Modifications (density, or efficiency)
 - iii. Infill development

6. Redevelop Site
 - b. Consider building condition
 - c. Requires significant capital
 - d. Upgrade / Renovate / Repair units before expiry:
 - i. To improve marketability (for either ongoing rentals or sale)
 - ii. To improve efficiency – economical management, windows and insulation to lower costs of heating and individual water meters instead of common.
 - iii. Before loss of non-profit status.
 - iv. To justify raising of rents.
 - d. Ensure development meets the mandate of organization and align with community values.

Raise Capital

1. Land or Asset Sale
 - a. Consider development potential of land
 - b. Subdivide land for revenue
 - c. Sell some units to pay for renovations to others, or to bolster capital reserves, and to maintain other units at RGI/market rent
 - d. Ensure sales meet the mandate of organization and align with community values.
2. Borrow against surplus
3. Add a capital improvement levy to rents
4. Seek provincial approval to increase pre-expiry contributions
5. Seek provincial approval to re-amortize and borrow before expiry for replacement
6. Seek renewal of funding support from province
7. Grants, Donations and Refinancing
 - a. Seek supplementary assistance from funder
 - b. Demonstrate need
 - c. Make the business case

Find Efficiencies

1. 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.)
 - a. Merge/amalgamate with other organizations. This has been highly recommended by Ward
 - b. Where merging is not possible, partnerships may help approximate portfolio benefits of merging.



- c. 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)
 - i. Shared management organization
 - ii. Management contract model
 - iii. Service exchange model
 - iv. Share space
- d. Energy Efficiency Upgrades
 - i. Decrease operating expenses
 - ii. Long-term cost saving opportunities
 - iii. May require significant capital

Transfer Assets

1. Explore advantages of selling some assets
2. Assess acquiring assets over long-term
3. Ensure asset changes meet the mandate of organization and align with community values.
4. Recognize that changing the assets of the organization may change its culture

Implement Options

1. Implement plan
2. Seek help and advice – from MNPHA and MB Housing
3. Importance of monitoring and assessing implemented changes

Appendix 2: Other Resources

There are a number of resources available that provide additional information about the Expiry of Operating Agreements. These resources have been gathered on the MNPHA [website](http://mnpha.com/ea-resources/) and are organized to follow the structure of this Guide. (See <http://mnpha.com/ea-resources/>)

Available resources as of early 2018 include:

Guides for EOA

- ♦ *Expiry of Operating Agreements: A Planning Guide for Manitoba's Non-Profit Housing Providers*, April 2018 (this Guide)
- ♦ *Expiry of Operating Agreements: A Planning Guide for Ontario's Former Federal Housing Programs*, April 2016
- ♦ *Expiry of Operating Agreements: A Planning Guide for BC's Non-Profit Housing Societies*, Nov 2014

Organization and Governance

- ♦ Creating Mission and Vision Statements (Top Non-Profits)

Strategic Planning for Non-profits (from Lorch & Associates)

- ♦ Creating an Information Gathering Plan
- ♦ Identifying Planning Process Issues and Outcomes
- ♦ Six Habits of True Strategic Thinkers
- ♦ Strategic Plan Review Questions
- ♦ Understanding Strategic Planning
- ♦ Financial Statements – Questions Boards Should Be Asking
- ♦ Guide to Financial Statements of Not-for-Profit Organizations (Chartered Professional Accountants Canada)
- ♦ Legal Risk Management Checklist for Not-for-Profit Organizations (Carters, 2013)
- ♦ A Board Development Guide (Manitoba Housing and Family Services 2002)
- ♦ The Cooperatives Act

Residential Tenancies Branch

- ♦ The Residential Tenancies Act
- ♦ Residential Rent Regulation – Residential Tenancies Act 156.92
- ♦ What Manitoba Landlords Need to Know

Operational Viability

- ♦ Simplified Assessment Tool (Steve Pomeroy) – This is an Excel spreadsheet.
- ♦ Capital Planning Simplified Spreadsheet (CMHC) – This is an Excel spreadsheet.
- ♦ Capital Replacement Planning Manual (CMHC)
- ♦ Remaining Useful Life of Capital Items (CMHC)
- ♦ Replacement Reserve Guide (CMHC)



Operational Viability (Continued)

- ♦ Capital Reserve Planning: A Guide for Federal Coops (CHFC)
- ♦ BC Housing Multiple Unit Inspection
- ♦ CMHC Seed Funding

GST Municipal Designation and GST Rebates

- ♦ GI124 Municipal Designation of Organizations Providing Rent Geared to Income Housing
- ♦ RC 4034 GST/HST Public Service Bodies Rebate
- ♦ RC 4049 GST/HST Information for Municipalities
- ♦ RC 4081 GST/HST Information for Non-Profit Organizations

Other Factors

- ♦ Briefing Memorandum Legal Issues EOA BC May 2016
- ♦ ON EOA Legal Issues (HSC)
- ♦ EOA Discussion Guide for Section 95 Non-Profit Providers, City of Toronto
(see checklist p. 21)

Explore and Assess Your Options

- ♦ Addressing the Expiring Subsidy Challenge Options and Remedies April 2012 (Steve Pomeroy)
- ♦ Operations Manual for Maintenance Staff Multi Unit Residential (CMHC)
- ♦ Reducing Maintenance Costs (CMHC)
- ♦ BC Housing Sample Maintenance Checklist
- ♦ Rent Assist – A Flexible Shelter Benefit for Low-Income Manitobans
- ♦ Rent Assist for EIA Clients
- ♦ Rent Assist Application for Low-Income Manitobans (For those not receiving Employment and Income Assistance)

Consult and Finalize Preferred Options

- ♦ Creative Thinking – Decision-Making and Problem Solving

Implement Preferred Options

- ♦ Sample Workplan ONPHA
- ♦ Measures to Assess Housing Outcomes (Steve Pomeroy 2011)
- ♦ Raising the Benchmark Best Practice Performance Measurement for Community Housing

Appendix 3: Note on Cooperatives

Housing cooperatives differ from other non-profit housing providers in a few key ways.

Residents are called **members** or **member-owners** (rather than “tenants”) because they do not rent or buy the apartment or house, but rather, own the right to occupy a dwelling. The cooperative members/owners also have the ability to manage and control the co-op.

Monthly **housing charges** are similar to rent or mortgage payments. It is what members pay each month to live in a housing co-op, and includes charges to future repairs and maintenance as well as insurance and taxes. Some co-ops include utility payments as part of monthly charges. Charges are determined by a formula developed by the co-op’s board.

Types of Housing Co-ops

There are two types of housing co-ops under Manitoba legislation, “Not-for profit” (a defined term) and all others (equity and for-profit).

Non-profit housing co-ops are those whose Articles of Incorporation specify they are not-for-profit, that file income tax returns as a not-for-profit corporation or that have received a subsidy (or assistance of a type that assisted with or reduced housing costs) from an agency of the Government of Canada or the Government of Manitoba.

Not-for-profit housing co-ops are subject to the following restrictions:

- ♦ They cannot issue investment shares
- ♦ In each year, they must conduct at least 90% of their business with their members
- ♦ They shall carry on their business without the purpose of gain for their members
- ♦ They may not be continued under any other legislation
- ♦ They may not amend their articles to change to any other type of co-op
- ♦ If a co-op dissolves, remaining assets can only be transferred to another non-profit housing co-op or comparable charitable organization. Cooperatives cannot become for-profit.

Together, the board of directors and members make decisions about how the co-op will operate, including how much members will pay in monthly charges and how repairs and maintenance will be handled. In housing co-ops, risks and costs are shared by members. Co-ops establish reserve funds that help with upkeep and unexpected costs as the property ages.

When members leave the co-op they are entitled to have their shares redeemed by the co-op for the same price paid by the members unless the co-op has a deficit and is prevented by legislation from redeeming the shares.



For more specific information on non-profit co-ops, see:

- ♦ **CMHC Guide to Co-operative Housing** – Manitoba – Fact Sheet
(https://www.cmhc-schl.gc.ca/en/co/buho/gucoho/fash/fash_003.cfm)
- ♦ **A Guide to Starting Cooperative Housing in Manitoba** – MB Housing
(<https://www.gov.mb.ca/jec/coop/pdf/cpb-co-op-housing-guide-web.pdf>)
- ♦ MB Housing – **Types of Cooperatives**
(<https://www.gov.mb.ca/jec/coop/types/index.html>)

Legislation

The Cooperatives Act is the primary legislation governing housing cooperatives in the province and defines the rules, regulations, and requirements for co-op operation. Oversight is provided by the Registrar of Cooperatives, which is part of the Financial Institutions Regulation Branch (FIRB). Under *The Cooperatives Act*, the FIRB assists people trying to form a cooperative while also producing model forms of articles of incorporation and bylaws for the use of co-ops, providing public registry, and acting as an adviser to co-ops.

The *Act* provides a framework for housing co-ops to create bylaws. The co-op may make a bylaw to allow its directors to create a system for providing subsidies for housing charges to its members, and other rules relating to the occupancy of a housing unit.

On an annual basis, housing cooperatives complete and file Annual Returns to the Companies Office to keep up to date on their registration and directors' listing. This will continue to be the case post-EOA.

Legislation that pertains specifically to housing co-ops:

- ♦ The Cooperatives Act CCSM c. C-223
 - ➔ Part 12 deals specifically with housing coops.
 - ➔ web2.gov.mb.ca/laws/statutes/ccsm/c223_2e.php
- ♦ Cooperatives Regulation C-223-MR 95/99
 - ➔ Part 3 deals specifically with housing coops.
 - ➔ web2.gov.mb.ca/laws/regs/current/_pdf-regs.php?reg=95/99
 - ➔ (note: link is bilingual)
- ♦ The Residential Tenancies Act, CCSM c. R-119
 - ➔ web2.gov.mb.ca/laws/statutes/ccsm/r119e.php

Operating Agreements

Housing Co-operatives have Operating Agreements that define their responsibilities. They vary somewhat by program but generally include contractual obligations regarding:

1. The repayment of the mortgage financing provided
2. The management of rent geared to income subsidy support provided under the agreement
3. Not pledging the assets without the prior approval of MB Housing
4. Not encumbering the property without prior approval
5. Maintaining effective management and governance
6. Maintaining adequate insurance on the property
7. Maintaining a replacement reserve fund
8. Reporting requirements
9. Remedies available to government in the event of breach of agreement

Once the contract (Operating Agreement) matures, all obligations of the co-op terminate, unless specifically renegotiated. The housing provider no longer has any terms and conditions to meet and is no longer required to report to MB Housing.

After expiry, housing providers will have greater control over the financial management and decision-making processes of a project and may refinance or leverage equity in their property.

However, the project may be vulnerable because of revenue deficits, insufficient capital reserves, and major project renovations and repairs. **Co-ops face serious challenges at EOA because many do not generate sufficient rental revenue to continue to subsidize low-income households, especially over the longer-term. Continued building maintenance will require many to take out a new mortgage.**

Post-EOA, many co-ops are using equity in their housing buildings to refinance mortgages to provide subsidies, to improve housing stock, or to build new units.

Cooperative-Specific Resources

The Co-operative Housing Federation of Canada (CHF Canada) provides numerous resources and holds workshops for housing cooperatives, for example on strengthening board capacity.

- ♦ Resources are available from CHF Canada at:
<https://chfcanda.coop/education-and-resources/resource/>



One resource that may be of particular interest is:

- ♦ **Capital Reserve Planning – A Guide for Federal Co-ops** (CHFC):
<https://chfcanada.coop/wp-content/uploads/2017/04/Capital-reserve-planning-A-guide-for-federal-program-co-ops.pdf>

CHF Canada is engaged in a campaign specific to EOA. The primary focus has been on lobbying the government to replace lost subsidies. Information about the campaign can be found here:

- ♦ <http://protectcoophousing.ca/issue/>
- ♦ **You hold the key: What's needed to fix co-op housing** - CHF Canada: https://chfcanada.coop/wp-content/uploads/2017/04/Federal_Budget_Brief2016.pdf

Note that Canada Mortgage and Housing Corporation (CMHC) was offering to continue to provide subsidies to co-ops on an interim basis (through to March 31, 2018). Check with CMHC and CHF Canada to determine if new/additional offers for supplementary agreements may be available. (See: <http://www.chf.bc.ca/news/newsletter/more-details-about-subsidy-renewal-federal-co-ops-july-26-2016>)

Appendix 4: Note on Capital Planning

There are different kinds of capital items in a housing project, most of which have long life spans. They consist of the major building and property components, services and systems and project facilities and equipment. Capital items generally have an expected useful lifespan that will vary according to quality and project conditions. The useful life of capital items comes to an end when the cost of repairs or maintenance is no longer worthwhile because they will not extend the useful life by a reasonable length of time.

Major repairs or renovations, the benefits of which extend beyond the current fiscal period and cannot easily be paid for out of annual operating budgets, can also be considered as capital items. Examples of these kinds of repairs are major roof repairs or window caulking of high-rise projects where extensive scaffolding must be erected.

LIST OF STANDARD CAPITAL ITEMS

The following is the STANDARD LIST of capital items that can be paid for out of the replacement reserve:

1. Major Building Components
 - ♦ Roofs, including coating, flashing, eaves trough and downspouts
 - ♦ Exterior wall finishes having a generally expected definite useful life expectancy that is less than the life expectancy of the project, including exterior painting and stucco
 - ♦ Exterior doors and windows
 - ♦ Exterior caulking where accessibility is a major restriction (e.g., requiring scaffolding) and the replacement is therefore a major undertaking
 - ♦ Above ground waterproofing including vapour barriers
2. Major Building Services
 - ♦ Heating systems, including boilers (hot water or steam), forced air furnaces, radiant heat components, solid fuel burning systems, chimneys and related components
 - ♦ Domestic hot water tanks, booster pumps, circulating pumps and sump-pumps found in multiple unit buildings (fittings and controls replaced during the course of regular, routine maintenance are not eligible)
 - ♦ Septic tanks and tile beds
 - ♦ Required air handling systems
3. Basic Facilities
 - ♦ Kitchen facilities such as stoves and refrigerators, sink and faucet installations, counter tops and cabinets
 - ♦ Bathroom facilities such as toilets, sinks and fixtures, vanities, tubs and fixtures
4. Safety Features
 - ♦ Fire alarm systems such as hardwired smoke alarms, smoke and heat detectors linked to central alarm
 - ♦ Required firefighting or prevention equipment



- ◆ Emergency lighting
- ◆ Intercom system in multiple unit buildings
- ◆ Other safety items

5. Other Major Facilities, Equipment and Features

- ◆ Parking lot, enclosed garage, driveway and walkway surfaces including multiple unit garage surfaces and concrete slabs
- ◆ Garbage disposal systems in multiple unit building (e.g., compactors, disposers)
- ◆ Interior floor coverings, including common areas and suites
- ◆ Exterior fences
- ◆ Laundry equipment
- ◆ Water softeners where hardness of well water makes these a necessity

f) Regulated Changes

Regulatory or legislated requirements for changes that apply to existing buildings and where the authority having jurisdiction requires replacement or upgrading within a definite period of time.

EXTENSIONS TO THE STANDARD LIST

Items which were designed, manufactured and installed to function and perform indefinitely but due to a construction or manufacturing deficiency or to external environmental factors, are failing or are about to fail can be added to Standard List. Because of the variety of construction types and ages within portfolios, some projects, such as older existing building acquisitions, may have one or more items that would be considered extensions to the Standard List.

Extensions to the Standard List can include:

- ◆ Repairing foundations or significant sections of foundations
- ◆ Other structural components such as wall, floor and roof framing
- ◆ Brickwork, pre-cast concrete panels
- ◆ Emergency generators
- ◆ Retaining walls
- ◆ Plumbing systems
- ◆ Electrical installations including project transformers, emergency generators
- ◆ Balconies

Note: Every effort should be made to determine and establish an appropriate and comprehensive project specific list at the time a capital item assessment report is prepared by or on behalf of the housing provider for inclusion in the next replacement reserve review.

WHEN SHOULD A CAPITAL ITEM BE REPLACED?

A capital item should be replaced when it is no longer performing or operating as it was meant to, no longer cost effective to maintain or no longer safe (i.e. it represents a health or safety hazard). Some capital items are quite complex, such as moisture barriers or heating and other mechanical systems. The recommendation of a technical expert may be required to confirm that these items need replacing.

A capital item should be replaced when a change is introduced to a by-law, building code, safety standard or other government regulation that applies to a capital item in an existing residential building and upgrading of the item is mandatory and subject to a fixed deadline.

WHAT COSTS SHOULD NOT BE PAID FOR FROM THE REPLACEMENT RESERVE?

The replacement reserve is only meant to pay for replacing capital items or for making major renovations or repairs to them. It is in no way to be construed as a fund to replace the entire project once the project has reached the end of its useful life.

The replacement reserve should not be used for:

- ♦ The cost of normal maintenance or repairs to keep the buildings and property in good operating condition and to preserve the expected useful life of capital items. These kinds of activities are known as routine and preventive maintenance and repairs.
- ♦ The cost of replacing building components or mechanical services that are still operating and performing satisfactorily and meet all regulatory requirements, even if they are now obsolete and would not meet building regulations and codes for new construction. Where the replacement would result in immediate operating efficiencies, for example an energy conversion retrofit that will repay the investment over a short period of time (five years), an exception would be possible.
- ♦ The costs of replacing capital items that have been damaged or destroyed as a result of deliberate abuse or vandalism. In those cases, the housing provider should try to recover the cost of replacement from the occupant(s) or from other persons who caused the damage, or through the organization's insurance policy. Where recovery is not possible replacement expenditures can be charged to the reserve.

WHAT SHOULD CAPITAL ITEMS BE REPLACED WITH?

Capital items should be replaced with ones of equivalent quality, standards of performance and expected useful life, unless it can be demonstrated that:

- ♦ A higher quality replacement is cost-effective because of lower maintenance or operating costs or a longer expected useful life; in this case, a cost benefit analysis that demonstrates the cost effectiveness (cost recovery over a period of about five years) of a higher quality replacement must be carried out;
- ♦ The capital item being replaced is generally considered as not appropriate for the project due to proven climatic, geographic or other influences or effects.

Replacements should meet all requirements of the National Building Code, provincial codes and any other authority having jurisdiction.



OPTIONS WHEN REPLACEMENT RESERVE FUND IS INADEQUATE TO PROVIDE FOR AN EMERGENCY REPAIR/REPLACEMENT

Once the Operating Agreement expires it becomes possible for the housing provider/organization to apply to a lending institution for a renovation loan or to refinance using the property's equity as leverage for the loan without obtaining any approval from Manitoba Housing.

Under such circumstances the project would need to demonstrate to the financial institution that it is financially capable of servicing the desired loan amount.

Now is the time to determine capital needs and the resources to provide for those. Talk to your financial institution. Make a plan Pre-EOA.

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