

PREPARING FOR THE EXPIRY OF OPERATING AGREEMENTS

BCNPHA AND BC HOUSING WORKPLAN – NOVEMBER 2012 UPDATE

BC Non-Profit Housing Association (BCNPHA) and BC Housing have partnered to examine the expiry of operating agreements and to develop strategies to sustain the affordable housing stock and the non-profit housing sector. Through a joint workplan, BCNPHA and BC Housing are assessing the level of awareness and preparedness for operating agreement expiry amongst non-profit societies, as well as identifying challenges, opportunities and strategies in planning for expiry.

This newsletter provides an update on the progress of the joint workplan and findings from activities accomplished to date. There are three phases to the joint workplan. Phase 1 focused on data collection and sought to gather information on the following:

- Context of expiry of operating agreements in Canada;
- Context of expiry of operating agreements in B.C.;
- Experiences of societies with expired operating agreements in B.C.;

- Level of awareness and preparedness among non-profit housing societies in B.C.;
- Portfolio-wide solutions used by larger organizations in B.C.; and,
- Estimating viability using a simplified assessment tool.

Phase 2 involves synthesizing and analyzing the information collected in Phase 1 to identify the following:

- Issues, challenges and opportunities for non-profit housing societies;
- Strategies currently in use for societies to ensure viability after expiry;
- Identification of further work needed to address expiry, including development of tools and strategies for societies to prepare for expiry.

Phase 3 will explore the creation of tools to assist with planning.

Phase 1 is nearing completion with the second phase to begin shortly. It is expected that the work from the joint workplan will be completed by end of 2013.

This newsletter will provide a brief summary of the findings from activities in Phase 1 accomplished to date.

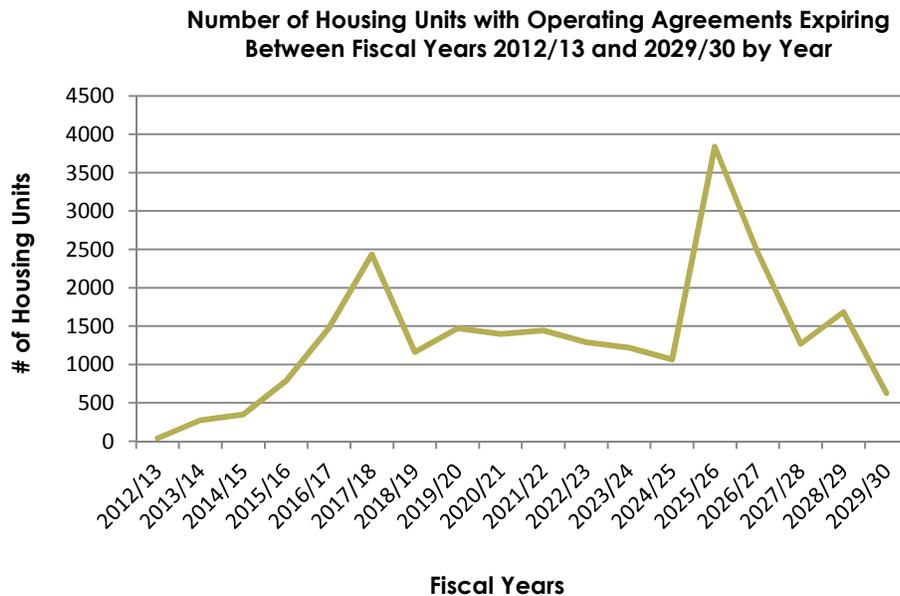
CONTEXT OF EXPIRY OF OPERATING AGREEMENTS IN B.C.

Units Expiring by Year, Program, Geographic Region, Client Type Served

To better understand the distinct issues and needs related to the expiry of operating agreements, data was collected by year, program, geographic region, and client type served. Data for operating agreements that are automatically renewed is not presented here as the subsidies attached to these agreements will not likely be lost, provided that the funding renewal agreements between BC Housing and the non-profit provider are mutually agreeable. The following is a summary of the results.

Units Expiring by Year

Between fiscal¹ years 2012/13 and 2029/30, approximately 24,000 units with operating agreements will expire in BC. This represents approximately two-thirds of all units with operating agreements. In the fiscal years 2030/32 and later (data not shown), approximately 10,500 units with operating agreements will expire.

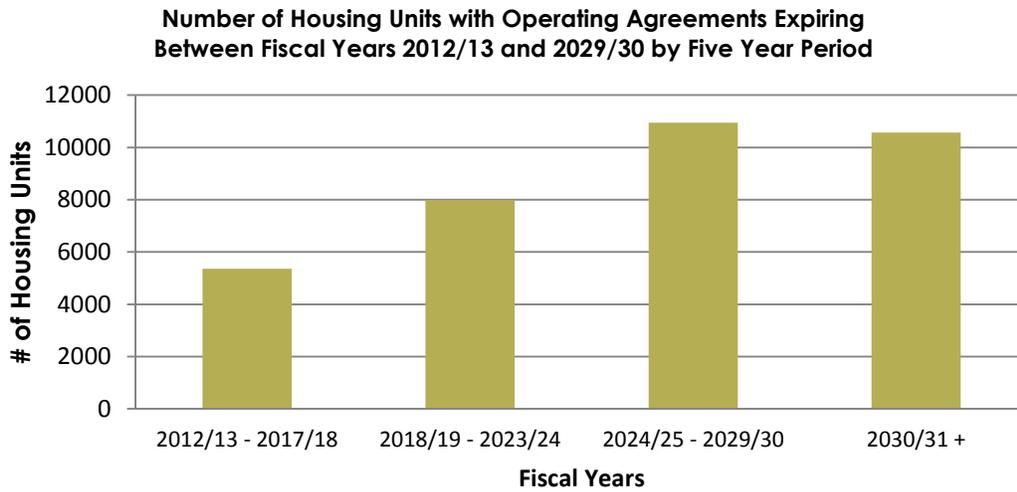


Source: BC Housing, September 30, 2012

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

Units Expiring by Five Year Period

The period with the most operating agreements and housing units expiring is the five years between 2024/25 and 2029/30 with approximately 11,000 units.

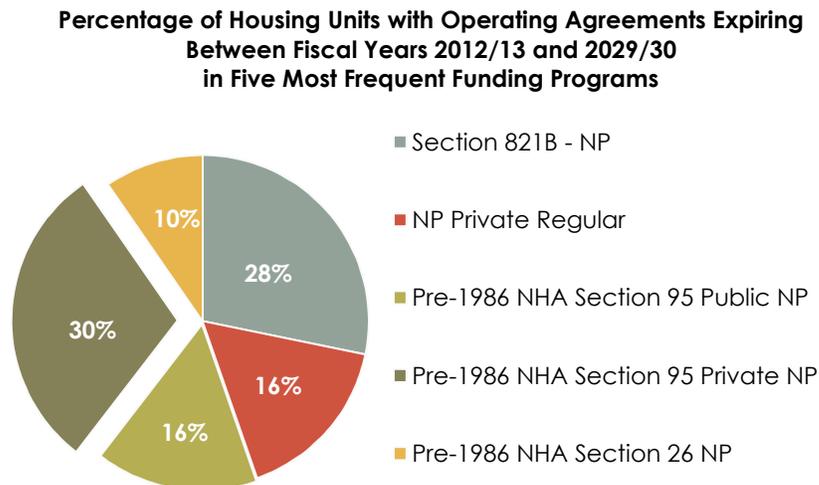


Source: BC Housing, September 30, 2012

Units Expiring by Program

The five funding programs with the most operating agreements and housing units to expire between 2012/13 and 2029/30 are:

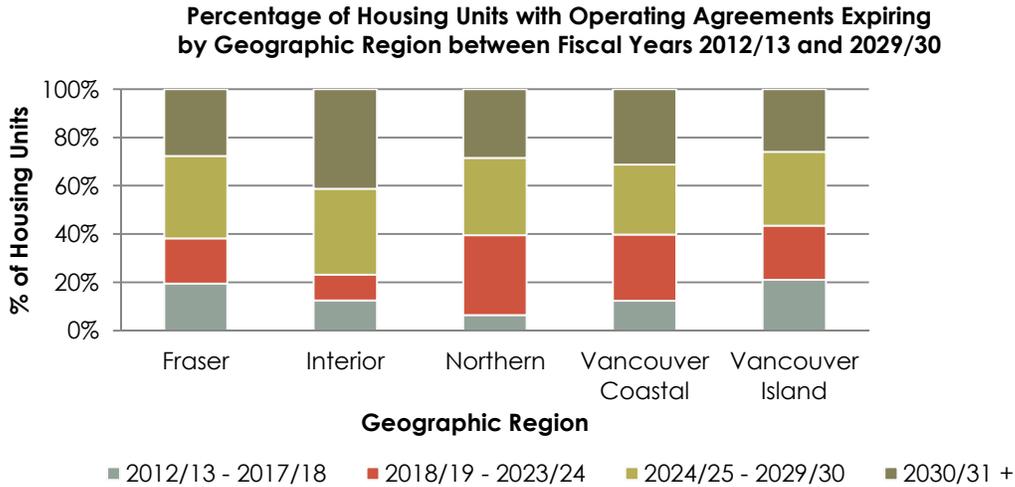
1. Pre-1986 NHA Section 95 Private Non-Profit Program (FP 571) – 5,000 units
2. Section 821B – Non-Profit Program (FP 507) – 5,000 units
3. Non-Profit Private Regular Program (FP 538) – 3,000 units
4. Pre-1986 NHA Section 95 Public Non-Profit Program (FP 570) – 2,500 units
5. Pre-1986 NHA Section 26 Non-Profit Program (FP 573) – 1,500 units



Source: BC Housing, September 30, 2012

Units Expiring by Geographic Region

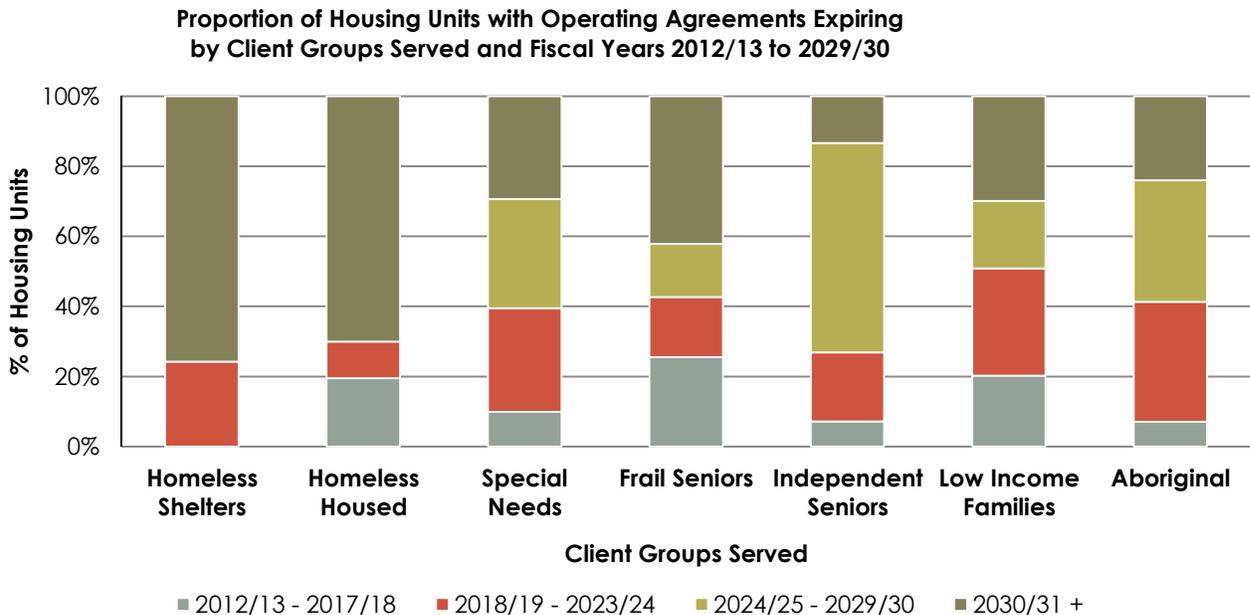
In the next five fiscal years (2012/13 to 2017/18), the Vancouver Island Region will have the highest percentage of housing units expire among all geographic regions. Over the next 11 fiscal years (2012/13 to 2023/24), the Interior Region will have the lowest percentage of housing units expiring (23 per cent) compared to the other four geographic regions (from 38 per cent to 43 per cent).



Source: BC Housing, September 30, 2012

Units Expiring by Client Group Served

In the next five years (2012/13 to 2017/18), the frail seniors client group will see the highest proportion of units expire (26 per cent) compared to other client groups.



Source: BC Housing, September 30, 2012

EXPERIENCES OF SOCIETIES WITH EXPIRED OPERATING AGREEMENTS IN B.C.

Key Findings

A number of non-profits in B.C. have already experienced the expiry of their operating agreements. However, little is known about how expiry has impacted them and what strategies they have adopted to handle the issue. BCNPHA interviewed five non-profit housing societies that have had an operating agreement expire to understand their experiences and to identify lessons that might be applicable to other non-profits in the same situation. The following four profiles are publicly available on the BCNPHA website:²

- Prince George Métis Housing Society
- Aquanttanam Housing Society
- Penticton Kiwanis Housing Society
- PA and JM Gaglardi Housing Society

We sought to learn:

- How are non-profit housing societies planning for expiry?
- What actions are societies taking to address expiry?
- What have been the outcomes since expiry, for tenants, buildings and societies?
- What lessons can these experiences offer other non-profit housing societies facing expiry?

The societies profiled ranged from small to large societies and urban to rural, including Northern communities, with agreements

under a variety of older housing programs. Highlights of key findings from the five societies are provided below.

1. How did the societies plan for expiry?

Planning was varied among the societies interviewed. Some societies determined prior to expiry that expiry would not impact them significantly due to their subsidy formula and simply adjusted expenses and revenues based on the mortgage payments ending. Others found themselves unprepared for expiry and are now planning post-expiry. Several key themes around planning emerged through the case studies:

Identifying areas to reduce operating costs and increase revenues. A key part of this planning involved identifying areas (such as energy use, staffing and rents) to reduce costs and increase revenues to ensure expenses were covered.

Understanding current and future capital and maintenance needs. A large capital replacement or repair can quickly take a building from being viable to unviable. Some societies took a close look at the condition of their buildings as part of the planning process. Understanding their current and future maintenance and replacement needs is essential to societies forecasting what costs might look like post-expiry.

Considering the options on a portfolio-wide basis. For some societies, expiry meant it was no longer viable to continue offering

² While five non-profit housing societies were interviewed, four consented to share their case studies on the BCNPHA website. Results for all five case studies are incorporated into the aggregate findings in the report.

subsidized rents at the expired building. These non-profits considered their options on a portfolio-wide basis and explored whether it was more viable to divest the building and use the revenue to offer affordable rents elsewhere in their portfolio, or to raise rents and move tenants unable to afford the increases to another building.

Involving and notifying staff and tenants.

Depending on a society's financial position and how their subsidy is calculated, expiry may impact staff and tenants. Involving and notifying staff and tenants of any changes that would impact them (whether positively or negatively) was an important part of planning for success post-expiry. One society had important learnings about adequately explaining the reasons for rent increases to tenants.

2. What actions did the societies take to address expiry?

Raising rents. Non-profits whose buildings would not be viable with the pre-expiry rent structure had to raise rents on some or all of the units in their projects. Some raised rents gradually, which allowed existing tenants to remain. Others have converted units to low-end of market or market rents in order to cover their expenses. In some cases, converting units has allowed the non-profits to retain other units at subsidized levels.

Reducing costs through staffing and energy efficiency upgrades. Some non-profits undertook energy efficiency upgrades for major capital items to bring cost savings over the long-term, either pre- or post-expiry. For example, upon expiry one non-profit looked

at their historical energy consumption data for their entire portfolio and identified opportunities to reduce consumption and achieve savings. This society then accessed BC Hydro's Energy Conservation Assistance Program (ECAP) funding to undertake energy efficiency improvements. Other societies had to consider whether their existing staffing levels were sustainable as part of their planning processes.

Undertaking repairs and renovations.

Some societies undertook repairs and renovations in anticipation of expiry, making use of funding available to them through their operating agreement. Ensuring their buildings were in good condition was also critical to attracting market-rate tenants and, in some cases, to selling the property.

Seeking subsidy extensions. One society was unprepared for expiry and realized they could not continue to operate their building at existing rent levels without subsidy. This society sought and received a three-year extension on their subsidies which has given them additional time to plan out their options.

Selling properties to generate revenues. In some cases, selling unviable buildings was the best option for societies that were negatively impacted by the end of their subsidy. This was the case for societies with single-family dwellings. Selling these buildings generated revenue that was then put towards stabilizing the rest of the portfolio, subsidizing other units, and creating new revenue generating opportunities. One non-profit is exploring the idea of working with

tenants in single-family homes to purchase those homes using sweat equity as a down payment.

3. What have been the outcomes since expiry?

Many societies are emerging from expiry of their operating agreements as stronger organizations with a better understanding of their financial position, their capital needs, and their requirements for ensuring their portfolio is sustainable. Expiry has pushed them to take a look at how they operate and to determine how best to operate in the future.

Non-profits are gaining ownership of their buildings. Outcomes were varied among the non-profits interviewed. However, in all cases, the societies gained ownership of their property once the agreement expired and the mortgage had been paid off. This is a substantial asset which can provide societies with the opportunity to operate how they best see fit.

Revenues are increasing. Without mortgage payments some buildings are generating revenue. In some cases, this revenue has been enough to cover expenses. In others, societies have had to explore ways of increasing revenue or reducing costs. This has included raising rents, repurposing underused space and purchasing commercial properties. Some societies are converting their properties into

revenue-generating commercial or retail spaces. Others are investing in commercial properties to produce further revenues to help support their non-profit housing portfolio.

Rent mix has shifted. Rents increased in most of the buildings after expiry. In some cases this has been gradual and incremental, and the tenants have been able to remain in their units. In other cases, rents have been raised more significantly, to low end of market or market rents. In cases where rents were raised significantly, the societies attempted to retain some units that are affordable and work with other tenants to relocate them to an affordable unit elsewhere in their portfolio.

Some properties have been sold. Some buildings were not viable without subsidies and/or the societies' portfolio-wide financial position was weak. In these cases it has made sense to sell a property or two (usually single-family dwellings) and use that revenue to stabilize other assets, again taking a portfolio-wide perspective.

Non-profits are exploring new ways of developing affordable housing. Societies are looking at new ways of developing affordable housing outside of long-term operating agreements. Some are exploring new types of partnerships with BC Housing or with other groups in their community. One society is considering developing secondary suites in their single family housing stock.

LEVEL OF AWARENESS AND PREPAREDNESS AMONG NON-PROFIT HOUSING SOCIETIES IN B.C.

Preparing for Change

To assist in gauging the level of awareness and preparedness of expiry within the non-profit housing sector, a consultant was hired to conduct interviews with a broad range of non-profits in the summer of 2012. A total of 33 interviews were conducted, covering a range of issues related to planning for expiry including actions taken to prepare for expiry, benefits and challenges of planning for expiry and supports needed for expiry preparation. Participating non-profits were representative of regions throughout B.C., varying portfolio sizes and program/client types. All participating non-profit housing societies had operating agreements expiring in the next ten years, with the 28 of the 33 societies having

agreements that are expiring between 2013 and 2018.

The report presents key findings in the preparedness of societies for expiring agreements. Below is a summary of the key findings.

1. Overall Preparedness

The majority of participating societies indicated that they were very or somewhat prepared for the expiry of their operating agreement. However, 36 per cent indicated that they were not prepared which is a significant concern for the sustainability of the sector. (In two cases this was because the society was still six to 10 years from expiry). Nearly half of small operators indicated that they were unprepared for expiry.

Table 1: Financial Viability and Preparedness of Small, Medium and Large Housing Societies (n=33)

Portfolio size	Expect to be financially viable at expiry		Prepared to address the impacts of expiry		
	Yes	No	Very prepared	Somewhat prepared	Not prepared
Small societies (1-2 buildings)	11	4	4	4	7
Medium societies (3-6 buildings)	9	4	5	4	4
Large societies (7+ buildings)	5	0	1	3	1
Total	25	8	10	11	12

2. Planning Actions

A range of planning actions were taken or considered by all housing societies that indicated they were somewhat or very prepared for expiry. These actions generally fell into two categories: infrastructure planning and financial/strategic planning.

Infrastructure actions were the most common actions and include:

- Building assessments;
- Upgrades and capital repairs; and,
- Redevelopment planning, including densification and revenue generation through subdivision and sale of property.

Financial and strategic planning actions include:

- Cash flow planning;
- Capital cost planning;
- Prioritizing the build-up of capital replacement reserves;
- Organizational strategic planning;
- Adjusting rent;
- Identifying opportunities for cross-subsidies (medium and large societies);
- Planning with BC Housing;
- Board education; and,
- Working with other funding agencies to ensure continuity.

3. Planning Timeframe

Societies that indicated they were somewhat or very prepared for expiry were likely to have engaged in mid- to long-term planning processes, often beginning upwards of five years in advance of expiry with some societies having an even longer planning timeframe. Societies that

indicated they were unprepared for expiry had either done no planning to date or had recently begun planning for expiry, some of which are only one to three years from expiry.

4. Knowledge Gaps

The research identified a number of gaps in knowledge that were impediments to effective planning. The gaps were most commonly reported by small societies and relate to an unclear understanding of a broad range of implications of expiry. These include an expiry's impact on the legal status of the property and leased land, how expiry will impact the operating budget of a society, whether operating agreements can be renewed or extended, uncertainty about a society's own financial position related to BC Housing and mortgage financing, lack of clarity on resources available to them and the strategies they can implement to ensure viability.

5. Financial Stability

Small housing societies were significantly more likely to feel financially unstable, with nearly half of the small societies indicating their replacement reserves were too low to be viable post-expiry. By contrast, all medium and large societies felt they would be financially viable at the time of expiry although concern about replacement reserve funding continued to be expressed.

6. Organizational Capacity

A range of organizational capacity exists within the non-profit housing sector and has significant consequences for a society's ability to effectively plan for expiry.

Regardless of size, however, participating societies that have planned for expiry follow similar planning and decision-making processes. Among medium and large housing societies, senior staff undertook much of the planning and provided recommendations to their Boards of Directors who were largely responsible for making key decisions. The majority of small housing societies that were very or somewhat prepared for expiry followed a similar process with executive directors or administrators doing the bulk of the planning with the Board making key decisions. Expiry planning in small organizations that indicated they were unprepared for expiry was slightly more likely to be driven by the Board.

Capacity also impacts the ability of smaller societies to address the challenges with planning for expiry. Participating societies noted that their ability to work with BC Housing through new Non-Profit Portfolio Managers (NPPMs) on their portfolio when there is turnover among NPPMs impedes planning related to expiry. Capacity also relates to financial resources of smaller societies with more limited resources affects and their ability to hire development consultants or other experts to assist them through planning processes as indicated by some medium and large organizations.

7. Challenges

A number of challenges in planning for expiry were identified by participating societies. The challenges were common across a broad range of societies,

regardless of portfolio size. The primary concern was maintenance and capital repairs on an aging building stock, with uncertainty expressed about the long-term viability of the buildings where the operating agreements were expiring. Concerns over replacement reserve funding were also expressed as presenting challenges to long-term viability. Where portfolio size does play a role, however, is in the ability of societies to address the challenges, with larger societies typically having more capacity.

Societies with various portfolio sizes indicated that maintaining rents at their current levels would not be an option in all cases and that raising rents to ensure sustainability was a component of their viability strategy. Some participating societies were investigating different ways of subsidizing rents to minimize impacts on tenant.

8. Opportunities

Societies that indicated they were prepared for expiry were more likely to identify benefits and new opportunities that may potentially arise from the expiry of operating agreements. For some this means the redevelopment and densification potential, which may ultimately result in increasing the supply of affordable housing in their communities. For others it means greater rent mixes in their buildings which would allow for a stable, sustainable income from which these societies could operate with. A stable income would provide the ability to upgrade, expand or

increase the security of affordable units. Small housing societies that indicated they were unprepared for expiry noted no possible benefits or opportunities arising from the expiry of agreements.

9. Role of Partners

Small societies were most likely to see an increased role for BC Housing in helping organizations prepare for expiry of operating agreements, either through additional financial support for major repairs and upgrades, increased flexibility in mortgage payout or providing funding to hire development consultants to assist with strategic and redevelopment planning. Some societies reported that their staff and boards may rely on their Non-Profit Portfolio Managers (NPPMs) for technical or legal understanding of the agreement to help them map out their options as they prepare for expiry. Societies said they would like BC Housing to minimize turnover among NPPMs and ensure that when there is turnover, NPPMs are fully informed about where the societies are at in terms of planning for expiry of operating agreements.

All housing societies saw an important role for BCNPHA in developing the capacity of the sector through educational and preparedness tools for expiring agreements. The tools included: technical checklists to ensure that all appropriate measures have been taken prior to expiry; educational workshops or webinars on actions that housing societies can take to prepare for expiry; one-to-one planning support, particularly for societies that are Board-

driven or have limited capacity, and; financial planning tools. A continued advocacy role, particularly for the funding of capital investments, was also identified for BCNPHA.

Other supporting partners were also identified by participating societies and included other funding bodies (e.g. health authorities and Community Living BC), municipalities, other non-profit organizations and developers. Interviewees indicated that BCNPHA and BC Housing have a role to play in convening these various partners to help plan for expiry. Some societies also noted that municipalities should be involved in planning for expiry, particularly where land leases are concerned. Several societies were unsure of the implications of a land lease over the long-term, and this gap in knowledge can be addressed by working with the land owner (usually a municipality, though it could also include other partners, such as a school district). Several societies also felt that municipalities have an ongoing role in supporting affordable housing through reduced taxes, thereby contributing to long-term financial viability of these projects.

10. Lessons Learned

Basic lessons learned were expressed across all housing societies that were somewhat or very prepared for their expiring agreements. The most common lesson cited was the importance of long-term planning, particularly for reserves and capital replacements but also including

long-term strategic planning. Several societies also noted the importance of Board and staff succession planning to

ensure that momentum and organizational knowledge are not lost in transition.

ESTIMATING VIABILITY

A Simplified Assessment Tool

Through a national working group co-ordinated by Canadian Housing and Renewal Association (CHRA), BCNPHA and five partner non-profit housing associations from across the country developed a financial assessment tool for housing societies. This tool will help societies better understand the financial impact that expiring funding will have on their operations and, as a result, their ability to effectively serve their low-income tenants. The assessment tool enables housing societies to enter dates for a range of variables and receive an instant assessment

of financial viability once federal funding ends. The tool also provides a basic test to explore whether the project capital replacement reserve is sufficient to manage normal replacement.

The tool is accompanied by a user guide that outlines processes and strategies to take if the assessment tool indicates that the project may be at risk, the replacement reserves are insufficient or the asset is under-maintained. The tool and the guide can be downloaded from the “Research” section of the BCNPHA website:

www.bcnpha.ca.

ADDITIONAL RESOURCES

For more information, check out the resources below

The following is a summary of resources that was compiled from an environmental scan of existing research on the expiry of operating agreements in Canada.

Pomeroy, Steve (2006). *Was Chicken Little Right? Case Studies on the Impact of Expiring Social Housing Operating Agreements*. Toronto: Canadian Housing and Renewal Association.

<http://chra.olasoft.com/document/593/Was-Chicken-Little-Right.pdf>

This study involved a more complex version the assessment tool included in this status update and developed a series of case studies that the assessment tool was tested on. It provides useful information on the experiences of a broad range of societies.

Ward, Keith (2011). *Courage Under Fire: Addressing the Challenges and Opportunities of a Post-Operating Agreement Expiry World in Social Housing*. Toronto: Canadian Housing and Renewal Association and Social Housing Services Corporation.

http://www.hscorp.ca/wp-content/uploads/2011/12/Courage_Under_Fire.pdf

This report looks at 10 case studies of social housing societies who have experienced the expiry of an operating agreement in Canada. Each case study provides a profile of the s, the nature of their pre-planning activities prior to expiry and their situation going forward.

Wenman, Christine (2009). *The Financial State of British Columbia's Non-Profit Housing Stock*. Vancouver: BC Non-Profit Housing Association.

<http://www.bcnpha.ca/media/Research/The%20Financial%20State%20of%20British%20Columbiarsquos%20Non-profit%20Housing%20Stock%20Sept%202009.pdf>

Analyzing data from BCNPHA Asset Analysis database, this report explores a number of financial indicators to determine relative financial strength of non-profit housing buildings in BC. Three indicators are groups to create a financial strength index by which to broadly characterize buildings in the sector as positive, medium or vulnerable.