

Expiring Operating Agreements

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

Updated April 2018

FOREWORD

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

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

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

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

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TABLE OF CONTENTS

Introduction	1
Context	1
Purpose of this Guide	1
How to Navigate this Guide.	1
Establish a Process	3
STEP A - Review Operating Agreement	5
The State of Operating Agreements in BC	5
STEP B - Determine Project Viability.	7
Simplified Assessment Tool (SAT)	7
Building Condition Assessment	9
STEP C - Review Other Factors	11
Legal Definitions and Implications	11
Mandate & Clientele	12
Social Sustainability	12
Projects on Leased Land.	15
Site Assessment	16
Tenant Concerns	17
Fund-Raising	17
Organizational Capacity.	17
Change Management	17
STEP D - Explore and Assess Options	19
Improve Revenue: Adjust Rents or Rental Mix	20
Improve Revenue: New or Extended OA	23
Improve Revenue: Pursue Strategic Partnerships	23

Improve Revenue: Diversify Portfolio	24
Improve Revenue: Intensify Building(s), or land, or Both	25
Improve Revenue: Redevelop Site	26
Raise Capital: Grants and Donations	27
Raise Capital: Refinancing.	27
Raise Capital: Land or Asset Sale.	28
Find Efficiencies: Shared Services, Space, or Both.	29
Find Efficiencies: Energy Efficiency Upgrades	30
Transfer Assets: Being Acquired	31
Transfer Assets: Acquiring Assets	32
Level of Difficulty of Implementing Options.	33

STEP E - Consult and Finalize the Preferred Option(s)

STEP F - Next Steps

Implementation Plan	37
Key Performance Indicators	37
Other Resources	37

In Closing.

List of Figures

Figure 1: Proposed Process	3
Figure 2: Pre- and Post-EOA Options	19
Figure 3: Level of Difficulty of Implementing Options	33

TERMS USED IN THIS GUIDE

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

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

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

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



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



This symbol indicates key considerations in the section.



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



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



CONTEXT

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

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

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

PURPOSE OF THIS GUIDE

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

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

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

HOW TO NAVIGATE THIS GUIDE

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

There are nine sections to the Guide:

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





ESTABLISH A PROCESS

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

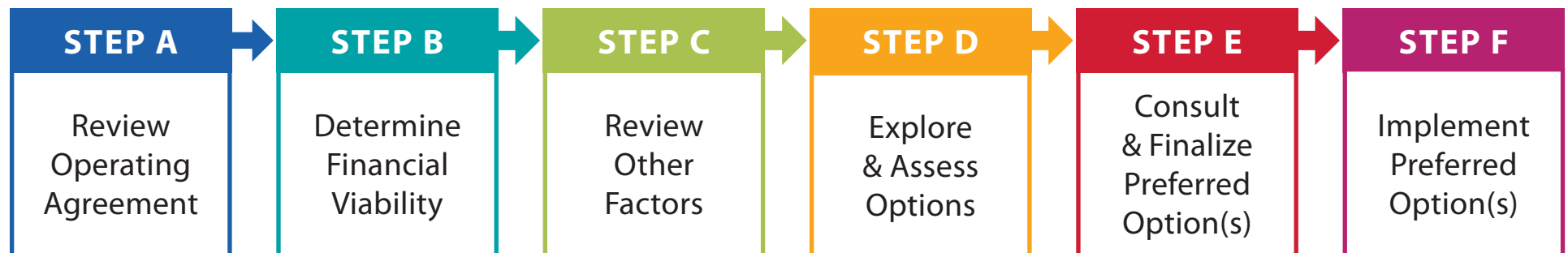
STEP A – REVIEW THE OPERATING AGREEMENT

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

STEP B – DETERMINE FINANCIAL VIABILITY

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

FIGURE 1: PROPOSED PROCESS



STEP C – REVIEW OTHER FACTORS

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

STEP D – EXPLORE AND ASSESS OPTIONS

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

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

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

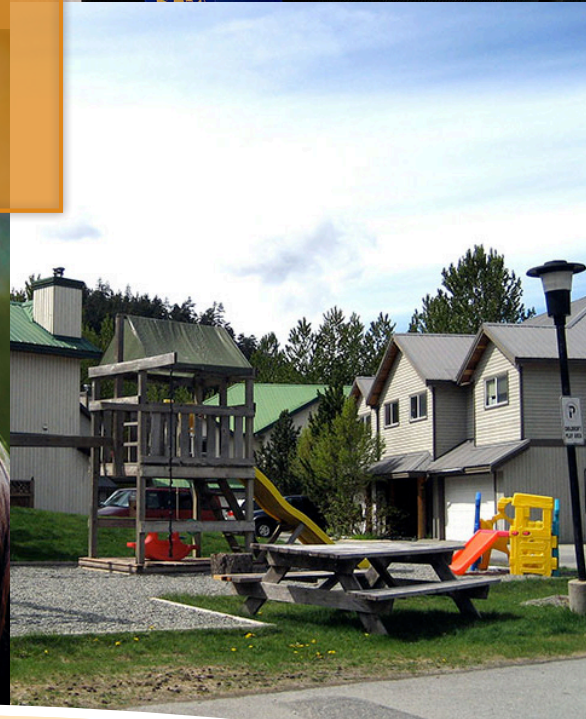
STEP F – IMPLEMENT THE PREFERRED OPTION(S)

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





STEP A



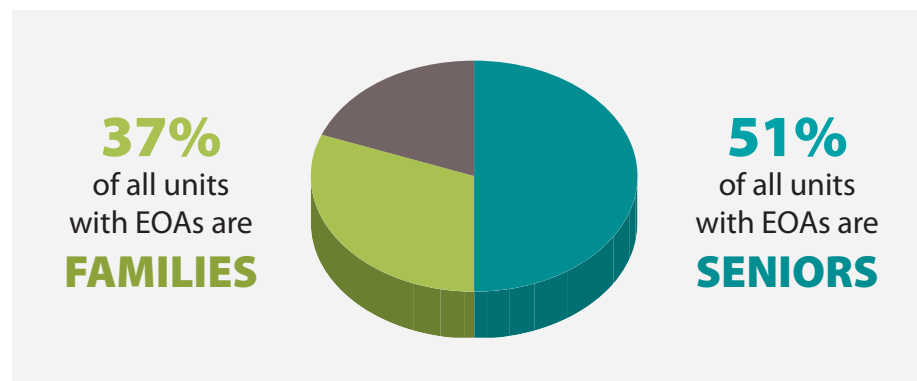
STEP A - REVIEW OPERATING AGREEMENT

THE STATE OF OPERATING AGREEMENTS IN BC

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

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

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



Source: BC Housing

WHAT HAPPENS WHEN AN OPERATING AGREEMENT EXPIRES?

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

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



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





STEP B



STEP B - DETERMINE PROJECT VIABILITY

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

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

For examples of project viability looking at sample projects in BC preparing for expiry, please see <http://bcnpha.ca/resources/expiry-operating-agreements/> or <https://www.bchousing.org/research-centre/library/expiry-of-operating-agreements>.

SIMPLIFIED ASSESSMENT TOOL (SAT)

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

1

REVENUE

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

2

OPERATING EXPENSES

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

3

CAPITAL RESERVE REPLACEMENTS

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

4

PHYSICAL CONDITION

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

CONSIDERED BY SAT

NOT CONSIDERED BY SAT



STEP B - DETERMINE PROJECT VIABILITY

SAT INPUTS

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

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

SAT OUTPUTS

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

SAT CONSIDERATIONS

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

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



STEP B - DETERMINE PROJECT VIABILITY

BUILDING CONDITION ASSESSMENT

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

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

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

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

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

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

CAPITAL PLANNING

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

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

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

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





STEP C



STEP C - REVIEW OTHER FACTORS

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

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

LEGAL DEFINITIONS AND IMPLICATIONS

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

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

CHARITY OR NON-PROFIT ORGANIZATION

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

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

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

GENERATING PROFIT

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



STEP C - REVIEW OTHER FACTORS

MANDATE & CLIENTELE

MANDATE

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

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

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

SOCIAL SUSTAINABILITY

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

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

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

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

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

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



STEP C - REVIEW OTHER FACTORS

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

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



STEP C - REVIEW OTHER FACTORS

ASSESSING SOCIAL SUSTAINABILITY

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

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



STEP C - REVIEW OTHER FACTORS

PROJECTS ON LEASED LAND

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

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



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



STEP C - REVIEW OTHER FACTORS

SITE ASSESSMENT

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

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

LICENSES, PERMITS & TAX EXEMPTIONS

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

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



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



STEP C - REVIEW OTHER FACTORS

TENANT CONCERNS

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

FUND-RAISING

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

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

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

ORGANIZATIONAL CAPACITY

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

CHANGE MANAGEMENT

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

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

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





STEP D



STEP D - EXPLORE AND ASSESS OPTIONS

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

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

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

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

FIGURE 2: PRE- AND POST-EOA OPTIONS

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

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



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

ADJUST RENTS OR RENT MIX

Options considered by a society to increase rents or adjust the rental mix may result in decreased affordability for current tenants and, indirectly, for the community at-large. Several rent increase options may be pursued pre-EOA to assist with Net Operating Income, ensuring sufficient revenue at EOA, while other options can only be pursued post-EOA. Some societies have not yet increased rents to 30% of tenants' income, so this could be encouraged as a first step. To test different mixes for your projects to inform discussion with your NPPM, please see the rent calculator (<http://bcnpha.ca/resources/expiry-operating-agreements> or <https://www.bchousing.org/research-centre/library/expiry-of-operating-agreements>).

INCREASE MARKET-RATE RENTS

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

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

Key Considerations

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



Key Considerations

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



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

RGI TENANTS

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

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

1. SELECT HIGHER INCOME RGI TENANTS ON TURNOVER

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

Key Considerations

- ☒ Implementable pre-EOA and post-EOA



EASE OF IMPLEMENTATION:



2. SHIFT RGI UNITS TO MARKET-RATE UNITS

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

Key Considerations

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



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

3. ADOPT LOW BREAK-EVEN RENTS

For societies that wish to deliver affordable housing without market rents, below market or breakeven rents may be adopted. These are set at a level that balances revenue and expenses. The rent levels can be determined pre-EOA, but cannot be implemented until EOA. As with any change in rents, existing tenants can be grandfathered post-EOA, and new rents implemented for new incoming tenancies.

Key Considerations

- ✓ Implementable post-EOA



EASE OF IMPLEMENTATION:



4. ASSIST ELIGIBLE HOUSEHOLDS TO APPLY RENT SUPPLEMENTS

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

Key Considerations

- ✓ Implementable post-EOA



EASE OF IMPLEMENTATION:



For more information on the Rental Assistance Program and Shelter Aid For Elderly Renters (SAFER) please see <https://www.bchousing.org/housing-assistance/rental-assistance-financial-aid-for-home-modifications>.

- ▶ SAFER and the Rental Assistance Program will assist eligible households with part of the difference between 30% of income and their rent (subject to maximum rent ceilings) and will not bring rents down to 30% of income. Depending on income and the market rent charged, tenants will be paying at least 32% of income towards rent.
- ▶ The programs provide a reimbursement of rent paid and pay in arrears; this means that a tenant is responsible for paying the full rent at the beginning of the month and the assistance, or reimbursement, is paid at the end of the month.
- ▶ Applications are processed in the order that they are received. Consult with your NPPM to see how BC Housing can assist if several tenants will be submitting applications at the same time.



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

NEW OR EXTENDED OA

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

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

PURSUE STRATEGIC PARTNERSHIPS

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

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

Key Considerations

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



EASE OF IMPLEMENTATION:



Key Considerations

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



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

DIVERSIFY PORTFOLIO

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

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

Key Considerations

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



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

INTENSIFY BUILDING(S), OR LAND, OR BOTH

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

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

Key Considerations

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



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

REDEVELOP SITE

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

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

Key Considerations

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



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

GRANTS AND DONATIONS

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

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

EASE OF IMPLEMENTATION:



REFINANCING

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

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

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

LAND OR ASSET SALE

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

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

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

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

SHARED SERVICES, SPACE, OR BOTH

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

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

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

Societies would need to assess advantages and disadvantages that these models would have on their specific operation. More information on shared services can be found in the Shared Services paper (<http://bcnpha.ca/resources/expiry-operating-agreements/> or <https://www.bchousing.org/research-centre/library/expiry-of-operating-agreements>).

Key Considerations

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

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

ENERGY EFFICIENCY UPGRADES

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

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

BEING ACQUIRED

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

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

- ▶ Consulting advice is likely to be needed at several stages of this process.
- ▶ BCNPHA and BC Housing issued a report on asset transfers, (<http://bcnpha.ca/resources/expiry-operating-agreements/> or <https://www.bchousing.org/research-centre/library/expiry-of-operating-agreements>).

Key Considerations

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



EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

1. IMPROVING REVENUE

2. RAISING CAPITAL

3. FINDING OPERATIONAL EFFICIENCIES

4. TRANSFERRING ASSETS

ACQUIRING ASSETS

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

- ▶ The majority of asset transfers can be completed within a year, typically over an intense and extensive process. First steps include aligning with a compatible society, and determining if the asset transfer is a good fit. Establishing a transition team, who will lead the process, is essential to the viability of the transition, which involves: strategic planning; consultation with the board, tenants, and community; assessing building conditions (and inheriting deferred maintenance); and managing staffing changes, from defining roles and responsibilities to harmonizing salaries. While the technical aspects of the transfer occur over the course of a year, the transition of organizational culture is much more complicated and takes a considerable amount of time to complete, requiring ongoing care and consideration.
- ▶ Consulting advice is likely to be needed to several stages of this process.
- ▶ BCNPHA & BC Housing Issued a report on asset transfers (<http://bcnpha.ca/resources/expiry-operating-agreements/or> <https://www.bchousing.org/research-centre/library/expiry-of-operating-agreements>).

Key Considerations

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

EASE OF IMPLEMENTATION:



STEP D - EXPLORE AND ASSESS OPTIONS

LEVEL OF DIFFICULTY OF IMPLEMENTING OPTIONS

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

FIGURE 3: LEVEL OF DIFFICULTY OF IMPLEMENTING OPTIONS





STEP E



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

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

COMMUNICATIONS

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

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

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

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

CONSULTATION

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

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

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



A photograph of a row of modern, two-story townhouses with light-colored siding and dark shutters. The townhouses have multiple windows and balconies. A blue rectangular overlay is centered over the middle of the image, containing the text 'STEP F' in large, white, sans-serif capital letters. In the foreground, there is a green lawn, a concrete sidewalk, and a tall, light green lamppost with two curved arms and white globe lights. A small, young tree is planted in the yard.

STEP F



IMPLEMENTATION PLAN

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

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

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

KEY PERFORMANCE INDICATORS

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

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

OTHER RESOURCES

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

- ▶ Briefing Memorandum: Legal Considerations & Expiry of Operating Agreements - **Revised May, 2016**
BCNPHA ([available here](#))
BC Housing ([available here](#))
- ▶ BC Housing Publications, including fact sheets and research reports ([available here](#))
- ▶ Addressing the Expiring Subsidy Challenge:
 - ▶ Options and Remedies ([available here](#))
- ▶ BC Non-Profit Housing Association:
 - ▶ Research Papers ([available here](#))
 - ▶ Resources ([available here](#))



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

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

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

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