From: "Mochrie, Paul" <Paul.Mochrie@vancouver.ca>
To: "Direct to Mayor and Council - DL"
Date: 7/6/2021 6:41:13 PM
Subject: Clarifications Memo: Lease Renewal Methodology for Co-ops on City Land - RTS # 13783
Attachments: ACCS - GM - Clarifications Memo (Council) Lease Renewal Methodology for Co-ops - RTS 13783 (2021-07-06).pdf

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Dear Mayor and Council,

We are providing the attached memo to clarify a number of points addressed in the Council report RTS 13783 – Lease Renewal Methodology for Co-ops on City Land – that is being considered at Council on July 7, 2021.

The memo will be posted to the Council agenda as an accompaniment to the public report.

Should you have any questions, please contact Sandra Singh directly at Sandra.Singh@vancouver.ca.

Best,
Paul

Paul Mochrie (he/him)
City Manager
City of Vancouver
paul.mochrie@vancouver.ca

CITY OF VANCOUVER

The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the xʷməθkʷəy̓əm (Musqueam), Sḵwx̱wú7mesh (Squamish), and səlilwətaɬ (Tsleil-Waututh) Nations.

CITY OF
VANCOUVER

Arts, Culture & Community Services
General Manager's Office

Refers to item #RTS 13783
Standing Committees Meeting of July 7, 2021

MEMORANDUM

July 6, 2021

TO: Mayor & Council

CC: Paul Mochrie, City Manager
Karen Levitt, Deputy City Manager
Lynda Graves, Administration Services Manager, City Manager's Office
Maria Pontikis, Director, Civic Engagement and Communications
Katrina Leckovic, City Clerk
Anita Zaenker, Chief of Staff, Mayor's Office
Neil Monckton, Chief of Staff, Mayor's Office
Alvin Singh, Communications Director, Mayor's Office
Patrice Impey, CFO and General Manager, Finance, Risk and Supply Chain
Francie Connell, Director of Legal Services

FROM: Sandra Singh. General Manager, Arts, Culture and Community Services

SUBJECT: Lease Renewal Methodology for Co-ops on City Land - RTS # 13783

PURPOSE

The propose of this memo is to provide further clarifications to Council report RTS 13783 – *Lease Renewal Methodology for Co-ops on City Land* – that is being considered at Council on July 7, 2021.

DISCUSSION

All changes to the report are underlined.

1) Page7: Many Co-ops require significant capital repairs and have insufficient capital reserves to support this work

In reviewing the report, staff note that the issue of capital expenditures could be further clarified between future planned maintenance versus deferred maintenance. In addition to dealing with any deferred maintenance, co-ops will also require significant capital maintenance associated with planned maintenance.

- *Many Co-ops require significant capital repairs and have insufficient capital reserves to support this work.*

  Change from:

  > Many Co-ops have deferred significant capital repairs and have not maintained adequate capital reserves to fund those repairs. While CMHC's program set some reserve limits, and Co-ops also experienced the unanticipated leaky condo crisis which required investment to address, other options such as requiring members to maintain personal reserves to support their housing repairs have not been implemented. Many of these aging buildings now require significant repairs in the near to medium term. The original leases clearly state the Co-op is responsible for capital repairs and should bear that cost either through their own means or with senior government funding support (CMHC). There are high expectations from Co-ops that the City should financially accommodate for the cost of these deferred repairs as part of any negotiated lease renewals.

  Change to:

  > Many Co-ops have deferred capital repairs and have not maintained sufficient capital reserves to fund those repairs. In addition, many co-ops will need to invest in significant capital repairs as other building components will reach the end of their serviceable life during the life of the renewed lease (planned maintenance). This work on deferred and future planned capital maintenance will require a combination of spending from any accumulated reserves, which are generally insufficient to address these necessary repairs and maintenance, borrowing or senior government program support, and any planned contributions to replenish capital reserves, leaving less for a contribution to the cost of lease renewals than might otherwise have been expected in order to maintain the current housing charges for both RGI and non-RGI members, regardless of their income. In the absence of senior government programs to assist in those repairs and replacements, the expense will be borne solely by the co-ops, and there are expectations from Co-ops that the City financially accommodate for the cost of these repairs as part of any negotiated lease renewals (i.e. discounting land rent to accommodate these capital).

2) Page 16: (a) Operating and Capital Expense Benchmarks

To clarify the intent of the discussions between staff and CHF BC with regard to capital reserves at the end of lease:

Change from:

> The City will be entitled to receipt of the balance in this reserve should the terms of the lease not be adhered to.

Change to:

> The lease terms and related agreements will include adequate security for the City which will have to be determined and agreed upon by the parties as part of the lease

negotiations and prior to entering into any renewals; in the event of a default, including protection against any failure to deploy capital reserves as described here

3) APPENDIX D: CHF BC Proposal

CHF BC provided staff with the existing Appendix D of the report on June 1. Since publication of the report, on July 5, 2021, CHF BC as requested that the originally provided Appendix D be replaced with the attached information. Accordingly, in response to this request, replace the Appendix D in entirety with attached replacement. The replacement Appendix D does not contain a different proposal than in the original Appendix D.

4) Page 16: (b) Unit benchmarks

The addition below clarifies the intention of approach to unit benchmarking for RGI units when calculating land rent.

Change from:

RGI units for households earning below HILs: For these units, the City would calculate land rent using 30% of the target average income of those units (70% of HILs) as the rental income benchmark.

Change to:

RGI units for households earning below HILs: For these units, the City would calculate land rent using 30% of the target average income of those units (e.g. 70% of HILs) as the rental income benchmark. The % of RGI units and target average income for those units will be established on a case-by-case basis with each co-op based on their existing member income profile and affordability requirements.

5) Page 25: Appendix A: Lease Renewal: Land Rent

The addition below clarifies the intention of approach to unit benchmarking for RGI units when calculating land rent.

Change from:

Land rent formula for RGI units for households earning below HILs: Rental income benchmark for HILs units, for land rent calculation: 30% of the target average income of those units (70% of HILs).

Change to:

Land rent formula for RGI units for households earning below HILs:
Rental income benchmark for HILs units, for land rent calculation: 30% of the target average income of those units (e.g. 70% of HILs). The % of RGI units and

target average income for those units will be established on a case-by-case basis with each co-op based on their affordability requirements.

Thank you for your consideration. If you have questions or concerns, please do not hesitate to reach out to me directly at sandra.singh@vancouver.ca.

Sandra Singh, General Manager
Arts, Culture, and Community Services
tel: 604.871.6858
sandra.singh@vancouver.ca

Appendix D - CHF BC Lease Renewal Pricing Model

A co-op that renews its lease under the new framework will, starting from its then current Housing Charges and other revenue, use its borrowing capacity and reserves to:

- Retire or refinance any debt that is past its scheduled payout date.
- Undertake any capital projects indicated by its Asset Management Plan (AMP), a professionally prepared long-term plan acceptable to both the co-op and the City, ideally aligned with the lease start or first term of a loan attached to an up-front payment to the City.
- Fund such up-front payment to the City as the City may deem appropriate up to a maximum of the appraised value of the lease.

Following the renewal, the co-op will:

- Increase Housing Charge and other revenue to the point that the co-op can cover, once CMHC's Rental Assistance Program or any Provincial Rent Supplement Program expires, through gross Housing Charges collected from all members, revenues sufficient to:
  - Service existing debt as scheduled.
  - Pay scheduled capital expenses and fund reserves consistent with its AMP. Amounts in excess of the agreed capital expenses benchmark will be the co-op's responsibility.
  - Pay its operating expenses. Amounts in excess of the agreed operating expenses benchmark will be the co-op's responsibility.
  - Support a minimum 15% of member households for whom the co-op's maximum Housing Charge applicable to any unit would be greater than 30% of the occupant's gross household income by setting applicable Housing Charges at or below 30% of gross household income (the Affordability Target).
- During this period, the Co-op will make the periodic payments to the City specified in the lease, less amounts deducted or waived as credit for any unexpired portion of the existing lease.

Once the Affordability Target is reached:

- Housing Charges inflate at 2%/year or more as required by the AMP and the affordability requirement.
- Scheduled payments to the City will continue until the end of the lease term or until the sum of the up-front payment and the scheduled payments equals the appraised value of the lease, whichever occurs sooner.

The sum of the up-front payment and the scheduled payments, less a credit for any unexpired portion of the existing lease, will constitute the Price, and the difference, if any, between the appraised value of the lease and the Price will constitute the City grant. For greater clarity, the credit for any unexpired portion of the existing lease will be realized by waiving scheduled lease payments (but still crediting them to the accumulated amount paid) until the balance of the credit is retired.

The following examples illustrate the range of options available to the City in structuring lease payments to maximize up front payments or scheduled payments over time. On the three sample co-ops alone, a priority on up front payments would net the City $6.75M at the point of lease renewal. The combined total of up front and scheduled payments across the three sample co-ops could equal as much as $28M over time.

[See attached three sample co-ops, with two scenarios each. One scenario maximizes the available up-front payment, the other balances up front and scheduled payments.]

Example 1: Co-op "X" with Up-front Payment

Lease Yr	1	2	3	8	9	31	40
Calendar Yr	2022	2023	2024	2029	2030	2052	2061
Inflator rate	2%	2%	2%	2%	2%	2%	2%
Co-op Annual Total REVENUE	**$ 679,129**	**$ 692,712**	**$ 706,566**	**$ 780,106**	**$ 795,708**	**$ 1,230,148**	**$ 1,470,141**
Co-op Annual EXPENSES							
Debt service - cost of Up-front Payment	-$ 24,600	-$ 24,600	-$ 24,600	-$ 24,600	-$ 24,600		
Debt service existing	$ -	$ -	$ -	$ -	$ -		
(Benchmarked) Expenses							
Operating Expenses	-$ 217,728	-$ 222,083	-$ 226,524	-$ 250,101	-$ 255,103	-$ 394,384	-$ 471,326
Combined reserve contributions + debt service (for capital works)	-$ 277,200	-$ 282,744	-$ 288,399	-$ 318,416	-$ 324,784	-$ 502,109	-$ 600,067
AVAILABLE FOR ANNUAL CITY PAYMENT	$ 159,601	$ 163,285	$ 167,043	$ 186,989	$ 191,221	$ 333,655	$ 398,748

Up-front Payment ($10,000/door)	**$ 420,000**
Total net available for annual City payment (40 yrs)	**$ 10,485,606**
Total payment to City (unadjusted for inflation)	**$ 10,905,606**

Example 2: Co-op "X" with Maximum Up-front Payment

Lease Yr	1	2	3	8	9	31	40
Calendar Yr	2022	2023	2024	2029	2030	2052	2061
Inflator rate	2%	2%	2%	2%	2%	2%	2%
Co-op Annual Total REVENUE	**$ 679,129**	**$ 692,712**	**$ 706,566**	**$ 780,106**	**$ 795,708**	**$ 1,230,148**	**$ 1,470,141**
Co-op Annual EXPENSES							
Debt service - cost of Up-front Payment	-$ 181,800	-$ 181,800	-$ 181,800	-$ 181,800	-$ 181,800	$ -	$ -
Debt service existing	$ -	$ -	$ -	$ -	$ -	$ -	
(Benchmarked) Expenses							
Operating Expenses	-$ 217,728	-$ 222,083	-$ 226,524	-$ 250,101	-$ 255,103	-$ 394,384	-$ 471,326
Combined reserve contributions + debt service (for capital works)	-$ 277,200	-$ 282,744	-$ 288,399	-$ 318,416	-$ 324,784	-$ 502,109	-$ 600,067
AVAILABLE FOR ANNUAL CITY PAYMENT	$ 2,401	$ 6,085	$ 9,843	$ 29,789	$ 34,021	$ 333,655	$ 398,748

Maximum Prepayment	**$ 3,100,000**
Total net available for annual city payment - 40 yrs	**$ 6,391,356**
Total payment to City (unadjusted for inflation)	**$ 9,491,356**

Example 3: Co-op "Y" with Up-front Payment

Lease Yr	1	2	3	8	9	31	40
Calendar Yr	2022	2023	2024	2029	2030	2052	2061
Inflator rate	2%	2%	2%	2%	2%	2%	2%
Co-op Annual Total REVENUE	**$ 946,454**	**$ 965,383**	**$ 984,691**	**$ 1,087,178**	**$ 1,108,922**	**$ 1,714,370**	**$ 2,048,831**
Co-op Annual EXPENSES							
Debt service - cost of Up-front Payment	-$ 38,700	-$ 38,700	-$ 38,700	-$ 38,700	-$ 38,700		
Debt service existing							
(Benchmarked) Expenses							
Operating Expenses	-$ 342,144	-$ 348,987	-$ 355,967	-$ 393,016	-$ 400,876	-$ 619,746	-$ 740,654
Combined reserve contributions + debt service (for capital works)	-$ 435,600	-$ 444,312	-$ 453,198	-$ 500,367	-$ 510,375	-$ 789,029	-$ 942,963
AVAILABLE FOR ANNUAL CITY PAYMENT	$ 130,010	$ 133,384	$ 136,826	$ 155,095	$ 158,971	$ 305,595	$ 365,214

Up-front Payment ($10,000/door)	**$ 660,000**
Total net available for annual city payment - 40 yrs	**$ 9,182,419**
Total payment to City (unadjusted for inflation)	**$ 9,842,419**

Example 4: Co-op "Y" with Maximum Up-front Payment

Lease Yr	1	2	3	8	9	31	40
Calendar Yr	2022	2023	2024	2029	2030	2052	2061
Inflator rate	2%	2%	2%	2%	2%	2%	2%
Co-op Annual Total REVENUE	**$ 946,454**	**$ 965,383**	**$ 984,691**	**$ 1,087,178**	**$ 1,108,922**	**$ 1,714,370**	**$ 2,048,831**
Co-op Annual EXPENSES							
Debt service - cost of Up-front Payment	-$ 164,200	-$ 164,200	-$ 164,200	-$ 164,200	-$ 164,200		
Debt service existing	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(Benchmarked) Expenses							
Operating Expenses	-$ 342,144	-$ 348,987	-$ 355,967	-$ 393,016	-$ 400,876	-$ 619,746	-$ 740,654
Combined reserve contributions + debt service (for capital works)	-$ 435,600	-$ 444,312	-$ 453,198	-$ 500,367	-$ 510,375	-$ 789,029	-$ 942,963
AVAILABLE FOR ANNUAL CITY PAYMENT	$ 4,510	$ 7,884	$ 11,326	$ 29,595	$ 33,471	$ 305,595	$ 365,214

Maximum Prepayment	**$ 2,800,000**
Total net available for annual city payment - 40 yrs	**$ 5,914,419**
Total payment to City (unadjusted for inflation)	**$ 8,714,419**

Example 5: Co-op "Z" with Up-front Payment

Lease Yr	1	2	3	8	9	31	40
Calendar Yr	2022	2023	2024	2029	2030	2052	2061
Inflator rate	2%	2%	2%	2%	2%	2%	2%
Co-op Annual Total REVENUE	**$ 650,305**	**$ 663,311**	**$ 676,577**	**$ 746,996**	**$ 761,936**	**$ 1,177,937**	**$ 1,407,744**
Co-op Annual EXPENSES							
Debt service - cost of Up-front Payment	-$ 23,460	-$ 23,460	-$ 23,460	-$ 23,460	-$ 23,460		
Debt service existing	-$ 128,700	-$ 128,700	-$ 128,700	-$ 128,700	-$ 128,700		
(Benchmarked) Expenses							
Operating Expenses	-$ 207,360	-$ 211,507	-$ 215,737	-$ 238,191	-$ 242,955	-$ 375,604	-$ 448,881
Combined reserve contributions + debt service (for capital works)	-$ 264,000	-$ 269,280	-$ 274,666	-$ 303,253	-$ 309,318	-$ 478,199	-$ 571,493
AVAILABLE FOR ANNUAL CITY PAYMENT	$ 26,785	$ 30,364	$ 34,014	$ 53,392	$ 57,503	$ 324,134	$ 387,370

Up-front Payment ($10,000/door)	**$ 400,000**
Total net available for annual city payment - 40 yrs	**$ 6,846,533**
Total payment to City (unadjusted for inflation)	**$ 7,246,533**

Example 6: Co-op "Z" with Maximum Up-front Payment

Lease Yr	1	2	3	8	9	31	40
Calendar Yr	2022	2023	2024	2029	2030	2052	2061
Inflator rate	2%	2%	2%	2%	2%	2%	2%
Co-op Annual Total REVENUE	**$ 650,305**	**$ 663,311**	**$ 676,577**	**$ 746,996**	**$ 761,936**	**$ 1,177,937**	**$ 1,407,744**
Co-op Annual EXPENSES							
Debt service - cost of Up-front Payment	-$ 49,900	-$ 49,900	-$ 49,900	-$ 49,900	-$ 49,900		
Debt service existing	-$ 128,700	-$ 128,700	-$ 128,700	-$ 128,700	-$ 128,700		
(Benchmarked) Expenses							
Operating Expenses	-$ 207,360	-$ 211,507	-$ 215,737	-$ 238,191	-$ 242,955	-$ 375,604	-$ 448,881
Combined reserve contributions + debt service (for capital works)	-$ 264,000	-$ 269,280	-$ 274,666	-$ 303,253	-$ 309,318	-$ 478,199	-$ 571,493
AVAILABLE FOR ANNUAL CITY PAYMENT	$ 345	$ 3,924	$ 7,574	$ 26,952	$ 31,063	$ 324,134	$ 387,370

Maximum Prepayment	**$ 850,000**
Total net available for annual city payment - 40 yrs	**$ 6,159,133**
Total payment to City (unadjusted for inflation)	**$ 7,009,133**