

# FREQUENTLY ASKED QUESTIONS FROM BC'S NON-PROFIT HOUSING SECTOR ON THE IMPACTS OF FUNDING CONSTRAINTS THROUGH BC HOUSING

## ***Purpose of this document:***

*The BC Non-Profit Housing Association established a meeting with BC Housing to create dialogue around issues and questions that are commonly raised by non-profit housing providers given the economic crisis within which we find ourselves. We hope the responses below that were recorded at our November 2009 meeting will assist the non-profit housing sector and BC Housing to operate more effectively together. Please note that these questions emanate from specific concerns, and the references are intended as guidelines.*

## **1. a) If building envelope repairs have been authorized in the past, but have not commenced, will those commitments be honoured by BC Housing?**

It is BC Housing's intent to honour commitments regarding the remediation of premature building envelope failure in non-profit housing buildings.

BC housing has invested over \$150 million over the past 10 years fixing non-profit housing buildings across the province. There is currently a backlog of over 100 buildings still to repair. Given the current economic crisis and context of restricted budgets in the current year, the number of repairs is extremely limited (approximately one-fifth of the number of repairs in previous years). This lull in repairs will likely last approximately two years. BC Housing will be undertaking repairs on an emergency basis based on urgency. The typical method of funding these projects is through debt financing, meaning that the non-profit housing society would receive the funding as a loan that would need to be repaid.

BCNPHA is also examining other options outside of government for non-profit housing societies that may be considering remortgage. BCNPHA is using the leverage created by the portions of the sector that have strong equity to catalyze a dialogue with our commercial partners regarding financial support for the entire sector.

## **1. b) How is the initiation of capital repairs prioritized?**

The current priority for commencing capital repairs is based on life safety risk.

## **1. c) How are capital repairs funded?**

For small repairs, BC Housing is amenable to working with non-profit housing societies to utilize replacement reserve funds, if the society's operating agreement allows this to happen.

For large repairs debt financing is required. Concern has been raised by societies whose operating agreements are soon to expire, that their repairs will remain undone or will be financed through a second mortgage. If BC Housing debt finances a repair on a building, they do ask societies to re-sign an operating agreement with BC Housing to match the terms of the amortization period of the second mortgage that will be put in place to cover the costs of the repair. In many cases, however, as a non-profit's operating agreement expires, their mortgage is completed at the same time. At this point non-profit societies are in a much better financial position to support a new mortgage to complete needed repairs. BCNPHA is committed to working with the Asset Strategies branch of BC Housing to uncover a solution to this concern, as we anticipate many societies are in the situation of needing repairs as their operating agreements near expiry.

BC Non-Profit Housing Association encourages members not to allow extensions of the expiry of their operating agreements simply because of new debt financing. Many factors should be considered between BC Housing and the non-profit housing provider before amending expiry dates. Before signing a new operating agreement, BCNPHA urges non-profits housing providers to carefully read all clauses within these agreements, in case some clauses may not be advantageous to the non-profit housing provider.

**2. a) The replacement reserve allocations for Homes BC, Provincial Homelessness Initiative, and Independent Living BC housing programs were reduced to 50% in 2009 and this reduction is scheduled to continue for the next two years. What mechanisms are in place in the interim to deal with replacement issues?**

BC Housing administers a complex formula to determine replacement reserve allocations. The majority of buildings that are experiencing the replacement reserve reduction have moderate to high funding levels. Replacement reserves at these levels should be adequate to cover replacement costs for the two-year period.

Given the current economic climate and the financial pressures this has created, BC Housing was forced to investigate various options in order to sustain operations. In order to minimize impact on the non-profit housing societies, reductions to replacement reserves were identified as a preferred approach, rather than decreasing operating subsidies.

BC Housing urges non-profit housing societies to assess their replacement needs and delay repairs where possible until funding is restored. Capital planning of replacement reserve items is an essential mechanism to ensure urgent concerns are dealt with and societies are able to sustain themselves during this period of reduced funding.

**2. b) How will BC Housing compensate for lost replacement reserve funding that non-profit housing providers normally would have received during the suspended period?**

Once fiscal pressures are resolved, BC Housing intends to gradually increase funding until replacement reserves are fully restored to their original levels. Replacement reserves have been suspended in the past, and were fully restored afterwards. It consisted of incremental funding, aimed to give back what you would have lost during the suspension.

BCNPHA believes that while this decision to suspend replacement reserve allocations is unfortunate, it is justifiable given the current economic climate and the financial pressures this has created. BCNPHA intends to monitor this process, on behalf of our members, to ensure that replacement reserve funding begins to increase incrementally at the end of the two-year period and ultimately returns to previous levels.

In a separate process, BC Housing has committed to undertaking a review of the Homes BC program, and BCNPHA will communicate with its members once the outcomes of this review have been made available.

**2. c) The replacement reserve reduction is scheduled to last for two years. In this uncertain economic climate, is there a chance that it could be extended?**

BC Housing has indicated that they do not intend to extend the replacement reserve suspension.

**2. d) While replacement reserves are being funded to a set formula, how may a society that identifies major replacement needs receive additional funding?**

If a society identifies that its replacement reserves are not at a sufficient level to make necessary replacements, there are options for receiving additional funds through BC Housing. Modernization & Improvement (M&I) or Extraordinary Expense payments may be an alternative option. Incremental funding, which had been provided over the past 10 years to deal with premature building envelope failure, currently only has limited availability. Non-profit housing societies facing this situation should contact their Property Portfolio Manager (PPM) to receive more information on the various options available. BC Housing is working to understand more fully the future capital needs of the sector in order to ensure that it is protected for the long term.

BCNPHA has been in dialogue with BC Housing regarding the formula for allocating replacement reserves and examining alternate approaches that may be better able to predict a non-profit housing society's future needs. One possibility is the Facility Condition Index (FCI), which would allow a society to more accurately predict their capital planning needs over time.

### **3. Please explain the required timelines for the Financial Review process conducted by BC Housing.**

Non-profit housing societies have 3-4 months after their year-end to submit their financial statements to BC Housing. The financial review by BC Housing commences once the society's financial statements are received. BC Housing begins financial review of societies in the order in which the financial statements are received. Most non-profit housing societies have March 31 as their year-end and thus BC Housing receives a large volume of financial statements during the months of June and July. These societies may have to wait up to 5 months to receive their completed financial review. Those societies who submit their financial statements during non-peak periods of the year may receive their completed financial review within a few weeks. If the financial statements that are submitted have incomplete information (i.e. details of replacement reserve or maintenance funding, copies of insurance documents, etc.), the financial review process will be delayed.

This response reflects the current BC Housing financial review process. It should be noted that BC Housing has made enormous improvements to this process in the last year, overcoming a backlog of incomplete reviews from 2006 to 2008. The BC Housing financial review process is now current and up to date, completing financial reviews as the statements are received.

### **4. Tenant demographics affect the length of time needed to turn over a unit. Does BC Housing have plans to undertake a review of vacancy allowance funding that will take into account the tenant demographic that is being served?**

The purpose of the vacancy allowance is to provide operating cashflow when a society has a unit(s) that is vacant and therefore not collecting rent. Vacancy loss is calculated as the average number of vacancies experienced by the non-profit housing provider over the fiscal year multiplied by the average rent charged. The resulting vacancy allowance is not to exceed 1% of the total operating budget. However, BC Housing will make exceptions to the rate if the community generally tends to experience high vacancy. In the situation where there is a high level of vacancy in the building that is not reflective of the entire community, non-profit housing societies are urged to work with their PPM to determine what the reasons are for the vacancies and to identify potential tenants from the Housing Registry. The PPM can also help to determine if there are improvements that can be made to the units or the building to make them more desirable to renters.

In programs where societies retain their operating surpluses and deficits, such as in the Homes BC and other programs, vacancy allowance is treated differently. If a unit under one of these programs has been rented for a number of years, the vacancy allowance for that unit should have been built-up sufficiently to cover rental income that is lost during a vacancy or turnover period.

BC Housing can offer a one time payment to cover rental income that is lost during a vacancy in exceptional circumstances if there is justification for the loss and a plan to reduce vacancy in the future. This must be discussed with the PPM, who has discretion in this matter. As noted in most operating agreements, the PPM should be contacted if a unit is vacant for longer than 3 months.

Currently, there is no variation in vacancy allowances among non-profit housing providers who serve different tenant groups. BCNPHA suggests that this is an issue that should be examined further, as some non-profit housing providers have reported increased vulnerability to long vacancy and/or turnover periods depending on their specific tenant group.

### **5. Clarity is needed as to what constitutes a safety issue in respect to BC Housing funding criteria, and how this corresponds with compliance of municipal bylaws or regulations. If a tenant's personal safety is impaired (e.g. due to lack of sufficient outdoor lightings), does this constitute a safety issue?**

The building owner is responsible for the safety of residents and the condition of building. If a safety upgrade is needed, a non-profit housing provider can apply for M&I funding through the PPM. This funding would be debt-financed. If the issue was a top priority in terms of capital needs across the sector and it was approved in the annual capital plan, BC Housing would likely fund the work through many years of subsidy. Most likely, an additional mortgage on the property would be needed in order to pay the expense over a period of time. However, under some operating agreements there is no requirement for BC Housing to fund capital renewals or upgrades. It is important to check operating agreement terms carefully to determine eligibility for funding.

If the safety upgrade is a small expense, a request can be made through the PPM for receiving Extraordinary Expense payments for making the repairs or for approving the use of replacement reserves for non-replacement items.

### **6. a) What is the difference between controllable costs and non-manageable costs?**

Non-manageable costs include insurance, property tax, utility costs, and the cost of an audit. For controllable (i.e. manageable) costs, there is a base line that is set based on the portfolio size, funding program, and tenant demographic that the non-profit serves. After a society submits its budget request, the budget is determined through dialogue between BC Housing and the society, taking into consideration supporting documentation and data from previous year's budgets. Controllable costs should not exceed the given budget. If the non-profit housing society consistently exceeds its budget, it is important to engage in dialogue with the PPM in order to determine where changes can be made.

If, in a specific year, a society needs significant maintenance repairs, a few different options are available. The PPM can authorize a budget overage if he or she is made aware of the necessary repairs in advance. Non-Recurring Maintenance funding is available for a one-time expense of under \$5000. Alternatively, BC Housing can do a mid-year review and make adjustments to the society's monthly subsidy amounts. A final option is for BC Housing to allow the controllable costs overage during financial review instead of maintaining the original budget, if prior approval is given by the PPM.

In programs where a society retains surpluses and deficits (e.g., the Homes BC and other programs), the budget is determined at the beginning of the year and the society must adhere to it by managing surpluses and deficits.

BC Housing and BC Non-Profit Housing Association are currently in dialogue about manageable/controllable costs as part of the BC Housing – Non-Profit Housing Provider relationship process.

### **6. b) What is the difference between an Extraordinary Expense and Non-Recurring maintenance funding?**

Extraordinary expense funding is for emergency or extraordinary maintenance repairs, tenancy related expenses, emergency repairs for health and safety reasons, vacancy loss if the housing provider requires funds, etc. Extraordinary Expenses are classified as budget revisions because they increase the annual subsidy paid but are not recorded on the budget.

A Non-Recurring Maintenance item is a maintenance expense not included in the standardized list of replacement reserve items. This amount should be included on the budget for one year only. Non-Recurring maintenance expenses generally cost less than \$5000 and are included in this category for minor, one-time maintenance costs that are not classified as capital maintenance. Examples of non-recurring maintenance items are fire safety equipment, security lighting, tree removal, replacement costs for grounds maintenance equipment such as mowers, trimmers and blowers.

It is important to note that not all funding programs qualify for Extraordinary Expense or Non-Recurring Maintenance funding. For example, funding programs such as 821b, NP Special Purpose, Rent Supports, etc. do not qualify under the terms of the agreement. Each housing provider would need to check their operating agreements to see if they qualify. It is also important to note that these funds are at BC Housing's sole discretion and subject to the availability of funds.

## **7. What is the role of the Property Portfolio Manager?**

The role of the PPM is part of an ongoing dialogue between BCNPHA and BC Housing. BCNPHA is working with the senior leadership of BC Housing on better defining the roles and responsibilities of the PPM in order to achieve greater clarity.

PPMs are essential to finding solutions that work for non-profit housing providers and allow them to operate effectively. However, PPMs have a robust and complex role and may not always be fully aware of the newest initiatives and innovations happening at BC Housing. Work with your PPM to address the issues that you have, and if you still have concerns, you do not always have to take the first "no" as the final answer to your question.

BCNPHA suggests to non-profit housing providers to put any concerns they may have in writing. Part of the role that BCNPHA plays is to support non-profits in their government interactions, and we may be able to direct you towards a resolution.