

Chief Financial Officer's Report to
Combined Meeting of Council
2019 May 27

ISC: UNRESTRICTED
C2019-0708

Attainable Homes Calgary – Enabling \$2 Million Incremental Short-Term Financing

EXECUTIVE SUMMARY

On 2019 April 25, Attainable Homes Calgary Corporation (“**AHC**”), a wholly-owned subsidiary of The City of Calgary (“**The City**”), requested that The City:

1. subordinate, postpone and defer all rights, claims and security interests that it now has in property (real or personal) related to AHC’s Reach Martindale housing development project (the “**Martindale Project**”), subject to a maximum property value of \$4.5 million, in favour of AHC’s primary lender, a financial institution, (“**AHC’s Lender**”) in relation to the satisfaction of indebtedness and obligations of up to \$2 million; and/or
2. consent to and facilitate the assignment by AHC to AHC’s Lender of up to \$2 million of proceeds from the sale of housing units within the Martindale Project.

AHC’s aforesaid request accommodates a new \$2 million short-term (to be repaid by 2019 August 15) non-revolving debt facility (“**New Debt Facility**”) to be extended to AHC by AHC’s Lender. This will allow AHC to pay \$2 million in outstanding trade payables to its builder partner for construction on the Martindale Project. The New Debt Facility would be in addition to AHC’s \$10 million City-guaranteed revolving debt facility extended by AHC’s Lender (“**Revolving Debt Facility**”) of which \$9.8 million is drawn and \$1.03 million Evergreen loan facility extended by AHC’s Lender (“**Evergreen Loan Facility**”).

ADMINISTRATION RECOMMENDATION:

That Council, if it so chooses:

- 1) Direct Administration to negotiate any agreements or documents required to:
 - a. subordinate, postpone and defer all rights, claims and security interests that The City of Calgary currently has in property (real or personal) related to Attainable Homes Calgary Corporation’s (“**AHC**”) Reach Martindale housing development project (the “**Martindale Project**”) in favour of AHC’s primary lender, a financial institution, (“**AHC’s Lender**”), subject to a maximum property value of \$4.5 million, in relation to the satisfaction of indebtedness and obligations of up to \$2 million; and/or
 - b. consent to and facilitate the assignment by AHC to AHC’s Lender of up to \$2 million of proceeds from the sale of housing units within the Martindale Project; and authorize the Chief Financial Officer and the City Clerk to execute any agreements or documents so negotiated; and
- 2) Direct Administration to work with AHC to review AHC long term business plan when it is available and bring a progress update report back to Council through the Priorities and Finance Committee no later than 2019 November 5.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2010 January 25 (M2009-11), Council passed Bylaw 64M2009, authorizing The City to lend to AHC up to \$10 million for financing AHC’s operating expenditures.

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On 2013 July 29 (NM2013-20), Council resolved that AHC work with Administration to determine appropriate credit facility options and make recommendations to support achieving its mandate and report back to Council through the Priorities and Finance Committee no later than 2013 December 10.

On 2013 December 10 (PFC2013-0754), Administration requested a deferral to report back to the Priorities and Finance Committee by 2014 May to allow sufficient time for AHC to prepare and present its business plan to its Board of Directors and enable Administration to complete its due diligence and provide recommendations.

Through its business plan review, in 2014, AHC concluded that a revolving debt facility would better support its lumpy cash flows and requested to convert its \$10 million loan facility with The City into the Revolving Debt Facility. An independent third-party financial consultant was utilized by The City to assist in evaluating the business plan and AHC's request.

On 2014 July 22 (PFC2014-0392), Council passed Bylaw 41M2014, authorizing The City to guarantee the repayment of the Revolving Debt Facility to a maximum sum of \$10 million in accordance with terms and conditions outlined in a credit agreement between The City and AHC (the "**City Credit Agreement**").

On 2016 April 13, in response to an Urgent Business Notice of Motion (the "**2016 April 13 NOM**"), Council directed Administration to postpone and subordinate The City's security position in favour of any lender who provides financing to AHC, outside of the Revolving Debt Facility, from time to time, provided that such postponement and subordination shall only secure the value of the assets being financed by the lender.

BACKGROUND

AHC is the active project manager on the Martindale Project, currently under construction with first units anticipated to be transferred to homeowners in Q3 2019. Due to timing of anticipated sales, inflow of proceeds, and limited liquidity available under its existing credit facilities, AHC has been in discussions with AHC's Lender regarding the provision of short-term liquidity needed to meet commitments and position AHC to transfer property titles to homebuyers beginning in Q3 2019. AHC notified The City in 2019 April that they were past-due on approximately \$2 million in trade payables owed to its builder partner for construction on the Martindale Project and that further delays could jeopardize ongoing construction and completion of units.

The City requested information from AHC starting in 2018 November to develop a better understanding of AHC's requirements and subsequently met with the new management team on 2019 January 8. Treasury staff within the Finance business unit made several requests for information after the initial meeting. AHC asked for additional time to respond, given the new management team.

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On 2019 March 27, Finance received the draft AHC 2018 year-end financial statements, which informed The City of the Going Concern disclosure in AHC's financial statements relating to the pending demand or required repayment of AHC's credit facilities. The draft statements also confirmed that AHC would be in default under the terms and conditions of its credit facilities with AHC's Lender and the City Credit Agreement when its 2018 year-end financial statement audit was completed.

The City requested a meeting with AHC's Lender, AHC, and members of Treasury staff on 2019 March 28 to identify challenges that needed to be addressed. There have been several meetings and developments since then that has resulted in the current financing request from AHC.

AHC advises that AHC's Lender is considering offering the New Debt Facility, which would need to be repaid with proceeds from the sale of units from the Martindale Project and be secured. AHC's Lender's proposal contemplates either: 1) a postponement and subordination by The City in favour of AHC's Lender in collateral held by The City, and/or 2) an assignment of proceeds from the sale of units within the Martindale Project to allow for the first \$2 million in sales to be directed to repay the New Debt Facility.

Treasury engaged Law to review AHC's financing request with respect to the 2016 April 13 NOM and Law concluded that Administration only has direction to postpone and subordinate The City's security interest in favour of AHC's Lender in respect of financing outside of the Revolving Debt Facility and up to the value of assets being financed. Since the ask from AHC is to borrow against an existing asset, which was financed under the Revolving Debt Facility, it was concluded that Administration does not have existing direction from Council to postpone and subordinate to AHC's Lender. Furthermore, given that AHC's financial profile has changed significantly since the 2016 April 13 NOM, all involved parties agreed on the current requirement to bring this matter to Council for a decision. The City and AHC also agreed that AHC is required to develop a comprehensive long term business plan for The City to review. This work will require some time for AHC to develop and cannot be completed and reviewed by The City in time for this report and the risk associated with this request is described further under the Risk Assessment section.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Credit Facilities

AHC maintains the Revolving Debt Facility, repayment of which is guaranteed by The City to a maximum sum of \$10 million. Outstanding indebtedness on the Revolving Debt Facility at the time of this report is approximately \$9.8 million, including a \$0.5 million letter of credit in favor of The City.

In relation to the aforesaid guarantee provided by The City to AHC's Lender (the "**City Guarantee**"), The City and AHC entered into the City Credit Agreement which, generally and among other things, provided a commitment by AHC to reimburse and pay to The City any

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amounts paid by The City to AHC's Lender under the City Guarantee, and as security for performance of such obligations, AHC granted, generally, a first-ranking security interest in all its property in favour of The City.

AHC established the Evergreen Loan Facility in 2016 for the purchase of completed units from various housing projects and developments in The City. Repayment of the Evergreen Loan Facility is not guaranteed by The City. Current outstanding indebtedness on the Evergreen Loan Facility is \$1.03 million and availability has been capped at this amount by AHC's Lender.

Stakeholder Engagement, Research and Communication

Treasury staff has had ongoing communication with AHC regarding financial performance, forecasts, and operating challenges in the short and long-term necessitating immediate attention and dialogue with partners.

Treasury has worked with City Law on this report.

Strategic Alignment

AHC is a non-profit, social enterprise, created and wholly-owned by The City of Calgary, working to help moderate-income Calgarians achieve their dreams of quality home ownership.

Social, Environmental, Economic (External)

AHC was created in 2009 with a mandate to build 1,000 well-made, entry-level homes for moderate-income Calgarians.

Financial Capacity

Current and Future Operating Budget:

The City, as guarantor, would be obligated to pay the debts and liabilities of AHC under the Revolving Debt Facility to a maximum sum of \$10 million should AHC's Lender call on the City Guarantee.

Current and Future Capital Budget:

Same as above.

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Risk Assessment

Current Default

AHC is in default under the terms and conditions of its credit facilities with AHC's Lender and the City Credit Agreement. A long-term plan is required from AHC to demonstrate how the business can return to compliance and remain viable. AHC's Lender has not indicated how they plan to proceed with the extension of any credit facilities to AHC going forward.

AHC's Lender Approval

Representatives of AHC's Lender have indicated that they are comfortable recommending the New Debt Facility until 2019 August 15 and associated postponement or assignment of security by The City (as outlined in this report) to their internal risk management department. However, formal approval is not certain and proposed terms and conditions remain subject to change.

Erosion of The City's Security

The City and AHC's Lender each have a charge against AHC's property, including its interests in purchase and sale agreements for units in the Martindale Project (collectively, the "**P&S Agreements**"). The City's charge currently has a priority position over AHC's Lender's charge. Any postponement and subordination of The City's charge in favour of AHC's Lender, or assignment of assets by AHC to AHC's Lender, results in less coverage on indebtedness and increases the risk of a less than full recovery of obligations.

Obligations to Builder Partners

AHC has indicated they are past-due on \$2.3 million trade payables to the builder partner on the Martindale Project and are at risk of having a builder's lien registered against the Martindale Project, which would stall completion and sales of units that AHC is currently relying on to meet other obligations and to fund operations.

AHC has also entered into \$16.2 million of builder contracts binding it to material purchases in 2019 without a confirmed source of funding.

Liquidity

AHC has no capacity available under either the Revolving Debt Facility or the Evergreen Loan Facility and has minimal cash-on-hand to meet ongoing working capital needs. AHC has provided The City with a 9-month cash flow forecast to support AHC's ability to meet ongoing commitments. The cash flow forecast relies heavily on high-level sales assumptions being converted to actual sales, availability/marketability of product, and market absorption.

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Repayment

Sales proceeds to repay the New Debt Facility remain subject to: 1) completion of the units, and 2) the removal of all conditions of closing under the P&S Agreements on or before 2019 August 15.

AHC has indicated that construction of the buildings for units securing the New Debt Facility remains incomplete with additional costs-to-complete of approximately \$2.5 million. The New Debt Facility will allow AHC to pay \$2 million of \$2.3 million outstanding as at 2019 April 30. Based on this information, the total financing requirement to complete construction is approximately \$4.8 million. Any failure to meet upcoming obligations necessary to complete construction could delay closing, receipt of proceeds, and ability to repay its obligations.

Actual closing dates later than anticipated could lead to AHC being unable to repay the New Debt Facility on or before 2019 August 15, which would place AHC in default of the terms and conditions of the New Debt Facility credit agreement. The terms and conditions of the P&S Agreements define the closing dates as dates no later than 2019 August 31, which falls outside of the proposed term of the New Debt Facility. Also, under the P&S Agreements, if AHC is unable to meet the 2019 August 31 closing date, the purchaser can walk away from the purchase without penalty.

Comprehensive Long-Term Business Plan

Given the changeover in AHC management, AHC requires time to prepare a comprehensive long-term business plan including financial projections. Treasury is not able to complete the required due diligence that is needed to bring a supported recommendation forward to Council at the time of this report due to the very short timeframe associated with this report and insufficient information available to be provided for review. Administration's review of AHC's comprehensive long-term plans when it is available will include an independent third-party review, identifying key risks and mitigation strategies, preparation of scenario analyses, and assessment of the long-term viability of AHC's business model. The business plan will take AHC some time to prepare and currently the completion timeline is unknown as it is being developed.

REASON(S) FOR RECOMMENDATION(S):

While Administration acknowledges that there are significant risks associated with AHC's operations and that the current request does not mitigate these risks, AHC's financing request allows for a \$2 million payment of trade payables that, if not paid in a timely manner, may result in, without limitation, a builder's lien registered against the Martindale Project and a call on the City Guarantee. Based on Council's previous direction, Administration does not currently have the authority to postpone and subordinate to AHC's Lender and Council's direction and approval is required.

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ATTACHMENT(S)

None