



Ministry of Municipal Affairs and Housing
Ministère des Affaires municipales et du Logement

Developing a Strategy for Your Public Housing Stock: The Provincial Perspective

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Introduction

- This presentation discusses the opportunities and constraints to repair or regenerate public housing projects within financial and legislative frameworks.
- In the past three years over \$800M was provided to Service Managers (SMs) for capital repairs through the Social Housing Renovation and Repair Program (SHRRP) and the \$100M Capital Repair Fund.
- It is acknowledged that public housing projects need additional investments to address the aging portfolio and/or regeneration needs.

Background

- Built under the federal National Housing Act (NHA) from 1948 to 1974-75, “public housing” has been the result of many different NHA funding programs that at times has involved various federal, provincial and municipal partnerships. The big impetus was in 1964 with the expansion of NHA Section 35 “Urban Renewal and Public Housing Program” followed shortly by the creation of the Ontario Housing Corporation as a Schedule 1 Crown Corporation.
- The 1973 NHA amendments (15.1 and 34.8) introduced the Non-Profit and Co-operative Housing Programs in response to concerns about the concentration of 100 per cent rent-geared-to-income households in large and high-density residential environments. The concept of mixing low and moderate income households in non-profit and cooperative projects throughout the community was seen as a more effective approach to community building and providing housing for lower income households without stigma.
- With the last public housing built in 1974-1975, even the youngest public housing stock is 38 years old.
- A key financial challenge to the public housing model is that all (or most) residents are rent-geared-to-income (RGI) and pay 30% of their income on rent. This results in limited revenue opportunities in the face of increasing operating expenses, maintenance and capital repair costs.

Background

- Public housing was primarily funded with 50 year fixed term debentures not mortgages. There are different constraints and opportunities to finance repairs and regeneration as a result. There is some public housing stock that have been funded via mortgages (18) and there is also some public housing that have had their debentures secured via mortgages on title.
- Under the Social Housing Reform Act in 2001, public housing was transferred to Service Managers (SMs). The province established Local Housing Corporations (LHCs) prior to transfer of the projects to SMs. Capital reserve funds were not included in this program continuing the “pay as you go” approach the Province followed with the former OHC stock. SHRRP is the most recent investment of \$704 million.
- Under the new Housing Services Act, 2011 SMs have a good opportunity to consider an overall assessment of the social and public housing stock including their current and future repair needs as part of their Housing and Homelessness Plans.

Social Housing

Roles and Responsibilities

Housing Providers

- Providing the housing in accordance with applicable legislation, tenant support and community development, effective property management, repairs, maintenance and long-term asset management and portfolio management where appropriate.

Service Managers

- SMs have enhanced and expanded responsibilities under the new Housing Services Act 2011, including development of local housing and homelessness plans.
- Work with the LHCs and other providers to meet local needs.
- Most ministerial consent powers under the SHRA will be transferred to SMs under the new Act but not where the sale or transfer of a project is proposed.
- The new Housing Services Act, 2011 also enables investment in a capital reserve for public housing projects.

Province

- Sets the legislative and regulatory framework.
- The Housing Policy Statement articulates provincial interests, sets provincial vision for affordable housing.
- Identify key metrics for reporting and performance measures.
- In partnership with SMs and sector organizations, engage the federal government towards a long term housing framework and related funding.
- Retains loan liability under the Social Housing Agreement (SHA) for projects under the Agreement.

CMHC

- Provides mortgage loan insurance for NHA insured loans.
- However, there is no NHA insurance on public housing debentures.
- Party to the SHA in partnership with provinces and territories.

Lenders

- Provide borrowers with financing for social housing projects.

Social Housing Reform Act (SHRA) / Housing Services Act (HSA)

On January 1, 2012, the Housing Services Act, 2011 (HSA) replaces the Social Housing Reform Act (SHRA):

- A key principle is to continue to shift responsibility for social housing administration and decision making to the local level where the expertise and knowledge resides.
- Authority on most consent matters now in the SHRA are transferred to Service Managers.
- Under the SHRA, a Ministerial Consent is required for a Local Housing Corporation to sell or transfer SHRA public housing projects/units.
- Under the HSA, if a Local Housing Corporation proposes any major changes to a project including redevelopment or refinancing, the SM must concur through a consent; only the sale requires Ministerial Consent and is typically supported with a provider and Service Manager business case for the Ministry.
- Province will retain, through regulation, the authority to re-instate the requirement for consents for specific actions.

Ministerial Consents for Sale: What we look at...

- All Ministerial Consent for sale of social housing are judged and evaluated on a case-by-case basis.
- The following criteria guide our review:
 - 1) *Tenant/Members Security of Tenure* - How are the interests of tenants being protected? How are family members of the household affected?
 - 2) *Service Level Standards* - How will this be affected? What is being done to ensure it is maintained?
 - 3) *Environmental Liability* - What is the risk to Ontario Mortgage and Housing Corporation as the former owner as per the Environmental Protection Act?
 - 4) *Potential Mortgage and Contingent Liability* - Who holds the mortgage? Risk of default?
 - 5) *Public Investment* - What is the use of any funds from the sale?
 - 6) *Other Matters of Provincial Concern* - Depends on the specific circumstance of the request... could include broader elements such as community integration implications... or the effect now and in the future on the full-range of affordable housing supply in the community.

Capital Repair and Regeneration Context

- Many older projects are in need of substantial investment. For example, the life cycle of some major building systems may be coming to an end and require significant repair or complete replacement.
- The development of asset management plans or broader portfolio plans would ideally include a cost/benefits analysis of the particular asset to guide future decisions and possible investments.
- As per legislation, Service Level Standards for RGI units must be maintained by SMs. As maintenance and RGI subsidy costs are increasing it is difficult to identify funds for repairs.
- Recent studies (Pomery - Nero Fiddling) found that projects with a high number of RGI units and low capital reserves will face financial challenges to maintain these assets and simply may not be viable upon the end of operating agreements.
- Some projects do not provide appropriate unit types to meet current and future local need (e.g., seniors or the disabled). Often, these structures are not energy efficient (electric baseboards) and are costly to operate.
- SHSC estimated the shortfall in replacement reserve accounts to be \$1.2 billion in 2007. This estimate does not include the impact of the \$804 million investment since that estimate was made (\$704 million for SHRRP and \$100 million for the social housing capital repair fund).

Financing for Capital Repairs or Regeneration

- There is no simple, universal solution to the financing of capital repairs or regeneration for public housing. The condition of the stock, land values, land use planning requirements, local housing needs and housing market dynamics vary widely from region to region. Lender requirements may vary by institution as well.
- Service Managers should explore financing options with lenders and housing providers to fund repairs or regeneration in the absence of grant-based programs from federal and provincial partners. The Region of York repair program is an innovative and pragmatic example.
- An SM may wish to acquire a first mortgage loan during or after a debenture matures, although the loan application must pass the standard credit tests all lenders require by demonstrating the borrower can meet debt servicing standards. In some cases, SMs can help support the loan application by demonstrating the project has built up equity. The Asset Management Centre for Excellence is a valuable resource to advise on funding options, best practices and strategies for Service Managers and providers.
- Public housing properties are financed by CMHC 50 year debentures. As a general rule, debentures are not registered on title and are closed to prepayment during the term. There are 18 public housing projects that are mortgage financed; also, some of the public housing debentures have been secured through mortgages registered on title. (N.B. Province can facilitate the removal of a registered mortgage under a debenture if need be.)
- The Province has made several attempts, on behalf of several SMs, to re-negotiate the debentures to allow a prepayment and/or interest rate deduction. However, CMHC has not responded favourably to these requests. In the evolving HSA world of housing and emerging redevelopment opportunities, more work needs to be done to seek CMHC flexibilities on debentures for public housing.

Infrastructure Ontario Loans

- In 2008, Infrastructure Ontario's (IO) lending mandate for eligible borrowers was expanded to include private non-profit and co-op housing providers in addition to the existing municipal non-profit and local housing corporations.
- Like commercial lenders, IO can make loans to housing providers for capital repairs, renovation or regeneration if they meet standard credit tests and the loan applications are supported by their SMs. SMs must be working together with their providers on loan applications as there may be housing subsidy implications up to and beyond the end of the operating agreement and the SM may not have the desire to go beyond.
- IO has approved social housing project loans, although not to public housing projects to date.
- In the absence of new cost-shared federal-provincial grant programs for repairs, refinancing and loans are a realistic alternative. Energy efficiency improvements and use of renewable energy technologies can also be financed through these loans.
- Discussion among MMAH, IO, housing sector organizations, and SMs are ongoing at the Asset Leveraging Working Group to facilitate shared knowledge and understanding of best practices.

In Closing...

Solutions to public housing repair and renewal needs can only be found among and with partners:

Service Managers

- Think strategically about your community's social housing assets and their underlying mortgage and debenture financing. What are the opportunities and when? What does the debenture or mortgage actually say?
- Encourage the timely completion of energy and building condition audits among your providers.
- Work with LHCs (or other providers) to develop asset management plans that include loan financing based solutions.

Housing Providers

- Ensure building condition and energy audits are current and focus on generating asset management plans from these audits.
- Work closely with your Service Manager on asset management strategies and to gain support for potential loan applications.
- Develop portfolio and real estate plans based on financial viability, land use planning, tenant management, and land economics to identify a range of opportunities. Look at your mortgages and debentures to identify opportunities and constraints.

Infrastructure Ontario and other lenders

- IO has become increasingly familiar with the social housing stock and sector participants and is more familiar with opportunities and challenges - they get it.
- Other commercial lenders could also be engaged to determine loan opportunities and strategies although they will need education on the who and what of social housing.

MMAH

- MMAH can act as a facilitator to ensure all the various partners are engaged.
- The mortgage renewal group at MMAH can provide technical advice and support.
- Continue to engage the sector to explore all financing solution options.

CMHC

- Will determine debenture options with SMs and MMAH on a case by case basis.
- Insures NHA mortgages.

Thank You!