Niagara Regional Housing

REPORT TO: **Board of Directors of Niagara Regional Housing**

SUBJECT: **End of Operating Agreements (EOA)**

RECOMMENDATION

That the NRH Board **RECEIVES** this report for information.

PURPOSE

The purpose of this report is to inform the Board on housing providers' end of operating agreements (EOA), and to identify upcoming service manager challenges related to post-EOA obligations. For ease of reference, the term "end of operating agreements" refers to both the expiry of federally-signed operating agreements as well as the expiry of federal/provincial and provincial mortgages under the *Housing Services Act (*HSA*)*. Although EOA affects all housing providers, this report focuses on the Federal housing providers who will reach EOA first.

BACKGROUND

In Niagara, there are 66 housing providers previously funded under 3 different programs - Federal, Federal/Provincial and Provincial Program as illustrated below:

	Programs		
	Federal	Federal/Provincial	Provincial
Federal Subsidies (Annual)	$2.1M	$3.5M	n/a
Number of Providers	20	26	24
Federal Funding	Yes	yes	No
Operating Agreements	Yes	No - *Housing Services Act*	No - *Housing Services Act*
Expiry Dates:			
Years 2014 – 2019	10	0	0
Years 2020 – 2025	8	13	7
Years 2026 – 2030	2	13	17
Service Level Standards	no	Yes	Yes
Ensure Program Compliance Post EOA	no	Yes	Yes

Projects that were developed under the Federal Program and Federal/Provincial Program receive federal funding (*refer to shaded areas of Chart 1*). Projects developed under the Provincial Program do not receive any federal funding and are funded solely from the regional levy. As a result of the various funding programs, housing providers will experience EOA differently, which will result in different obligations for service managers. Some providers (4) have projects in two of the three programs.

REPORT

A. Federal Housing Providers

Beginning in the early 1970s and continuing into the 1990s, the Federal government entered into operating agreements with housing providers to provide affordable housing for low-to-moderate income households. The length of each agreement was tied to the housing provider's mortgage, ranging anywhere from 35-50 years. The responsibility for the administration of the agreements was transferred to the province and later to NRH during devolution. Some Federal housing providers also receive additional rent supplement from NRH for their tenants to make the units affordable. This rent subsidy may also end at EOA.

Service Manager Obligations – Federal Housing Providers

Over the next sixteen years, the operating agreements with Federal housing providers, originally signed between the Federal Government and providers, will expire eliminating their federal funding. While most Federal housing providers will remain viable even without federal funding, there are a few with higher mixes of rent-geared-to-income (RGI) units that may require some form of support from NRH in order to remain financially viable.

Unlike the Federal/Provincial program, there is no requirement by service managers to maintain certain service level standards under the Federal Housing program.

B. Federal/Provincial Housing Providers

Beginning in the early 1980s and continuing into the 1990s, the Federal and Provincial governments shared the funding of new affordable housing. The Province took on the responsibility for administering the program, and entered into Project Operating Agreements with housing providers to provide a set amount of rent-geared-to-income (RGI) and market units, typically 75% RGI and 25% market. The length of the agreements was 35 years and was tied to the housing providers' mortgages. When the HSA came into effect, all project operating agreements under this program were cancelled. For these housing providers, legislative requirements now fall under the HSA.

Service Manager Obligations – Federal/Provincial

There are a number of areas within the HSA where funding and administration obligations exist for service managers. Despite the fact that federal funding steps down at EOA, certain of these service manager obligations will continue, creating both financial and accountability impacts for service managers and providers. Under the HSA, a prescribed number of units must be maintained in the service area at rents which are affordable to low-and-moderate income households. Service managers are required to maintain these "service level standards" despite the fact that federal subsidies will sunset at EOA, leaving service managers on their own to address the ongoing financial obligations that service level standards will impose.

Federal/Provincial housing providers have a higher proportion of RGI units in their projects and are likely to be less sustainable than their Federal housing provider counterparts. The Federal/Provincial units are also tied to the service level standards set out in legislation, which NRH is obligated to maintain. This may mean greater dependence on NRH for financial support in the future unless the financial situation of Federal/Provincial housing providers can be improved.

Starting in 2022, the Federal/Provincial housing providers' mortgages will end and the requirement for NRH to provide subsidies may also end.

C. Provincial Housing Providers

In the 1990's the province assumed responsibility for the development and funding of all affordable housing. Under the Provincial housing program, no federal subsidy was provided. Project Operating Agreements were signed between the Provincial government and housing providers and the length of the agreement was 35 years and tied to their mortgage.

Service Manager Obligations – Provincial Program

The same issues and concerns exist with the Provincial housing providers as with the Federal/Provincial housing providers. The only difference is that there is no federal subsidy provided to these housing providers. However, the same concerns exist related to sustainability and the obligation to maintain service level standards post EOA.

Starting in 2024, the Provincial housing providers' mortgages will end and the requirement for NRH to provide subsidies may also end.

Provincial Policy Framework

Although the Federal/Provincial and Provincial mortgages don't start expiring until 2022 and 2024 respectively, a policy framework has not yet been developed by the Province. Clarification been requested as to the service managers' obligations post EOA.

Assessing Federal Housing Provider Viability

Since this report is focused on Federal providers only, the balance of this report will outline the assessment that was undertaken to determine the financial viability of federal providers at EOA.

The Tool – Appendix A & B

The end of operating agreements is an issue that affects housing providers across the province. In response to this challenge, the Canadian Housing and Renewal Association (CHRA) developed a tool to help assess the long-term viability of housing providers. This tool assesses a housing provider's viability on multiple fronts by looking at their:

- net operating income (NOI) now;
- net operating income (NOI) at EOA;

- sufficiency of reserves; and,
- capacity to refinance.

The tool provides an assessment of whether the provider will be financially viable at EOA and for long-term sustainability. However, this assessment tool is only a guide for predicting whether a housing provider will be successful post EOA. There are many unknown factors, such as the current physical condition of a housing project and changing economic conditions that are not taken into account, which will impact the assessment results.

Results of Assessment

Assessments were completed on all 20 Federal housing providers using the CHRA Tool. Based on current information, the vast majority of Federal housing providers will be viable and well-positioned at EOA and the future. The majority of these housing providers will have healthy operating surpluses and fully funded reserves that will meet their future capital repair needs.

Only three Federal housing providers are projected to have negative NOIs when their operating agreements expire and will likely not be financially viable. Two of these providers would not even be viable today without the federal subsidy, due to their 100% RGI units. They will face the greatest challenges in finding ways to remain viable while continuing to provide the same level of subsidy and supports to their tenants. The expiry of the operating agreements for these providers is still years away, and over the next few years, staff will be working with these housing providers to develop a transition plan that may include cost reduction strategies, revenue generation strategies, and RGI re-structuring.

While NRH does not have an obligation to assist Federal housing providers post EOA, it is in our best interests to ensure these providers are financially successful and continue to maintain their affordable housing units.

NRH will update the tool annually to monitor housing providers' assessment of long-term viability and to gauge whether actions taken by NRH to support the "at risk" housing providers are succeeding.

Refer to Appendix A and B for the detailed analysis of the EOA related to Federal housing providers.

Implications of EOA

The service manager obligations are clearer with the Federal housing providers and EOA. Once an operating agreement ends and federal funding ceases, the relationship between NRH and the housing provider also ends. As a result, NRH does not have any responsibility to continue to support the housing provider and the housing provider is no longer accountable to NRH.

There are varied feelings amongst Federal housing providers about this change in relationship. Some Federal housing providers are investigating options of paying off their mortgages on renewal in order to break ties with NRH sooner and gain greater flexibility over their operations and mandate. When a mortgage is paid off, the operating agreement ends. Without the operating agreement, there is little incentive for a provider to continue to provide affordable housing. Federal housing providers who are financially sound, have large reserves, and have the capacity to refinance may not be interested in maintaining a relationship with NRH. It is not clear how easily the housing providers will be able to amend their Articles of Incorporation or Letters Patent, if they wish to do so, to be able to sell off their units to the private market. At the present time, the housing provider's Articles of Incorporation or Letters Patent restrict the sale or transfer of the assets to another charity or non-profit organization.

Providers that will not be financially viable, have limited reserves and will not have the capacity to refinance may wish to maintain a relationship with NRH post EOA as a safety net and for supports (financial and otherwise).

CONCLUSION

There are still many unknown factors that may have an impact on how service managers deal with the end of operating agreements, related to:

- The overall costs of sustaining affordable housing, as assets age and federal funding ends;
- Whether a continuing relationship with housing providers can be enforced;
- Uncertainty about service manager rules/obligations beyond EOA and associated service level standards, absence of end dates for service manager obligations, and potential service manager liability for post EOA provider insured mortgages;

The Province has been requested to provide clarity related to legislated service manager funding and administration obligations post-EOA, especially as it relates to the Federal/Provincial programs and maintaining service level standards and subsidies.

As EOA approaches, staff will work with housing providers to develop transition plans to ensure they remain financially viable so that they are able to continue to provide affordable housing for low-to-moderate income households post EOA.

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Appendix A

CHRA Tool

Federal Housing Provider Viability Assessment – Description

Test 1: Is the project viable today?
This test looks at whether the current revenue, excluding all subsidies, is enough to cover all of the housing provider's expense, excluding the cost of the mortgage. The resulting number is the housing provider's net operating income (NOI). In order to be considered viable housing providers must have a positive NOI, indicating a revenue surplus.

Test 2: Is the project viable at the date of expiry?
Typically the cost of operating a housing project increases faster than rents that are charged, therefore it is possible for a housing provider to be viable today and yet not be viable in several years when their operating agreement finally comes to an end. In order to determine future viability a projection is created which assumes a yearly increase of 1% for revenues and 2% for expenses. Again housing providers need to have a projected positive NOI.

Test 3: Does the project have sufficient reserves?
A housing provider is determined to be viable from a capital repairs perspective if they have sufficient reserves to invest $750 per unit per year up until the expiry of their operating agreement. This is dependent however on the current condition of the assets.

Test 4: Does the project have capacity to refinance?
Projects that have a positive NOI at the time of expiry are in a position to refinance using their operating surplus as leverage. Being able to refinance allows housing providers to make long term capital investments. Test 4 provides a rough estimate of how much capital could be made available, assuming a financing rate of 5%.