
DATE: November 5, 2013

REPORT TITLE: **SOCIAL HOUSING - END OF OPERATING AGREEMENTS**

FROM: Janet Menard, Commissioner of Human Services

RECOMMENDATION

That Regional Council advocate for solutions to deal with the impact of the end of social housing provider operating agreements from senior levels of government in conjunction with sector organizations such as the Association of Municipalities Ontario (AMO), the Ontario Municipal Social Services Association (OMSSA), the Federation of Canadian Municipalities (FCM), the Ontario Non-Profit Housing Association (ONPHA), the Co-operative Housing Federation (CHF) and the Housing Services Corporation (HSC).

REPORT HIGHLIGHTS

- Social housing in Canada has been supported by federal mortgages and operating agreements to allow mortgage repayment.
- Over the next decade the devolved social housing housing stock will begin to reach mortgage maturity, which aligns with the end of their operating agreements. At this time, the federal subsidy received by the Region to help fund the project will also end.
- Despite the loss of subsidy, the majority of housing providers (e.g. those subject to the *Housing Services Act, 2011*) will still be obligated to provide subsidized housing and the Region will be responsible for ensuring this requirement is met.
- Housing providers that are currently financially stable with healthy capital reserves and spending patterns are expected to be able to meet social housing obligations without Service Manager financial support when operating agreements expire.
- The Housing Services Corporation (HSC) provided an initial analysis of the impact of the end of operating agreements in Peel for both community-based housing providers and Peel Living. This allows the Region as Service Manager to plan for the system wide impacts of this issue.
- As Service Manager, the Region will continue to support housing providers to ensure present and future financial viability is achieved. Regional staff will also work with housing providers who currently, or in the future may, face challenges. These strategies and plans will ensure the housing obligation will be met once operating agreements expire.

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DISCUSSION

1. Background

Between the 1940s and the late 1990s, the federal government created and funded social housing programs in Canada. In the early years, the federal government developed and funded its own social housing programs and beginning in the 1970s, it began to partner with provincial and municipal governments to create new social housing under a variety of cost shared programs.

Social housing projects created with any type of federal government involvement received the federal portion of subsidy through an operating agreement that was tied to the length of the mortgage. This agreement outlined the subsidies to be provided and the ongoing obligations of the housing provider.

In the late 1990s, the federal government withdrew from its role in social housing in Ontario and transferred all its program and funding obligations to the provincial government. With this transfer, the federal government passed its original subsidy obligation to the province and provided annual block funding to cover this cost.

In 2001, the provincial government transferred the funding and operating arrangements for 46 housing providers (including Peel Living) to the Region of Peel. Ontario is the only province where the responsibility for housing service management has been downloaded to the municipal level. As a part of the transfer the province agreed to flow the federal block funding linked to devolved housing projects.

The intent of federal subsidy was to help housing providers off-set the debt payments on social housing mortgages and thereby assist with operating costs. Upon mortgage maturity, it was expected that housing providers would be able cover operational costs without additional subsidies through the savings from having no mortgage payments. However, sector led research shows that the mortgage savings will not be sufficient to cover operational costs once operating agreements expire.

Over the next 5 to 10 years, housing providers' operating agreements will begin to expire in Peel. This report highlights the impacts of these operating agreements ending from a revenue and system operating perspective and provides initial options to manage the effects.

2. Federal Funding Decline

The provincial government releases details on how the funding will be distributed to service managers in five year intervals. In the April 28, 2012 volume of the *Ontario Gazette*, the Ministry of Municipal Affairs & Housing provided notification of the federal funding amounts for 2013 to 2017. Appendix I details the distribution over the next five years to the Region.

Although the Region is provided with exact federal funding amounts for five years at a time, the expectation is that the federal funding associated with projects as they expire will be removed from our allocation amounts. Although the province has not released specific allocation amounts beyond 2017, they have shared the general trend of federal funding decline across the province as detailed in Appendix II.

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i) Impact to the Region's Housing Costs

The federal funding provided to the Region of Peel declines as a result of the maturation of mortgages for devolved housing projects. This is offset by a reduction of subsidy payable to housing providers.

The Region has already seen the loss of \$601,494 in federal funding associated with expiries in the devolved rent supplement programs (equaling 72 units). The Region continues to fund these units and the decrease in associated federal subsidy has been offset through regional investments in housing as approved by Council in the "Housing Investment Plan".

The larger federal funding decreases for the Region will occur when the operating agreements expire for the devolved housing projects. The first expiry occurred in 2012 and the number of expiries will peak between 2026 and 2029. Appendix III shows the number of projects expiring between 2012 and 2032.

In 2013, 14% (approximately \$21M) of the Region's funding for housing programs is from the federal funding portion allocated to Peel. By 2032, this revenue source is expected to be zero and the Region will no longer have this subsidy to apply to the costs of the housing program.

3. Housing System Obligations

Despite the withdrawal of federal funding, Service Managers are still required by provincial legislation to meet its service level standards for most devolved housing programs. The Region of Peel will be obligated to provide a minimum of 8,261 subsidized units (operated through Peel Living, community-based housing providers and the rent supplement program) despite the expiry of operating agreements for the associated projects and the decrease of associated federal funding.

Operating agreements linked to housing projects that were in any part funded by the province were terminated and replaced by funding and program requirements outlined in the legislation [i.e. *Social Housing Reform Act, 2000* (SHRA), now the *Housing Services Act, 2011* (HSA)]. Since the operating agreements for these projects no longer exist, they will remain in the system once their mortgage expires. The legislation requires that the Region continue to fund these providers for operating costs after mortgage maturity.

Housing projects that were developed under former federal programs (without other government involvement) were transferred with their original operating agreement intact. The Region inherited the obligations tied to these agreements and at the time of mortgage expiry, the Region no longer has to fund these projects, unless there is a separate rent supplement agreement.

Although former federal housing providers do not have to remain in the housing program, a few community-based federal housing providers have informed the Region of their voluntary intent to remain an affordable housing project once their operating agreement expires. This is a welcome commitment as the Region recognizes federal housing providers as a valued partner in the delivery of housing in Peel. Staff continue to keep former federal providers engaged in these conversations so that decisions to remain in the housing program post expiry remain a viable option.

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i) Housing Provider Impacts – General Findings by the Housing Services Corporation

Although the Region is required to meet service level standards, housing providers with expired operating agreements may still face significant challenges to remain viable.

The Housing Services Corporation (HSC) conducted research on the implications arising from the end of operating agreements across the province. The research shows that two factors affect a housing project's likelihood of being viable past the End of Operating Agreement (EOA):

- a percentage range of RGI units equating to between 60% - 65% of the entire project
- adequate capital reserve balance practices including a positive balance that can effectively fund all necessary capital requirements.

Although individual projects may have different factors that impact how they fare at EOA, it is expected that:

- maximum impact will be seen in the Public Housing and HSA projects, as both have a relatively high RGI share that is required to be met after EOA
- Projects developed under the older federal programs are likely to be more viable post EOA as they have a lower RGI ratio, that is not obligated post EOA. The federal projects may be more viable however there is a risk of lost social housing units in the system if these providers chose to leave the program. Currently the federal non-profit portfolio ~~consists~~ in Peel consists of 3,201 units.

ii) Implications for Peel's Housing Providers

In 2013, the HSC conducted analysis on how housing providers in the Region of Peel will fare at the time their operating agreements expire. HSC evaluated the current viability of community-based housing projects and used a series of factors to determine operational and capital performance at the time their operating agreement expires.

The HSC research methodology could not be used for Peel Living projects because the organization manages its revenue and cash streams at a program level and not at a project level. Instead, HSC examined Peel Living's viability by program.

Regional staff verified the analysis and agrees with the general findings projected by HSC.

a) Community- Based Housing Projects

The EOA analysis performed by HSC shows that community-based housing providers in the Region of Peel are somewhat better off (currently and at EOA) than the provincial-wide average and the Peel Living portfolio. This is an indication of the capital investments made through the federal/provincial Social Housing Renovation and Retrofit program and more recently the Region's Accessing Infrastructure Capital Subsidy program. This is also an intended effect of increased technical advisory support offered by the Region to housing providers.

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We are working with the projects that are currently facing difficulty to work on strategies to improve current viability, which will in-turn impact viability post EOA.

b) Peel Living Programs

Peel Living's viability by program is consistent with provincial findings suggesting that at the time of EOA:

- Public Housing and HSA projects will face operational and capital deficiencies that may impede ongoing viability
- Former federal projects and the municipal non-profit will be in a better operating position, but will face capital shortfalls

Like community-based housing providers, Peel Living has benefitted from increased technical advisory support and additional capital funding. However unlike community-based providers Peel Living has different factors that impact its ability to manage the effects of EOA to the same degree. Most significantly, its portfolio contains the oldest stock in the Region of Peel that requires a larger capital need.

Further analysis on project specific cost implications as well as capital reserve spending and planning has been recommended to Peel Living staff. The Peel Living Board received a staff report on October 24, 2013 outlining steps to improve capital reserve spending that will help inform strategies to deal with the EOA issue.

5. Current Plans and Future Opportunities

The housing sector is in the early stages of addressing this issue and HSC has taken the lead on research designed to help service managers in Ontario understand this issue and take appropriate action. HSC is active in working with service manager staff across the province, including the Region of Peel, to come up with solutions to this issue.

The majority of housing projects expiring in Peel will occur after 2020 and preliminary plans to address this issue are being developed, including:

- Using HSC's Asset Planner software to increase the Region's knowledge about capital assets in the social housing program and to support more informed capital and maintenance decisions.
- Helping housing providers maintain and sustain positive operating and capital positions through regular monitoring and compliance reviews. (Note: Regional staff are developing parameters for an operational review of Peel Living to be implemented in 2014. It is expected that this review will provide insight into how to address the impacts of end of operating agreements from the perspective of a housing provider. The Service Manager intends to use lessons learned from this review to help other community-based housing providers deal with the upcoming challenges.)
- Continuing to help housing providers with much needed capital repairs through the Accessing Capital Infrastructure Subsidy program approved by Council in November 2012.

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- Providing necessary support and capacity building for housing providers to make informed capital and maintenance decisions through a dedicated Technical Advisory team, including the creation of a designated liaison group with housing provider staff.
- Proactively engaging federal housing providers in conversations about continuing to be a part of the housing system in Peel once their obligation subsidies (e.g. creating new rent supplement agreements).
- Monitoring what other service managers are doing to address this issue through networks and HSC research.

The EOA issue may also provide an opportunity for innovative solutions to ensure the ongoing viability of the housing system in Peel. The following opportunities are available for consideration:

- Extend or create new relationships with community partners for the provision of social housing.
- Encourage housing providers to seek new revenue sources to offset lost subsidies (e.g. solar energy).
- Permit intensification/redevelopment projects to create new or secure existing units in the housing system.

The EOA matter also links to community responses heard while developing the Region's 10 Year Affordable Housing and Homelessness plan. Community stakeholders indicated that they want to maintain existing housing stock in the Region and initial plans to the EOA issue are aligned with this feedback.

FINANCIAL IMPLICATIONS

When operating agreements expire, the Region will lose federal funding subsidy (equating to approximately 14% or \$21 M of the 2013 housing funding source), but will still be required to meet program obligations. The Region will need to plan for this loss of revenue and the continued obligation to maintain service level standards in the system.

The HSC analysis suggests that Peel Living will face challenges to remain financially viable once operating agreements expire. Since Peel Living is owned by the Region, the Council, as Service System Manager for Housing and as Sole Shareholder of Peel Living, should be cognizant of the financial implications this will have on the Region.

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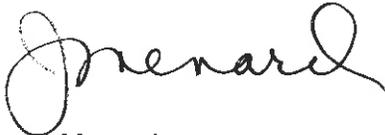
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CONCLUSION

This loss of federal subsidy presents significant challenges for both housing providers and the Region of Peel as a Service System Manager as:

- Peel will still be legislatively obliged to provide social housing despite the loss of federal subsidy; and,
- housing providers will face difficulties in maintaining subsidized units and meeting capital and operational cost requirements

The impacts of the end of operating agreements will become a pressing issue for the Region over the next two decades, particularly with the Peel Living portfolio. Staff have taken initial action to address this issue and will begin exploring the plausibility of opportunities to maintain and improve the housing system.



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Approved for Submission:



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APPENDIX I

Federal Funding for Social Housing - The Region of Peel's Allocation (2013 – 2017)

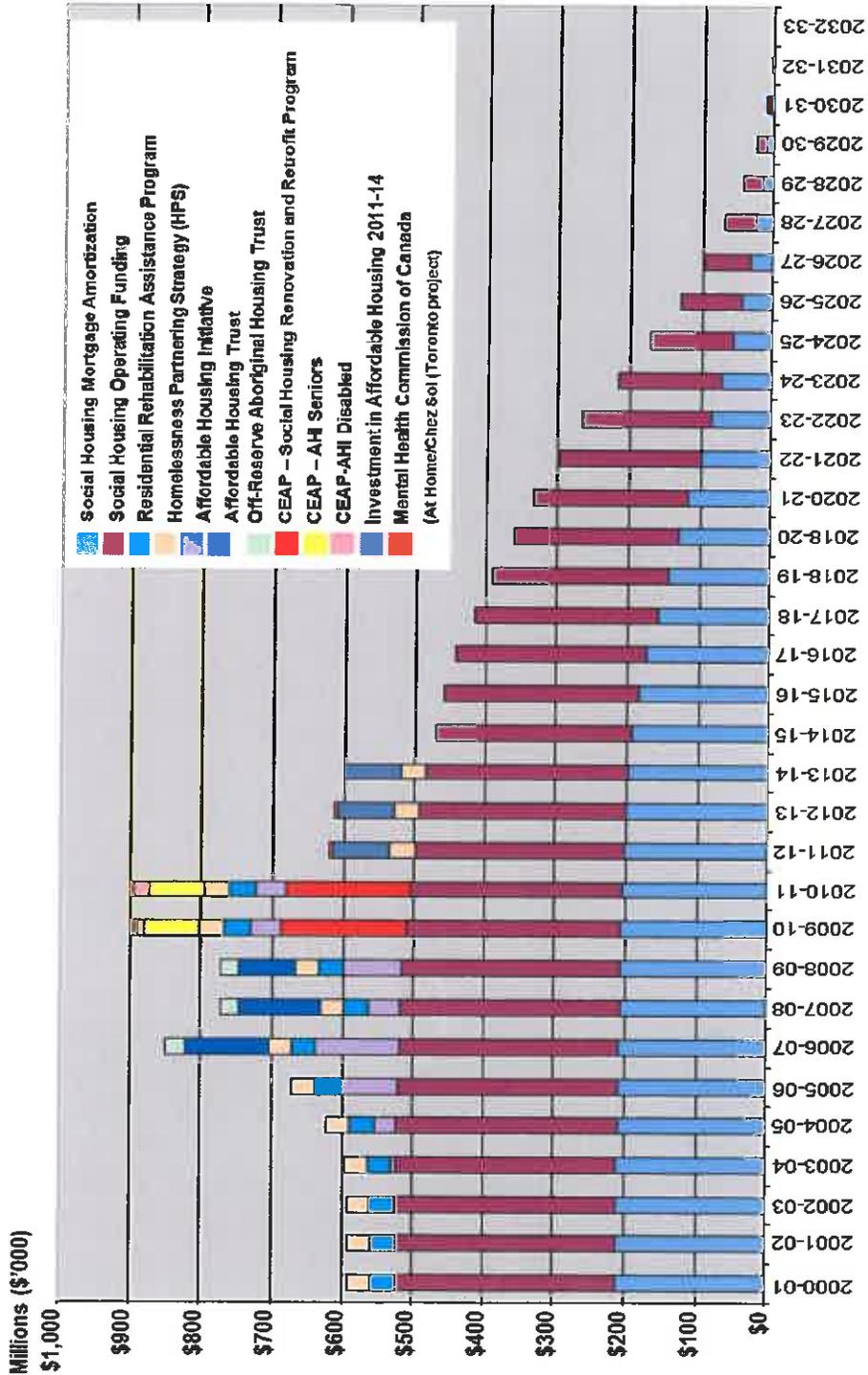
Programs	2013	2014	2015	2016	2017
Housing Services Act	12,067,263	12,067,263	12,067,263	12,067,263	12,067,263
Rent Supplement	2,683,105	2,465,758	2,278,974	1,958,881	1,508,947
Former Federal	1,227,734	1,227,734	1,227,734	1,227,734	1,105,360
Public Housing	1,628,924	1,628,924	1,475,810	1,379,356	1,379,356
Municipal Non-Profit (including former federal projects administered by Peel Living)	4,431,255	4,431,255	4,431,255	4,187,088	3,660,620
Untargeted SHA Funding *	156,909	224,662	882,953	1,678,111	2,360,834
Total Federal Funding Published	22,195,190	22,045,596	22,363,985	22,498,433	22,082,382
<i>Less: OHC Debenture Cost</i>	<i>1,132,075</i>	<i>1,132,075</i>	<i>1,126,694</i>	<i>1,025,079</i>	<i>1,025,079</i>
Net Annual Federal Funding	21,063,115	20,913,521	21,237,292	21,473,354	21,057,303

* Untargeted SHA funding represents additional resources in the Ministry of Municipal Affairs & Housing's federal funding allocation model. This funding is distributed to all Service Managers based on their proportionate share of the federal funding.

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APPENDIX II

Federal Funding to Ontario: Source: Presentation by Janet Hope, ADM Housing – MMAH (Taken from 2012 ONHPA Conference Presentation Library)



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APPENDIX III

End of Operating Agreement - Project Expiry by Year

External Housing Projects

EOA Year	Former Federal	Housing Services Act	Total
2012	1		1
2017	2		2
2018	2		2
2019	1		1
2020	2		2
2025		3	3
2026	1	6	7
2027		9	9
2028	1	8	9
2029	1	4	5
2030		4	4
2031		3	3
2032		2	2
Total	11	39	50

Peel Living

EOA Year	Former Federal	Housing Services Act	Public Housing	Total
2016	2		3	5
2017	3			3
2018	6		2	8
2019	5		1	6
2020	1		2	3
2021	3		2	5
2022	1	1	2	4
2023		5		5
2024		3	3	6
2025		2	1	3
2026		4		4
2027		9		9
2028		1		1
2029	1	2		3
2030		2		2
Total	22	29	16	67

*In 2012 one federal provider's operating agreement expired. This provider agreed to continue to provide rent supplements post EOA.