COUNTY OF SIMCOE

ITEM FOR: **HUMAN SERVICES COMMITTEE**

SECTION: Consent - Social Housing

ITEM NO. HS 13-082

MEETING DATE: May 14, 2013

SUBJECT: Risk Management and End of Operating Agreements in Social Housing

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RECOMMENDATION:

That Item HS 13-082, regarding Risk Management and End of Operating Agreements in Social Housing, be received for information.

BACKGROUND:

The Consolidated Municipal Service Manager role in social housing includes the ownership of public housing stock, funding and administering non-profit programs and other legislated housing programs, administering centralized waitlists for rent-geared-to-income housing units, and ultimately being required to maintain service level standards prescribed by the Province at the time of devolution.

There are a number of issues occurring both in the immediate timeframe and in the future that may impact the viability of the social housing providers under the administration of the County. These issues can be categorized under the following themes:

- End of Operating Agreements
- Decline of Federal Subsidy
- Building Condition Assessments
- Insurance Costs and Trends

This Item is intended as a high-level overview of these factors, as well as an informational update to Council on actions that County staff is taking to understand and address our local situation.

In the role of Consolidated Municipal Service Manager, the County of Simcoe is responsible for funding, administration, and ensuring legislative compliance for local non-profit, co-operative, federal, and urban native housing programs including the Simcoe County Housing Corporation. There are currently 4,112 social housing units that receive ongoing operating funding. Non-profit housing is owned and managed by local non-profit housing groups. Co-operative housing is owned and managed directly by its members. Typically, 60 percent of non-profit and co-operative residents pay rent based on income and 40 percent pay market rents. The federal housing units in Simcoe County are administered through transferred operating agreements and the County is responsible for ensuring compliance. This includes non-profit housing and urban native housing programs. Additionally, there is a diverse range of affordable housing programs designed to provide affordable, safe, and secure housing for the residents of Simcoe, such as Ontario Renovates, Home Ownership, Rent Supplement, and capital contributions to the development of affordable rental housing.

The term “End of Operating Agreements” is generally used to describe the situation of end dates in social housing. When the original financing arrangements for social housing are discharged, there will be differing ramifications depending upon the type of program under which those housing projects were built. Social housing was usually built with long-term commitment of operating subsidies that matched mortgage amortization periods (35-50 years). In most cases, the operating subsidies will end at the same time as the mortgages end. These end dates will bring about a range of consequences and uncertainties for all Service Managers and housing providers. In general, the housing portfolio in Simcoe County is quite young compared to the rest of Ontario. This means that the end dates are not happening as soon in Simcoe County as they are in many other areas of the province. This also means that the County will be able to benefit from other Service Manager experiences across the province and learn best practices to address the situation locally before the majority of local housing providers reach their end of operating agreement dates.

Depending on the original type of funding and program that each housing project was built under, the Service Managers across the province may be required legislatively to maintain operational funding. There are specific requirements under the Housing Services Act (2011) for continued operational subsidy by Service Managers for particular projects (i.e. Provincial Reformed and Public Housing projects). For housing providers that are not required under the Housing Services Act to continue to operate through involvement with Service Managers (i.e. former federally funded projects), their boards of directors will have the option to exit the social housing system. Regardless of whether they are legislated to be part of the Service Manager-led housing system or not, some providers will be financially viable and some will not. There may be opportunities for the County of Simcoe as Service Manager to introduce innovative solutions such as greater usage of rent supplements or leverage of assets within the social housing system.

Financial viability post end of operating agreement will likely be heavily impacted by the percentage of rent-geared-to-income housing in each housing project. Logically, a healthy proportion of market rent units in a housing project assists in maintaining a balanced budget with sufficient revenue to offset some operating costs and to build up capital reserves that can be accessed for building repairs. Providers that operate 100% rent-geared-to-income buildings will be much more financially vulnerable than providers that have a healthy mix of rent-geared-to-income and market rent units.

Across the country and the province, there are organizations which can provide resources to assist Service Managers in reviewing the impact of End of Operating Agreements. County of Simcoe staff has implemented a Steering Committee:

- To identify risks to the County of Simcoe regarding the end of operating agreements and building condition assessments, and how these impact the entire housing system; and
- As Service Manager, to identify opportunities for the housing providers to make decisions regarding their role in the housing system.

As an initial analysis, the Housing Services Corporation had reviewed data during 2012 from Service Managers to create a province-wide report regarding end of operating agreements. In April 2013, Housing Services Corporation staff presented to County of Simcoe Steering

Committee staff the preliminary information that is specific to the County. Following that presentation, County of Simcoe Social Housing Department staff and Finance Department staff will continue their collaborative work to incorporate additional financial data, as well as data regarding building condition assessments. A further review is being planned for the spring or early summer including the utilization of a specialized analytical tool developed for the purpose of understanding local impact of end of operating agreements. The intention is to inter-relate the findings of the analytical tool with the building condition assessment data. It is anticipated that a much more in-depth analysis will be possible later in 2013. This will include the identification of the most at-risk housing providers in our local social housing system.

The County as Service Manager receives annual block federal funding that is tied to former federally funded housing programs and a number of cost shared program commitments. This funding however will decline over time when operating agreements and cost shared agreements terminate. At the time housing programs were transferred to the County, approximately $7 million was received annually. This funding however will decline to $6.6 million by 2017. It is anticipated that the most significant decline in the block federal funding will occur between 2021 and 2031. The ultimate impact of this loss of revenue will require a decision from the County about continued funding of social housing units, some of which are not subject to our service level standards but nonetheless fulfill a critical need in our community to offer rent-geared-to-income housing.

Financial viability is also impacted by the condition of the buildings in a provider's portfolio, and the pace at which repairs have been addressed over the long-term. A previous summary of the significant financial shortfall for capital repairs was brought forward for County Council consideration in Item HS 11-138 (October 2011). Financial viability can also be impacted by the market value of the housing projects and the ability to leverage equity once mortgages are paid off. A significant issue impacting financial viability is that many housing providers often borrow from their reserves to cover operating costs, leaving underfunded capital reserves.

For example, County of Simcoe Social Housing Department staff has already received one notional request from a housing provider that requires financial resources to support capital repairs. County staff is currently working with that provider to ensure that all avenues for financial support from other sources are thoroughly reviewed prior to bringing a formal request and business case to County Council. It is anticipated that a request for approximately $1.8 million will come forward for consideration during the summer 2013. In discussion with housing providers, it is anticipated that additional requests to support capital repairs will be made to the County over the coming years. The providers that are in the most vulnerable position appear to be those that are known as Provincial Reforms that do not have sufficient capital reserves but are mid to high rise projects containing larger building components such as parking garages, multiple elevators, balconies, and large roofs. The replacement of these components can often more than deplete the providers' capital reserve funds.

The situation of financial viability is further impacted by the trend of rising rates of insurance for housing providers, mainly due to the increasing numbers of claims. County staff has been participating in insurance trend information sessions provided by Housing Services Corporation which are the Insurer of Social Housing properties. Staff understands that globally the insurance industry has seen a significant increase in catastrophic claims, and as such premiums have been affected. In the social housing world, the fire at a Toronto Community Housing Corporation high rise building on Wellesley street in Toronto that resulted from a "hoarding issue" has resulted in some insurance companies reconsidering if they wish to provide coverage in this business. Most providers are mandated to participate in the Housing Services Corporation insurance program however the impact on claims will affect premiums across the board. The two common trends that continue to increase in social housing across the province are fires and water damage due to broken pipes. The trend of fires in the social housing sector is generally a complex tenant and mental health issue, whereas the trend of water damage due to broken pipes is generally within the providers' control. The increased cases of broken pipes are often caused by building pipe systems wearing out resulting in smaller pipe wall thickness that subsequently burst. Staff has started replacing some piping in our larger public housing buildings, however, this process is an extremely large undertaking that is very expensive and very disruptive to tenants. Most providers in Simcoe County have not started this replacement process as in other Service Manager areas with older portfolios.

The County of Simcoe involvement in province-wide networks and organizations such as Association of Municipalities of Ontario, Ontario Municipal Social Services Association, Social Housing Managers' Network, and Central East Service Managers' Network provide opportunities to check with other Service Managers regarding their experiences and identifiable best practices for addressing the complexities of end of operating agreements and capital deficits, etc. There have already been some preliminary discussions amongst Service Managers regarding the legal implications of the mandated Service Manager role and the extent of liability with providers that choose to exit the social housing system. These issues will be summarized into a further report and brought forward for County Council decision-making.

This Item was intended to provide an overview of how several timely issues in social housing across Ontario are intersecting in a way that presents risk for Service Managers. End of operating agreements cannot be reviewed without consideration to the capital repair situations in social housing buildings. Conversely, decisions about support for capital repairs should not be made without consideration to each housing provider's end dates of their operating agreements, and the impact those dates and capital repair costs will have on the overall Simcoe County social housing portfolio. In tandem timing, the Ten-Year Housing and Homelessness Plan will provide further context and recommendations that will assist County staff in setting precedents for an approach that is equitable across the County, maximizes our Service Manager role, minimizes risk, and provides opportunities for innovative people-centered solutions.

The following are key considerations and next steps that County staff has identified when undertaking the further analysis:

- Ensure alignment of goals with Ten-Year Housing and Homelessness Plan, when approved
- Identify the inter-relationship between building condition assessments, end of mortgages, and end of operating agreements
- Identify short/medium/long-term interpretation of results using analytical tool
- Identify the degree to which service level standards may be impacted by housing providers opting to leave the social housing system
- Identify opportunities to strengthen the local social housing system

FINANCIAL ANALYSIS:

The County currently provides $16 million in operating subsidy to 26 housing providers. The block federal funding for the social housing system is approximately $7 million annually and this funding will decline over time until 2031 when the County will no longer receive this federal funding.

The full impact of end of operating agreements is unknown at this point in time. Staff will continue to analyse the risk associated with the end of operating agreements and provide updates on this issue.

Based on the recent Building Condition Assessment (BCA) the annual capital allocation for both the County owned and non-profit housing providers has a shortfall of approximately $9.74 million as detailed in Item HS 11-138 (October 2011). The information included in the study is being reviewed by staff and will be updated as required. In the 2013 budget Council has increased transfer to reserves to $2.0 million; this will help mitigate some of the future capital funding requirements of the County's mandated social housing programs. It is anticipated that a request for additional subsidy for approximately $1.8 million will come forward by a social housing provider during the summer 2013 and it is possible that many others will do the same as reserves are insufficient to complete necessary repairs.

The issue with respect to the rising cost of insurance premiums will vary by housing providers and it is anticipated that affected providers will submit business cases to the Province and County to increase their benchmarked costs which if approved will require the County to provide additional subsidy.

SCHEDULES: There are no schedules attached to this Item.

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APPROVALS:	Date
Cathy Kytayko, Director, Social Housing	April 26, 2013
Terry Talon, General Manager, Social and Community Services	April 28, 2013
Trevor Wilcox, General Manager, Corporate Performance	May 6, 2013
Mark Aitken, Chief Administrative Officer	May 7, 2013