Local Housing Corporations (Province of Ontario) Capital Allocation Review

Social Housing
Services Corporation

Background

In July of 2001, the Ministry of Municipal Affairs and Housing engaged KMPG Consultants to review the distribution of capital money for the Ontario Housing Corporation portfolio of buildings and to recommend the allocation each service manager should receive.

Prior to devolution the Ministry of Municipal Affairs and Housing allocated $100 million each year for capital work in the portfolio of 84,000 units (an average of $1,200 per unit per year). The distribution each year was based on the condition and need of the individual housing authorities consequently the amount of money to each housing authority varied each year depending on the actual needs of the housing authority in that year.

KPMG Consultants was engaged to review the existing building condition and asset management data on hand and to make recommendations as to the allocation each service manager should receive after devolution. Five-year capital funding requests (2001-2005) that were prepared by Local Housing Corporations in 2000 were used as the primary input for the existing funding model over the 2001-2005 periods.

As a result of the KPMG report some service managers received a higher allocation than others for capital work. The range was from $1,580 per unit per year to $800 per unit per year. The Ministry of Municipal Affairs and Housing indicated that these allocations would be in effect for 5 years (2001 to 2005 inclusive) and promised a review of the allocation in 2005. However there has been no indication on what basis this re-allocation may be made.

The Ontario Housing Corporation properties did not have reserve funds established at the time of construction. The Province of Ontario funded capital work as an annual budget line item and the amount available for capital work varied each year, depending on the actual need and projected requirements. The federal portion of subsidy to each Service Manager is now a fixed amount, which flows to the Service Manager regardless of the actual requirement for capital in a given year. In effect the Service Managers need to plan for capital expenditures as if they had a reserve fund with a fixed annual contribution and zero dollars as the opening balance.

Key Cost Factors

The need for capital funding varies across Service Manager, reflecting differences in portfolio characteristics, such as:

- Age of buildings
- Type of buildings (apartments, row housing, scattered units)
- Client profiles (families, seniors, mixed)
- Size of portfolio (portfolios range from under 250 units to over 29,000 units)

These characteristics are key cost drivers for capital funding requirements. As a result, it would be appropriate for the Ministry to develop a process and allocation model based on relative condition and need of each portfolio and recognizing that the Service Manager portfolios differ greatly and, therefore, have different funding requirements.

Many LHCs have continued to maintain the data sheets and some of the processes developed by the Ontario Housing Corporation. However, it is highly recommended that the Service Manager commission an independent Building Condition Assessment and Capital Reserve Fund Study to better understand the condition and need of the LHC portfolio.

The 2005 re-allocation process may cause other implications and issues going forward:

- Overall and specific funding levels may decrease

- Funding levels may still be inadequate to deal with capital needs of LHC portfolio

- The building standard levels may need to be reviewed and adjusted

- There may be a need to establish Service Manager Capital Reserve Funds to deal with future capital need

- A review of the current governance and service delivery model may be necessary

Social Housing Services Corporation in partnership with the Service Manager will pursue the issue of re-allocating the capital dollars with the Ministry of Municipal Affairs and Housing as soon as possible to determine the process that will be used to re-determine the capital allocations in 2005.

While the LHC portfolio and the non-profit housing stock may have somewhat divergent requirements, due to age, construction type etc. there are mitigation strategies that can be pursued (on both a practical and strategic level) to reduce the strain on the capital reserves of the providers. Further information on this subject can be found in the SHSC study, "*Mitigation Strategies for Capital Reserves Shortfalls*".

LHC Debentures

The debenture debt will be retired on certain projects. Once this happens, the Service Manager contribution to the LHC that serviced the debt could be redirected to the Emergency Stabilization Fund.

The subsidies currently provided for the LHC properties end at the time of debenture (mortgage) retirement. These subsidies currently provide for the cost of the debenture as well as a portion of the overall operating costs. Rents collected for the properties do not usually cover the overall operating cost, which potentially means that the service manager will have to pick up the costs for the operating difference.

In addition there are different rules that apply to the sale or regeneration of Federal (F.P.) units as opposed to Provincial (OH units). The Federal units were built directly under a Federal housing program, prior to the province creating housing under Ontario Housing Corporation. These units were generally built in conjunction with municipalities between 1952 through 1958. The Ontario Housing Corporation did not start building or acquiring units until 1964. The rules for Federal units are significantly more restrictive.

Service managers should review the impact of the loss of Federal Subsidy, which may result in net increases of subsidy cost for the service manager.

A final factor to consider under the LHC debentures is obtaining detailed information from the Province in regards to their plans with respect to federal cash flow, and how that will function, in terms of the flow through to Service Managers.

As this has been set-up on a five year cycle, the federal dollars allocated to Service Managers is only adjusted once every five years. Therefore, if a debenture were to expire before the five years is up, a surplus of funds will be built up that relates to difference between the actual amount flowed-through and the fact that the debenture has reduced to zero. This surplus could be retained by the Service Manager and possibly re-directed towards capital reserves or adequacy. This is currently unclear, as the Province has not formalized this arrangement with Service Managers, and until such time as it is clear, is simply presented as an alternate or possible strategy.