To:	**COMMITTEE OF THE WHOLE**
Section:	Human Services – Social Housing
Item Number:	CCW 14-171
Meeting Date:	April 8, 2014
Subject:	Financial/Risk Implications for the County of Simcoe with respect to Mandated Social Housing Providers

Recommendation:

THAT Item CCW 14-171, regarding the financial and risk implications for the County of Simcoe with respect to mandated social housing providers, be received for information.

Executive Summary:

The purpose of Item CCW 14-171 is to provide an in-depth analysis on the financial/risk implications with respect to the County's obligation to fund social housing providers and the impact of the declining federal funding, projected increase in housing provider capital reserve shortfall, and viability of housing providers at End of Operating Agreements and Mortgages (EOA/M).

Background/Analysis/Options:

As the Consolidated Municipal Service Manager (CMSM), the County of Simcoe is responsible for administering a wide and diverse range of housing programs, some of which are mandated and others that are discretionary. The CMSM is responsible under the Housing Services Act 2011 for planning, funding and managing the County's social housing system. Another mandated role is to create a housing and homelessness plan, for which County Council provided approval in January 2014. An example of a non-mandated or discretionary role is the local implementation of the Investment in Affordable Housing for Ontario Program (IAH) which involves time-limited funding envelopes that can be used for a combination of operating and capital initiatives, but cannot be used to address subsidies to existing mandated social housing programs.

Staff has previously highlighted a number of issues that have financial/risk implications with respect to the County's role in funding and administering mandated housing programs in Items HS 12-148 (September 2012), and HS 13-082 (May 2013). This Item provides a more in-depth focus on the issues related to the decline of federal funding, projected increase in housing provider capital reserve shortfall, and EOA/M.

The history of social housing in Ontario includes the first public housing being built in Regent Park, Toronto in 1947, and most of Ontario's social housing built during the mid-1960's to mid-1990's. The Canada-Ontario Social Housing Agreement was developed in the late 1990's, culminating in a signed Agreement in 1999. The Social Housing Agreement provided the provincial government with the flexibility it required from the federal government to devolve social housing administration to the municipal level. The signing of the Social Housing Agreement allowed the Province to fulfill all devolution activities that were part of the Provincial Local Services Realignment 1997 (LSR), and to proceed with the Social Housing Reform Act 2000 (SHRA). Ontario is unique across the country with respect to the role that lower levels of government (ie regional, county, Consolidated Municipal Service Manager, District Social Services Administration Board) play in the planning, administration, and funding of social housing.

As part of LSR processes and SHRA legislation, the County assumed the obligation to fund, administer and ensure compliance for transferred housing programs. Our legislated administrative responsibility requires that we ensure the housing providers operate in a fiscally responsible manner, that they maintain their buildings in a good state of repair and that the buildings are fit for occupancy. The funding provided to each housing provider is determined either on a legislated benchmark funding model or operating agreement. In both cases, the model is basically a break-even model with surpluses returned to the County. A portion of the monthly subsidy payable by the County to each housing provider is specifically allocated towards capital improvements and is to be either used in-year for capital repairs or transferred to a capital reserve account to address future capital needs.

The County of Simcoe has a mandated relationship with 27 social housing providers. These housing providers are comprised of co-operative, private and municipal non-profit groups. These providers operate as incorporated businesses with a stand-alone board of directors, who have the fiduciary responsibility to manage these businesses. The providers range in size from quite small (20 units) to large (1,000 + units). In addition, Simcoe County Housing Corporation (SCHC) is a mandated housing provider and the County of Simcoe is the sole share-holder of SCHC.

<u>Decline of Federal Funding</u>:

The cost of mandated social housing programs is mostly funded by the County, however, we do receive an annual subsidy referred to as "federal funding". This federal funding was determined based on former financial commitments that the federal government had with respect to various housing programs that were transferred to the County. This federal funding may have been 100% for some former federal programs or cost-shared with the Province for other former federal/provincial programs. The amount of funding the County receives is published in 5 year cycles and will decline over the course of the next 18 years as these federal agreements/commitments terminate. The federal funding allocated to the County for 2014-16 is approximately $13.2 million for the 3-year period.

<u>Projected Housing Provider Capital Reserve Shortfall:</u>

As mentioned above, the County provides operating subsidy to mandated housing providers and a portion of the subsidy is intended for capital improvements. This funding can be used in-year if required, or transferred to a reserve account for future capital needs. The amount of subsidy specified for capital reserves was established at point of transfer to the County and/or specified in legislation.
In 2010/11, the County completed building condition assessments of our mandated social housing programs and determined a significant reserve shortfall to adequately address the capital needs in their buildings. Please refer to Item HS 11-138 (Oct 2011). The County has a legislative responsibility to ensure housing providers maintain their projects and that they are in satisfactory state or repair and fit for occupancy.

End of Operating Agreement/Mortgages (EOA/M):
The term EOA/M 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 commitments 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 Consolidated Municipal Service Managers (CMSM) 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 CMSM experiences across the province and learn best practices to address the situation locally before the majority of local housing providers reach their EOA/M dates.

Depending on the original type of funding and program that each housing project was built under, the CMSM's 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 social housing built under particular programs (i.e. Provincial Reform and Public Housing projects). For housing providers that are not required under the Housing Services Act 2011 to continue to operate through involvement with CMSM (i.e. Former Federally funded and Urban Native 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 CMSM-led housing system or not, some providers will be financially viable and some will not.

Across the County, there are 4,113 social housing units provided by 27 providers, as well as Simcoe County Housing Corporation. The general types of housing programs affected by EOA/M are defined below:

1. Former Federal Housing Providers (FF):

The housing providers that fall under this category were transferred to the County with their former operating agreements in place. The County's role in funding and administration is tied specifically to these operating agreements and they have specific end dates. The end dates typically coincide with the maturation of the mortgage. Upon the termination date of the operating agreement, the County's obligation to provide subsidy and administration ceases. There are 512 FF units throughout the County which comprises approximately 12% of the social housing portfolio. They provide a mix of rent-geared-to-income and low-end-of-market housing for seniors, families and adults. At the EOA/M, the FF housing providers are able to retain their capital reserves account and exit from the social housing system that is managed by the County of Simcoe. It is anticipated that the FF providers may want to continue to provide social housing in the spirit of their organizations' vision, mission, values, and articles of incorporation.

2. Urban Native Housing Providers (UN):

The UN housing providers were also transferred to the County with their former operating agreements in place and they have specific end dates similar to the FF program discussed above. The significant difference with this program is that these housing providers are mandated to provide affordable housing exclusively to Aboriginal households and 100% of the units are targeted as rent-geared-to-income. In the County of Simcoe, there are two independent UN housing providers with a total of 73 units, which is approximately 2% of the social housing portfolio. These units are primarily concentrated in Barrie and Orillia. Similar to the FF housing providers, at the EOA/M, and when the mortgages expire, the Consolidated Municipal Service Manager's (CMSM) obligation to provide operating subsidy and administration ceases.

3. <u>Provincial Reform Housing Providers (PR):</u>
This group of housing providers was previously funded and administered by the Province with specific operating agreements. As part of the transfer of housing to the County, the operating agreements were terminated and funding and administration responsibilities were defined in legislation (Social Housing Reform Act 2000 and Housing Services Act 2011). Within Simcoe County, these providers have approximately 2,213 units located throughout the County, which is approximately 54% of the social housing portfolio. This program provides a mix of rent-geared-to-income and market housing for seniors, families and adults and typically this mix is 60% rent-geared-to-income and 40% market. The funding provided by the County to these providers is prescribed in legislation using a benchmarked funding formula. There is no end date prescribed in legislation for the PR providers and therefore the CMSM's responsibility to fund and administer continues in perpetuity.

4. <u>Local Housing Corporation (LHC) – Simcoe County Housing Corporation (SCHC)</u>:
The Housing Services Act 2011 refers to Local Housing Corporations (LHC). In Simcoe County, the LHC is Simcoe County Housing Corporation (SCHC), and is a mandated housing program and the County is the sole shareholder. At time of transfer, SCHC had 1,169 mandated units and over the past 10 years, SCHC assumed ownership of 146 additional mandated units comprised of 66 units that were under the Urban Native (UN) Housing program and 80 units that were under the PR program. SCHC is the County's largest single social housing provider with units located throughout the County of Simcoe and has approximately 32% of the total social housing portfolio. The SCHC does not have an end date prescribed in legislation and similar to the PR program, the County's responsibility to fund and administer this program continues in perpetuity.

<u>Project Viability Testing & Classification:</u>

Using a provincially-recognized viability testing tool, County staff has completed an in-depth assessment of project viability at end of operating agreements and mortgages End of Operating Agreement/Mortgages (EOA/M). Staff used current financial data with respect to the housing providers and building condition assessment projections included in the County's corporate asset management system (RIVA). Please note that the analysis does not include SCHC, as the County is the sole shareholder, and as owner it has ongoing obligations beyond EOA/M to fund and maintain the capital asset.

The viability test utilized by the County essentially addressed two key concerns at EOA/M:

1. Will the projects generate sufficient rental revenues to cover their expenses (i.e. be viable without subsidy)?
2. Do the projects have sufficient capital reserves and planned contribution to maintain the assets well and replace capital items as these wear out?

The viability test ratings are represented in the following matrix, which categorized housing projects on the basis of one of the 4 cells (NOI*=Net Operating Income):

	Fully Funded Capital Reserve	Under-funded Capital Reserve
Positive NOI *	**(1)** Project is viable, can maintain current RGI market mix and is in sound physical condition	**(2)** Project generates a cash flow surplus, but asset is under-maintained.
Negative NOI *	**(3)** The project is not viable but the building is in good condition	**(4)** The project is not viable, and is unable to undertake necessary capital replacement. Project is at risk

It is important to point out that in the analysis conducted by County staff, the Provincial Reform (PR) program included the mandated subsidy required beyond End of Operating Agreements and Mortgages (EOA/M) as it is prescribed in legislation. For the Former Federal Housing Providers (FF) and Urban Native Housing Providers (UN), the analysis was completed removing any future subsidy from the County at EOA/M. In addition, the financial viability post-EOA/M 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.

The summary of our analysis is with respect to the current 27 mandated housing providers is as follows:

<u>Rating 1 (positive Net Operating Income and fully-funded Capital Reserve Position)</u>:

- 8% (236 units) representing 3 providers, all FF
- This is the optimal situation
- These providers may choose to leave the County-administered housing system

<u>Rating 2 (positive Net Operating Income but under-funded Capital Reserve Position)</u>:

- 89% (2,489 units) representing 22 providers, mostly PR with a few FF
- These providers could be sustainable operationally as long as they continue to incorporate sound decision-making and governance, but they will not be able to keep up with capital repairs without additional funding
- The PR providers are with the County-administered housing system in perpetuity

<u>Rating 3 (negative Net Operating Income but fully-funded Capital Reserve Position)</u>:

- 2% (53 units) representing 1 provider
- This UN provider operates at 100% rent-geared-to-income which is unsustainable beyond EOA/M
- This provider has sufficient Capital Reserves and may choose to leave the County-administered housing system, then leverage their own assets

<u>Rating 4 (negative Net Operating Income and under-funded Capital Reserve Position)</u>:

- 1% (20 units) representing 1 provider

- This UN provider operates at 100% rent-geared-to-income which is unsustainable
- This provider has an under-funded Capital Reserve but may choose to leave the County-administered housing system, then leverage their own assets

To recap the use of the viability grid, of the Former Federal (FF) housing providers, 3 providers will be viable at End of Operating Agreement/Mortgage (EOA/M) and 3 providers will have sufficient revenue to cover their operating costs, however, they will have a shortfall in their capital reserves. These providers will require some financial assistance to maintain their buildings in adequate operating condition prior to EOA/M dates. All 19 Provincial Reform (PR) providers will achieve sufficient revenue to cover their operating costs (County has a continued obligation to provide subsidy), however, they will have inadequate capital reserves to maintain their buildings. The 2 Urban Native (UN) housing providers did not score well on the viability assessment and are anticipated to not be viable post-EOA/M without significant changes to their housing portfolio. Their ratings are heavily impacted by the percentage of rent-geared-to-income housing as the UN providers are currently mandated to provide 100% rent-geared-to-income assistance. The ratings also reflect their current portfolio composition which is generally scattered housing.

<u>Other Observations</u>:

In terms of our FF and UN housing providers that comprise 14% of the current housing system, the County is not obligated to provide financial assistance beyond EOA/M. However, as the analysis above states some of those FF and UN providers will be viable at EOA/M and others will not. There is a financial risk in terms of future viability post-EOA/M as well as concerns about the condition of the buildings pre-EOA/M. Another consideration with respect to the FF and UN providers is that these providers can leave the housing system and the loss of affordable housing stock could have a negative impact on the region. Of particular concern is the UN Housing Programs as this housing is targeted for low-income aboriginal households and the 2 UN providers are currently considered not viable without additional financial assistance for operating and capital. This may be one area County Council may wish to give special consideration.

By far, the majority of providers and units in the housing system are PR, and they are generally viable from an operating perspective, however, their capital reserves are insufficient to accommodate all necessary capital repairs. This shortage of funds is not due to governance mismanagement or poor fiscal management but rather the funding model itself which limits the funding a provider is required and allowed to transfer to reserves. In addition, many PR providers' sites are larger and more complex buildings with multiple elevators, parking garages, and significant mechanical systems that require greater funds for repair and maintenance when compared to typical 1970-era Local Housing Corporation simple 2-story walk-up construction with little parking and no elevators. The other important note with respect to the PR providers is the timing in which they were built. The majority of these sites in Simcoe County were constructed between 1990 and 1992. The result of this tight compression of capitalisation dates is that there are certain "spike" times when significant capital repairs are required. All of these structures reach 25 to 30 years old at the same time. This means all original key building components such as roofs, windows, piping, and mechanical and electrical systems start to fail in the same period.

These PR providers cannot leave the housing system, and the County is obligated to fund and administer these programs in perpetuity according to the prescribed funding formula. The majority of PR providers have insufficient reserves and cannot access loans through traditional lenders or Infrastructure Ontario, which leaves the County as the only source of additional funds to cover reserve shortfalls beyond the legislated funding provided. The buildings could end up being in an unsafe state of repair, not fit for occupancy, if the capital repairs are not done. Once the buildings fall into a significant state of repair, not only are life safety issues a concern but there is a financial impact to the building. The providers rely on the market rent units to cover a portion of the operational costs and transfer to capital reserves. These market units become harder to fill when buildings are run down, have balconies closed off due to safety concerns, or have perpetual water damage from leaking pipes and roofs. Eventually the buildings that used to be position #2 on the scale (positive operating with underfunded capital), could slip into a position #4 (negative operating and underfunded capital) thereby becoming a far greater risk to the County.

Financial Projection (2014-2031):

The analysis in this report thus far provides insight into the financial/risk viability of the projects. To understand the municipal financial obligation to fund our mandated housing providers, the decline of federal funding, and the capital reserve shortfall, staff has prepared a long term projection (2014-2031) as outlined in the below table.

Table 1: Projected Municipal Impact

Total Municipal Impact (Millions)							
Description		**2014-16**	**2017-19**	**2020-22**	**2023-25**	**2026-28**	**2029-31**
	Mortgage	42.3	41.4	40.8	38.2	12.5	1.1
	Property Taxes	8.8	9.3	9.9	10.5	11.1	11.8
	Operating Costs	36.1	38.2	40.4	42.7	45.2	47.8
A	**Total Expenses**	**87.2**	**88.8**	**91.0**	**91.4**	**68.8**	**60.7**
	Rental Income	39.0	40.1	41.3	42.5	43.8	45.1
B	Rent-Geared-to-Income Subsidy (Municipal)	30.5	31.5	32.4	33.4	34.4	35.5
	Federal Funding	13.2	11.3	9.6	8.4	3.9	.3
C	**Total Revenue**	**82.8**	**82.9**	**83.3**	**84.3**	**82.1**	**80.9**
D	**Operating Surplus/(Deficit) (C-A)**	**(4.4)**	**(5.9)**	**(7.7)**	**(7.1)**	**13.3**	**20.2**
E	**Provider Capital Reserve Shortfall**	**(9.6)**	**(10.4)**	**(27.7)**	**(12.9)**	**(5.3)**	**(19.4)**
F	**Total Surplus/(Deficit) (D+E)**	**(14.0)**	**(16.3)**	**(35.4)**	**(20.0)**	**8.0**	**0.8**
Total Municipal Operating & Capital Reserve Funding (B-F)		**44.6**	**47.8**	**67.8**	**53.4**	**26.4**	**34.7**

Table 1 provides a snap shot of the municipal share of the operating subsidies payable to housing providers and highlights that subsidies payable by the County to housing providers will continue to increase until 2025. This increase is mostly related to benchmarked year over year indices, however, after 2025 the subsidy obligations decease significantly as a large number of providers' mortgages expire in 2026-31. The federal funding will also decrease from approximately $13.2 million in 2014-16 to $300,000 in 2029-31as providers reach End of Operating Agreement/Mortgage (EOA/M). The municipal share of operating subsidies payable to housing providers decreases from approximately $35 million in 2014-16 to $15 million in 2029-31. This includes the rent-geared-to-income subsidy and the operating surplus or deficit.

Table 1 also summarizes the provider capital reserve shortfall after they have exhausted their own capital reserves. This projection demonstrates that some providers are in a negative capital reserve position today and this will increase with significant pressure beginning in 2020. The projected housing provider capital reserve shortfall is estimated to be $85 million between 2014 and 2031. The County share of the capital reserve shortfall is $58 million. As of 2013, the County has contributed $6.9 million to the County's social housing reserve for the purpose of addressing social housing system pressures including capital repair. This amount combined with the 2014 budget approval of $1.5 million for social housing reserve, along with the assumption that the County will continue this annual allocation, means the County is still projecting a capital reserve shortfall of $24 million.

Summary – Key Areas of Concern:

This Item was intended to highlight the financial/risk implications with respect to our social housing providers so that Council may consider these matters as part of the strategic planning process. The long-term financial risks highlighted in this report have implications for the County as well as the cities of Barrie and Orillia.

From the viability test grid, the Provincial Reform (PR) providers comprise the largest area of concern as they generally will require funding to support their Capital Reserves so that they can make necessary repairs to their housing assets in order that the units continue to be fit for habitation. Although a much smaller part of the housing portfolio, and despite the fact that they are able to exit from the County-administered housing system at End of Operating Agreement/Mortgage (EOA/M), the Urban Native (UN) providers are also an area of concern as they address social housing needs specific to our aboriginal population. In terms of timing, the most pressing years of capital reserve shortfall occur during 2020-2026.

Areas for Further Consideration:

An additional context is "Our Community 10-Year Affordable Housing and Homelessness Prevention Strategy" which indicates a target of an additional 2,685 affordable housing units is needed over the next 10 years to make modest improvements. Social housing is one component of the affordable housing continuum. In addition to the increase of our affordable housing supply across the County, the sustainability of our current social housing stock is an important part of the Strategy.

The following areas warrant further consideration or investigation:

- increase annual contributions to the Social Housing reserve
- use annual surpluses for the purpose of transferring to Social Housing reserve
- leverage County borrowing power to support the heaviest time period of EOA/M capital repair impact during 2020-2025
- continue County levy at 2026 levels to support capital repair pressures
- consider separate process to support unique circumstances of UN housing providers
- consider policies or enticements to encourage Former Federal Housing Providers (FF) providers to remain connected with formal housing system
- engage housing providers, particularly PR, in discussion of solutions, for example provider amalgamations, leveraging their own assets, etc
- create grant/loan policies to enable housing providers to access the reserve in a consistent and transparent basis
- engage in advocacy efforts, both individually with other levels of government, and as part of group efforts with organized provincial or national campaigns, for changes to funding levels that support capital repairs and sustainable housing provider budgets
- identification of best practices and lessons learned from other Service Managers across the province

Financial and Resource Implications:

Financial and resource implications depend upon any actions Council recommends. There are no immediate implications anticipated as a result of this item. The Long-term Financial Plan will be updated to reflect information included in this item.

Relationship to Corporate Strategies:

Strengthen Social, Health, and Educational Opportunities

- Develop a strategy to use current housing stock and future funding opportunities to create a more sustainable housing system

Growth Related Service Delivery: Create and strengthen partnerships with key stakeholders to support communities through the delivery of sustainable services

- Develop Social Housing Infrastructure and Investment that is responsive to current and growth related needs across the housing continuum

Reference Documents:

Item HS 11-138 (October 2011)
Item HS 12-148 (September 2012)
Item HS 13-082 (May 2013)

Attachments:

There are no Schedules to this Item.

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Approvals:	**Date**
Terry Talon, General Manager, Social and Community Services	March 26, 2014
Trevor Wilcox, General Manager, Corporate Performance	April 1, 2014
Mark Aitken, Chief Administrative Officer	April 1, 2014