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TO:	**CHAIR AND MEMBERS** **COMMUNITY AND PROTECTIVE SERVICES COMMITTEE** **MEETING ON FEBRUARY 18, 2015**
FROM:	**SANDRA DATARS BERE,** **MANAGING DIRECTOR,** **HOUSING, SOCIAL SERVICES, AND DEARNESS HOME**
SUBJECT:	**END OF OPERATING AGREEMENTS (EOA) FOR SOCIAL HOUSING PROVIDERS IN LONDON AND MIDDLESEX COUNTY**

RECOMMENDATION

That, on the recommendation of the Director of Municipal Housing and concurrence of the Managing Director of Housing, Social Services, and Dearness Home, with respect to End of Operating Agreements (EOA) for Social Housing Providers in London and Middlesex County,

1. the following report **BE RECEIVED** for information;

2. a strategic approach to the End of Operating Agreements and decline in federal funding for social housing **BE DEVELOPED**, outlining the requirements to meet legislated service level standards, to ensure an adequate local supply of affordable housing that is financially viable and in adequate operating condition; and

2. in conjunction with related sector organizations, 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), the Canadian Housing & Renewal Association (CHRA) and the Housing Services Corporation (HSC), the City of London **BE ENGAGED** with senior orders of government for shared solutions.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Various Council meetings with MPs and MPPs along with federal and provincial budget submissions through the Intergovernmental and Community Liaison Division and the Federation of Canadian Municipalities (FCM)

REPORT HIGHLIGHTS

1. Social housing in Canada has been supported by federal mortgages and operating agreements to allow mortgage repayment.
2. Over the next decade the devolved social housing stock will begin to reach mortgage maturity trigging the end of operating agreements and subsequent reduction of federal funding the City receives to offset program costs. Despite the loss of subsidy, the City will still be obligated to fund and administer the majority of Housing Providers governed under the *Housing Services Act, 2011*.
3. The potential magnitude of financial risks and the possible asset leveraging opportunities that exist make putting a plan in place to manage the EOA transition process a clear priority.
4. Housing Providers that are currently financially stable with healthy capital and operating reserves are expected to be able to meet social housing obligations without City of London financial support post EOA.
5. The Housing Division will continue to support Housing Providers and address sector challenges to ensure the long-term financial and operational viability of social housing projects.
6. Sector research and analysis suggests the risks to Housing Providers and Service Managers can be lessened and the sector strengthened based on simple rule changes.

BACKGROUND

What is Social Housing?

Between the 1940s and the late 1990s attached as **Appendix A**, 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 partnered with provincial and municipal governments to create new social housing under a variety of cost shared programs attached as **Appendix B**.

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. These agreements outlined the subsidies to be provided and the ongoing obligations of the Housing Provider. 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 to cover operational costs without additional subsidies through the savings from having no mortgage payments.

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.

How is Social Housing Currently Funded and Administered?

In 1998, as part of Local Services Realignment and social housing reform, funding responsibility for any contractual provincial subsidy was transferred from the provincial government to municipalities. This included the administration of federal subsidies, which were flowed through the municipal “Service Managers”.

Social housing funding and administration, legislated within the *Social Housing Reform Act, 2000* (SHRA), and revised under the *Housing Services Act, 2011* (HSA), ended all Operating Agreements with the province of Ontario.

What Housing is Not Included in Municipal Service Manager EOA Responsibilities?

Housing projects that originally had Operating Agreements directly with CMHC (“former federal projects”), remain in place and are not included in the SHRA/HSA. As such, these projects are not included within the City’s ongoing legal obligation post EOA. For these projects, both the federal subsidy and the terms and conditions in the Operating Agreement will expire resulting in the Housing Provider facing additional post-agreement challenges.

Federal Co-operatives Housing Providers were not transferred to Service Managers as part of social housing devolution and therefore do not fall under the City’s jurisdiction or funding responsibility. These providers will face a similar challenge of maintaining affordable homes for low-income residents once their Operating Agreements and federal funding expire. If these affordable homes are lost, it will place additional pressure on community resources and therefore should be considered in an EOA Transition Plan.

What does End of Operating Agreements mean?

The term “End of Operating Agreements” (EOA) is used generically to refer to both the expiry of federally signed operating agreements and the expiry of social housing mortgages in Ontario ruled by the *Housing Service Act*, *2011* with the latter event triggering substantial changes in subsidy transfers affecting Housing Providers and Service Managers.

Unlike the contractual Operating Agreements, the legislation has no scheduled termination. Consequently, both the operating obligations of Housing Providers and subsidy requirement of the City of London continue indefinitely. This means that some Housing Providers will continue to have recourse to the City of London which is legally obligated to maintain some level of subsidy to designated rent-geared-to-income (RGI) units.

How is the Step Down in Federal Funding Occurring?

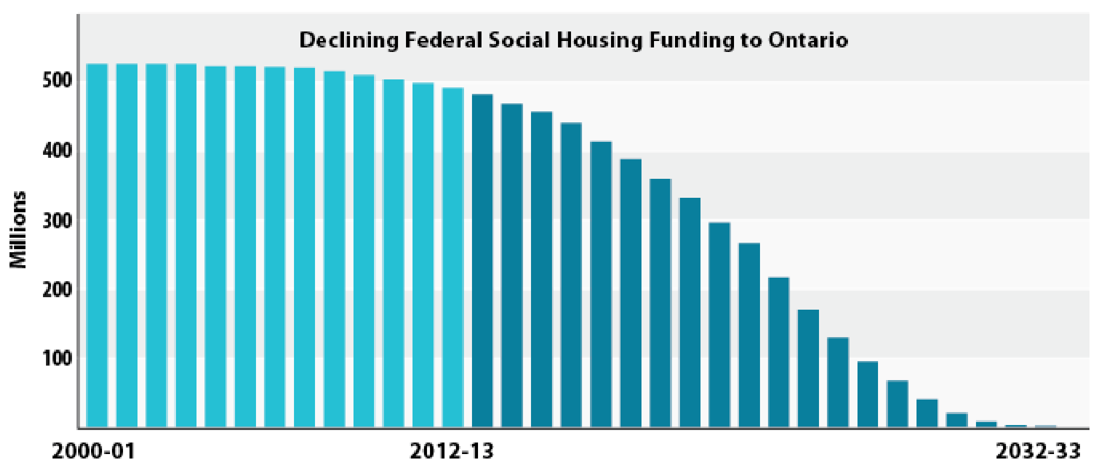
To offset the costs of social housing programs, the federal government continues to provide Service Managers with block funding for its Local Housing Corporation, Regular Rent Supplement Program, Social Housing Providers and Federal projects. The federal funding is administered through the Ministry of Municipal Affairs and Housing (MMAH) with the annual allocation for each Service Manager calculated in five year increments.

The funding formula includes fixed per-project funding (targeted funding) based on the costs of individual social housing projects transferred to each Service Manager at the time of download.

Federal funding has been steadily declining over the past several years and this trend will continue as mortgages/debentures are paid off and Operating Agreements expire. By 2036, it is expected that Ontario will have lost approximately $525M in federal subsidy (see **Figure 1**). Even though mortgages will have been paid in full, rent revenues may not be sufficient to cover costs such as capital repairs or rent-geared-to-income (RGI) subsidies on an ongoing basis. By 2030, the City of London will receive $8.7M less in federal funding.

Figure 1

Federal social housing funding is declining



What are the City of London's Legislative Obligations?

Under the HSA, Service Managers must maintain "service levels" for the prescribed number of rent-geared-to-income (RGI) assisted households. The City of London's legislated service level standard is 5,939 subsidized units.

Service Managers are also obligated to fund HSA Housing Providers post-EOA despite the decline in federal funding to support project costs. This will leave the City of London solely responsible for the financial impacts of maintaining service levels and continued subsidy requirements. Projects that are non-viable despite this continued assistance or in poor condition capital-wise will present additional concerns and financial pressures.

The City of London HSA legislated obligations that can impact EOA projects are:

- Paying subsidy to the London & Middlesex Housing Corporation (LMHC) as a Local Housing Corporations (LHCs);
- Providing RGI assistance and maintaining minimum service levels;
- Administering & funding prescribed programs in accordance with the Act or pre-reform operating agreements;
- Paying subsidy to prescribed part VII Housing Providers;
- Use of federal funding and paying allocated provincial housing costs; and
- Determining and apportioning Serviced Manager costs (within the Service Manager area or for the purposes of GTA equalization)

These obligations are identified in various areas of the legislation and prescribed in greater detail in the accompanying regulations. A brief review of each requirement and the pertinent legislative reference is provided attached as **Appendix C.**

End of Operating Agreement Research

Research commissioned by the Canadian Housing and Renewal Association (CHRA) and the Housing Services Corporation (HSC) has examined post EOA social housing viability on a modest scale, through case study reviews. This work has generally concluded that projects developed under former federal programs were likely to be more viable than projects developed under a variety of other programs including Provincial Reformed, Public Housing and Urban Native programs. A key factor in project viability was the level of RGI units within a project.

A second key factor was project or building condition and adequacy of replacement reserve funds to meet capital demands. In the absence of detailed building condition data, these earlier studies utilized proxy measures to assess capital reserve adequacy. Projects with depleted reserves and deferred or looming capital requirements were deemed less viable.

Challenges and Opportunities

To advance an understanding of challenges and opportunities, there are a number of key questions that the Service Managers will need to consider in creating a local EOA Transition Plan, including, but not limited to the following:

1. What obligations and practical constraints do Service Managers have with regards to projects post EOA?

2. Which projects that can operate without assistance post EOA and still meet/support service levels? For those projects that can't, what level of assistance would typically be required to enable them to continue operating at that level?

3. What type of projects can operate without assistance post EOA and still be operationally viable? For those projects that can't, what level of assistance would typically be required to enable them to continue operating at that level?

4. What are the key factors that influence a project's ability to remain viable post EOA (e.g. asset condition, RGI mix, size, local market conditions)?

5. What can/should Service Managers do to help mitigate EOA issues with Housing Providers, both pre and post EOA?

6. What are the projected impacts to Service Managers of the loss of federal funding as it steps down post EOA?

While prior research on the impact of EOA has identified broad concerns, there is a lack of comprehensive project data and this has limited the ability to fully understand EOA implications. This is particularly the case for building condition information as part of prudent asset management practice. Having this information is important because impacts are likely to be felt differently among Housing Providers, due mainly to the variable project composition, EOA dates and legacy funding programs for the projects they own or administer.

Regeneration, Redevelopment and Refinancing

Redevelopment or refinancing will become simpler post EOA, in terms of legal restrictions and lender approvals. There is more potential to redevelop, regenerate, add units on a site, or use existing project cash flow to raise new debt for major repairs or new units. These considerations will be explored both locally and as part of larger discussions provincially on accessing new financing for both site improvements and maintaining sustainable housing projects.

The City of London has a more direct interest in the EOA impacts on the London and Middlesex Housing Corporation (LMHC). As sole shareholder and funder, EOA strategies for LMHC will be explored within a context of both sustained viability as well as site regeneration.

This work has already begun within the mandate of the Housing Development Corporation (HDC) as well as within work being initiated on capital planning and asset conditions at LMHC.

The Board and Administration of LMHC has expressed interest in working with the City of London, the HDC and other potential partners on advancing regeneration of their sites as part of their EOA plans. These activities may also support other Housing Providers.

FINANCIAL IMPACT

There is no current budget or financial impact with this report.

CONCLUSION

With the onset of mortgage maturity and the associated end of operating agreements within the aging social housing portfolio, the City of London will be faced with important decisions about the future of the housing they fund and administer. As owners, social Housing Providers share these concerns, particularly in regards to operational viability when subsidies reduce at this key milestone.

To ensure an adequate local supply of affordable housing and to meet continuing legislated service level standards, the City of London faces clear challenges in sustaining housing that is financially viable and in adequate operating condition. The potential magnitude of financial risks and the possible asset leveraging opportunities that exist make putting a plan in place to manage the EOA transition process a clear priority.

Next Steps

Civic Administration will develop a strategic approach to planning for EOA based on the principles and required actions outlined attached as **Appendix D**. This includes updating Building Condition Assessment and Reserve Fund Forecast of the social housing portfolio along with data gathering and analysis with a final report expected to be complete for Council approval in the fall of 2015.

Acknowledgments:

This report relied on research conducted by the Housing Service Corporation (HSC), the Ontario Municipal Knowledge Network (OMKN) and the Canadian Housing and Renewal Association (CHRA).

SUBMITTED BY:	SUBMITTED BY:
JOSH BROWNE MANAGER, SOCIAL HOUSING FINANCE AND ADMINISTRATION	**STEPHEN GIUSTIZIA MANAGER, HOUSING SERVICES**
RECOMMENDED BY:	**CONCURRED BY:**
LOUISE STEVENS, DIRECTOR, MUNICIPAL HOUSING	**SANDRA DATARS BERE MANAGING DIRECTOR HOUSING, SOCIAL SERVICES, AND DEARNESS HOME**

APPENDIX A – Timeline of Social Housing in Ontario
APPENDIX B – City of London Social Housing Programs Overview
APPENDIX C – Service Manager Legislative Obligations
APPENDIX D – EOA Principles, Considerations & Required Actions
APPENDIX E – Social Housing Provider EOA Dates