City of Kingston
Report to Council
Report Number 16-077

To:	**Mayor and Members of Council**
From:	**Lanie Hurdle, Commissioner, Community Services**
Resource Staff:	**Sheldon Laidman, Director, Housing & Social Services**
Date of Meeting:	**May 3, 2016**
Subject:	**Step-Down Funding and End of Operating Agreement Strategy**

Executive Summary:

In 2001, the City of Kingston in its role as Service Manager assumed program funding, administration and oversight responsibilities for public housing and fifteen social housing providers devolved from the Province. Under this arrangement, the City has legislated obligations per the *Housing Services Act 2011*, to provide affordable housing units to individuals and families with low or moderate incomes and must maintain a minimum of 2,003 prescribed rent-geared-to-income (RGI) units. These obligations continue; however, at the same time the federal funding provided to partially fund this housing is steadily declining. This decline is referred to as “Step-Down Funding” and occurs as operating agreements between the City and housing providers expire when mortgages on social housing projects mature. It is forecasted that all federal funding will end in 2035.

To gain a better understanding of the impact of the Step-Down Funding and End of Operating Agreements (EOA), through an RFP process, the City has contracted with SHS Consulting/Refact Consulting to provide advice and a strategy to best manage the legislated obligations for both the Service Manager and housing providers going forward.

The findings of the consultant indicate that there will be a substantial financial impact on the City in its role as Service Manager as the impact of the federal funding step-down coupled with the escalating costs in social housing and the indefinite requirement to continue to provide subsidy to meet service level standards post-EOA come together. It is estimated that the federal funding paid to the City of approximately $3.7M annually will gradually decline to $0 over the next 20 years and that the annual municipal subsidy cost to sustain social housing projects/operations is projected to increase from just over $10M in 2015 to $20M (net) by 2035.

As capital requirements increase and capital reserve contributions remain static, the capital backlog for social housing providers is also projected to grow. It is estimated that by 2035 there will be an unfunded capital shortfall of approximately $150M.

Lastly, it is estimated that approximately $2.9M in subsidy costs for prescribed rent supplement units are projected to more than double to over $5.9M by 2035.

An executive summary with recommendations of the consultant's report is attached as Exhibit A and the full report can be found on the City's website. As a result of the work completed by the consultant, 19 recommendations have been made to assist the City of Kingston in strategically mitigating the EOA impacts and Federal Step-Down funding so that a prioritized approach for minimizing costs may be achieved while maintaining prescribed service levels.

In March 2016, the Provincial Government released its revised Long Term Affordable Housing Strategy (LTAHS) which includes support for some of the proposed recommendations in the Step-Down Funding and EOA report. Notable initiatives include: legislative changes to allow greater flexibility to count municipally-funded rental assistance programs towards Service Level Standards, improving access to existing financial tools to support new or existing supply and developing a modernized social housing framework which will allow Service Managers to create strategies to better manage housing assets. The LTAHS indicates that the Province in consultation with its community partners will work to further develop these initiatives with implementation phased-in over time. The Federal budget also tabled in March aims at developing a National Housing Strategy to assist the social housing sector in becoming more self-sufficient. Though details are not definitive at this time there has been a commitment towards building more affordable housing and supporting energy and water efficiency retrofits and renovations to existing social housing stock. It is important to note that the proposed strategy cannot be successful in the absence of senior levels of government policy and financial support.

In May, City staff in conjunction with SHS Consulting/Refact Consulting will be meeting with management and board members representing social housing providers to present the Step-Down Funding and EOA strategy and discuss future impacts.

Recommendation:

That Council endorse the Federal Funding Step-Down and End of Operating Agreement Strategy prepared by SHS Consulting/Refact Consulting; and

That Council direct staff to develop an implementation plan based on the recommendations outlined in the Strategy; and

That Council pursue senior level governmental funding and legislative changes by participating in ongoing and future lobbying efforts, as well as undertaking locally generated efforts, in recognition that the continuation of the federal government funding and legislated flexibility is required to sustain these social housing programs and Service Manager obligations.

Authorizing Signatures:

ORIGINAL SIGNED BY COMMISSIONER

Lanie Hurdle, Commissioner, Community Services

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Cynthia Beach, Corporate & Strategic Initiatives	Not required
Denis Leger, Transportation, Facilities & Emergency Services	Not required
Jim Keech, President and CEO, Utilities Kingston	Not required
Desiree Kennedy, Chief Financial Officer & City Treasurer	

Options/Discussion:

History of Social Housing
The Federal Government began funding and administering the first federal social Housing program in 1978. Around the same time, the Province of Ontario and municipalities began providing partial assistance for rent supplements and grant money to lower operating costs. As a result of the recession and high interest rates causing the funding for mortgage costs to escalate, the Federal Government ceased funding capital projects under the federal program in 1985. In the years following, the Province funded its own affordable housing capital programs exclusively from 1986 to 1995.

In 1999, the federal government downloaded the funding and administration of social housing to the Province through the signing of the Federal/Provincial agreement and in 2001, the Province devolved the funding and administration of existing social housing programs to the municipalities. As such, the City of Kingston, as Service Manager for the City of Kingston and County of Frontenac, assumed program funding, administration and oversight for fifteen social housing providers previously funded by the Province. As well, the City inherited a direct role in public housing, as the sole shareholder of Kingston Frontenac Housing Corporation.

The City of Kingston, in accordance with the *Housing Services Act 2011* (HSA), has legislated obligations to ensure that affordable housing units continue to support individuals and families with low or moderate incomes and must maintain a minimum of 2,003 prescribed rent-geared-to-income (RGI) units. These obligations continue even though federal funding will decline. This is referred to as “Step-Down Funding” and occurs as project operating agreements with the City expire when mortgages mature. Subsidy obligations continue which subsequently increase the Service Manager’s portion to compensate for the loss. Moreover, the growing backlog of capital repairs in the housing stock will add additional financial pressure on the City as these requirements outpace the capital funding available to address the needs. It is expected that all federal funding will end in 2035 with the End of Operating Agreements (EOA).

To gain a better understanding of this issue, SHS Consulting/Refact Consulting was hired to review and analyze the overall impact of the Step-Down Funding and EOA to identify cost savings measures to offset the federal funding step down, as well as options to sustain the legislated service levels post-EOA while considering limited municipal budget resources. An executive summary with recommendations of the consultant’s report is attached as Exhibit A and the full report can be found on the City’s website.

The area of study consists of three modules.

Module 1 - Review of Federal Funding Step-Down
This module analyzes the impact of the steady decline of federal funds issued to the Service Manager and explores mitigation options.

The operating subsidy provided to social housing projects is based on a benchmarked funding formula which standardizes subsidy calculations and determines the prescribed amount funded by the Service Manager. In accordance with the HSA, federal block funding is distributed to the

City from the Ministry of Municipal Affairs and Housing (MMAH) annually in four quarterly payments. This federal block funding ceases once mortgages expire and the End of Operating Agreements are reached. As there is no horizon set in legislation negating the Service Manager's obligation to fund most projects the City's subsidy funding obligation will continue post-EOA.

The federal funding step-down and increased costs to the City is two-fold. Firstly, this funding is fixed and does not increase with inflation or changes to program funding requirements. Secondly, this funding also ceases at EOA, regardless of the Service Manager's obligation to maintain service levels. The approximately $3.7M in federal funding paid to the City annually will gradually decline to $0 over the next 20 years. In addition, the annual municipal subsidy required to sustain social housing projects is projected to increase from a little over $10M in 2015 to $20M (net) by 2035.

The City of Kingston has sixteen social housing providers including Public Housing and is required by the *Housing Services Act, 2011* to maintain a portfolio of 2,215 social housing units across the service area with 2,003 of these units designated as rent-geared-to-income (RGI) units and the remaining 212 consisting of market units.

The Public Housing program is operated by Kingston and Frontenac Housing Corporation (KFHC) wherein the City is the sole shareholder by way of a shareholder agreement which sets out funding and accountability expectations. In accordance with legislation, the City is obligated to continue to fund KFHC and the 936 units managed by that corporation post-EOA.
At the time of download, 977 public housing units were transferred from the Province to the City, however, since that time, KFHC has disposed of 41 RGI units from their portfolio, 10 of which were relocated as rent supplement units at KFHC's affordable housing build at Van Order Drive and one unit was taken out of circulation to create a satellite office in Rideau Heights. Presently, a plan is in place to replace the other 30 units which were demolished at 80 Daly Street as part of the Rideau Heights regeneration project.

The Provincial Reformed program consists of 749 units of which 584 are rent-geared-to-income (RGI) units managed by the following twelve community-sponsored organizations:

Name of Housing Provider	**Number of RGI Units**	**Number of Market Rent Units**
The Elizabeth Fry Society of Kingston	35	
Kingston Co-Operative Homes Inc	8	
Kingston Home Base Non-Profit Housing Inc	59	
Kingston Municipal Non-Profit Housing Corporation (Town Homes Kingston)	261	60
Lois Miller Co-Operative Homes Inc.	21	7
Loughborough Housing Corporation	28	28
Marion Community Homes	22	28
North Frontenac Non-Profit Housing Corporation	18	

Name of Housing Provider	**Number of RGI Units**	**Number of Market Rent Units**
Porto Village Non-Profit Homes Inc.	43	7
Royal Canadian Legion Villa	44	
St. Andrew-Thomas Senior Citizen Residence	20	30
Weller Arms Non-Profit Homes Inc.	25	5

The Federal program consists of 51 units comprised of the Urban Native units managed by Tipi Moza (17 RGI units) and Federal Private Non-Profit S. 95 units managed by Dutch Heritage (14 RGI units and 20 market units). These federal units do not count towards the Service Manager's 2,003 service level standards and therefore, in accordance with legislation there is no obligation for the Service Manager to provide on-going subsidy funding to Federal projects beyond their operating agreement.

The Rent Supplement program pays eligible households the difference between their rent-geared-to-income calculation and the agreed-upon market rent for the unit. There are currently 448 prescribed rent supplement units in the City's portfolio. These units were transferred to KFHC as part of the Public Housing transfer, and are included in the Service Manager's prescribed 2,003 service level standards and contain specific obligations. Zion Church Foundation Incorporated is included as one of the Service Manager's prescribed providers and their 15 units are part of the 448 prescribed rent supplement units, even though this provider is funded as a rent supplement project.

Module 2 Review of End of Operating Agreement (EOA) Implications
This module analyzes and forecasts project viability leading up to and post-EOA. As well, a legal opinion was obtained to clarify the Service Manager and social housing providers' legislated obligations post-EOA.

The End of Operating Agreements (EOA) refers to a point in time where the operating agreements between the Service Manager and the social housing providers expire which occurs when the mortgages for the 12 Provincially Reformed Providers are paid in full. This also coincides with the step-down of federal funding issued to these projects which occurs at the time of mortgage maturity.

As part of the study, a legal opinion of the obligations under the *Housing Services Act 2011* (HSA) was obtained from Dentons Canada LLP. It was determined that the Service Manager's funding, administration and service level obligations for prescribed programs will continue into perpetuity regardless of EOA unless otherwise dictated by statute, meaning that unless there is a change in legislation, the Service Manager will be responsible to cover the social housing subsidies when federal funding declines and operating agreements expire. In addition, it was confirmed that the rent-geared-to-income (RGI) scheme defined in the legislation will continue to influence how service level obligations will be met going forward, thus eliminating alternate cost-effective rent structures, such as Made in Kingston rent supplements, as a means to meet service levels.

An analysis of the Net Operating Income (NOI) was performed to determine EOA impacts on the viability of social housing projects and the amount of cash-flow required to break even assuming zero debt service costs and no subsidy revenue. Housing projects with higher RGI proportions such as Public Housing and Provincial Reformed projects, which is the majority of social housing units in Kingston and Frontenac, have less favourable sustainability rates compared to other programs – such as federal programs. An analysis determined that only 1 out of the 77 projects assessed would remain viable at EOA and would be able to operate with a positive cash-flow and require no subsidy from the Service Manager if the mortgage was paid down. As such, a substantial amount of on-going subsidy assistance will be required to maintain project viability and ensure RGI affordability in the service area.

An analysis of the capital viability of social housing projects was also conducted to determine major capital lifecycle replacements and repair requirements at EOA. Such capital pressures if left unaddressed could deplete the housing stock, resulting in additional operating costs and lost revenue. Once again the findings suggest that at EOA only 1 out of the 77 projects assessed would be sustainable from a capital perspective resulting in a deteriorating capital position for the majority of projects over time.

As buildings age and capital requirements increase and capital reserve contributions remain static, the capital backlog is projected to grow. It is estimated that there will be an unfunded capital shortfall of approximately $150M by 2035. It is anticipated that capital requirements will occur regularly throughout the period with significant increases in 2024.

Public Housing is expected to account for more than half of the total capital requirements. The Rideau Heights regeneration project initiated by the City and KFHC will address some capital pressures in the aging housing stock.

Module 3: Review of Rent Supplement Programs

The rent supplement programs were reviewed under this module to identify service delivery efficiencies, administrative streamlining and associated costs savings.

There are two streams of rent supplement units one being prescribed by legislation and the other discretionary.

Regular Rent Supplement Program

A rent supplement provides a subsidy to landlords in an amount equal to the difference between a household’s geared-to-income rent and the full market rent. The City of Kingston as Service Manager has signed a rent supplement agreement with each landlord outlining the responsibilities of the landlord, the specific units allocated to the program and the terms for payment of the rent subsidy. The prescribed regular rent supplement units account for 448 units or 20% of funded RGI units and are included in the 2,003 prescribed units for Kingston.

Units under the Regular Rent Supplement program are governed by the *Housing Services Act 2011* and must follow the prescribed RGI scheme in terms of household eligibility, rent calculations and notifications. Under this program stream, rent supplements are paid based on the difference between the RGI rent calculated as per the legislated rules and the approved market rent. Approximately $2.90M in subsidy costs for prescribed Regular Rent Supplement units are projected to double in cost to over $5.97M by 2035.

Discretionary Rent Supplement Program

Units under the Discretionary Rent Supplement programs do not form part of the prescribed service level standards and follow their own rent scheme. These programs include the Made in Kingston Rent Supplement program with 71 units. The City established this local program in response to the need for a flexible affordable rental housing program. This program has been established so that the market rent cannot exceed 80% of the CMHC average market rent. The rent portion that tenants in receipt of social assistance pay is equal to the maximum shelter portion of the social assistance they receive be it Ontario Works (OW) or Ontario Disability Support Program (ODSP) which reduces the service manager's rent portion substantially as under the HSA rules or the regular rent supplement program, social assistance recipients pay substantially less than their maximum shelter allowance for rent as per legislation. Tenants in this program with other sources of income pay 30% of their income for rent.

Other discretionary rent supplement programs include two Investment in Affordable Housing (IAH) programs which are funded 100% by the Province over a ten-year period ending in 2021 and 2024 respectively. At the time of writing this report, 105 rent subsidies were issued through this program. To-date, the entire IAH funding envelope has been allocated to rent supplement tenants. Effective April 1, 2016 the Province will be providing an additional $1.5M in IAH Extension funding until 2024, however these funds have been designated for the homeless population in support of the goals of the 10-year Housing and Homelessness Plan and will assist with housing individuals from the homeless system by providing a rent assistance program.

Locally, the IAH rent supplement program has been designed so that tenants' rents are based on their maximum shelter allowance from OW or ODSP or 30% of gross income with the rent subsidy being the difference between the calculated tenant rent and the approved market rent, resulting in subsidies which tend to be lower than the Regular Rent Supplement program.

Rent Scheme and Legislation

Due to the current legislative framework and the prescribed RGI scheme, little flexibility exists in terms of alternate rent structures in achieving subsidy savings on units counted towards service levels. Until such time as legislative changes occur at the Provincial level, the placement of new rent supplement units where market rents and on-going increases are more favourable or targeting Affordable Housing Projects (AHP) where market rents are lower offer the only opportunities to contain regular rent supplement program costs. By 2024, 90% of current rent supplement units will have hit funding end dates.

Rent Supplement Administration

The study also reviewed the rent supplement administration practices to assess whether cost saving measures could be realized to help mitigate the federal step down and EOA impacts. The review discovered that the City does not definitively assign its administrative costs associated with the administration the rent supplement programs. In addition a fee is paid to KFHC by the City for the administration of the tenant portion of Regular Rent Supplement program calculated on a base amount and adjusted annually for inflation but is not calculated on an actual per unit basis. The refinement of administrative practices with the rent supplement portfolio may improve overall efficiency however it is unlikely to yield measurable savings.

Recommendations under Strategy

As a result of the work completed in these modules, 19 recommendations have been put forth to assist the City of Kingston in strategically mitigating the EOA impacts and Federal Step-Down funding so that a prioritized approach for minimizing costs may be achieved while maintaining prescribed service levels. Efforts made in the areas of advocacy with senior levels of government; active portfolio management in the rent supplement programs; cost savings and program effectiveness; as well as asset leveraging in the housing programs will play an important role in the successful implementation of these recommendations.

Next Steps:

In March 2016, the Provincial Government released an update to its Long Term Affordable Housing Strategy (LTAHS) to reflect the current realities faced by individuals and families, new research and best practices with a goal of supporting social and economic inclusion, ending chronic homelessness and meeting the housing needs of Ontarians. The strategy includes support for some of the proposed recommendations in the Step-Down Funding and EOA report such as allowing greater legislative flexibility to count municipally funded rental assistance programs towards Service Level Standards and improving access to existing financial tools to support new or existing supply of affordable housing. The development of a modernized social housing framework is also a focus of this initiative which will allow Service Managers to create strategies to better manage housing assets. The LTAHS indicates that the Province in consultation with its community partners will work to further develop these initiatives with implementation phased-in over time. The Federal budget also tabled in March aims at developing a National Housing Strategy in consultation with the provinces and territories to assist the social housing sector in becoming more self-sufficient, though details have not yet been released there is a commitment towards building more affordable housing and supporting energy and water efficiency retrofits and renovations to existing social housing stock.

Over the next few weeks, City staff in conjunction with SHS Consulting/Refact Consulting will be meeting with management and board members of the social housing providers to present the Step-Down Funding and EOA strategy and discuss future impacts so that these agencies can also begin to prepare.

Existing Policy/By-Law:

10-Year Housing and Homelessness Plan – Recommendation# 18:
That the City maximize available funding by:

- Utilizing current program offerings
- Continuing to actively seek out other funding opportunities
- Developing a contingency plan to manage anticipated step-downs in future senior government funding
- Establishing a plan for managing funding step-down by:
    - Creating a detailed funding horizon profile by program and project

- o Developing an impact analysis against the funding horizon profile
- o Ensure the step-down funding plan considers end of operating agreement impacts

10-Year Housing and Homelessness Plan – Recommendation #28:
That the City research and develop options for the continuation of social housing post End of Operating Agreements to meet its legislated and financial obligations in conjunction with the Step-Down Funding planning study.

- Analyze each Housing Provider to assess current and future financial and capital needs
- Establish asset management strategies for each Housing Provider
- Review rent supplement program to identify cost saving measures

City of Kingston Strategic Plan:
That the City will continue to implement the 10-Year Housing and Homelessness Plan to provide housing options that range from social housing to home ownership.

Notice Provisions:

Not Applicable

Accessibility Considerations:

Not Applicable

Financial Considerations:

As a result of the step-down of federal funding for social housing, ongoing future financial considerations are necessary.

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Other City of Kingston Staff Consulted:

Lee Campbell, Manager, Housing and Childcare Programs

Desiree Kennedy, Chief Financial Officer & City Treasurer

Alan McLeod, Senior Legal Counsel

Melanie Bale, Financial Analyst

Exhibits Attached:

Exhibit A Funding Step-Down and EOA Strategy Executive Summary & Recommendations

Exhibit A

Available in alternate formats upon request

Developing a Funding Step Down and EOA Strategy for the City of Kingston

EXECUTIVE SUMMARY of FINAL REPORT

February 2016

PREPARED BY:

SHS CONSULTING
POLICY • RESEARCH • COMMUNITY DEVELOPMENT

refact consulting

EXECUTIVE SUMMARY

Background

As the Service Manager for the City of Kingston and the County of Frontenac service area, the City of Kingston has the legislated responsibility to fund and administer a portfolio of more than 2,200 social housing units. Created through a variety of legacy senior government programs, the projects today are operated by a range of non-profit community housing sponsors and private landlords. The City also has a direct role in social housing as the sole shareholder of the Kingston and Frontenac Housing Corporation (KFHC).

While this portfolio has been created and funded by senior government over a number of decades, the municipal role in social housing administration has changed dramatically since 2000 when the *Social Housing Reform Act* was passed. This legislation obliges the funding and administration of prescribed social housing programs by local Service Managers, placing a substantial financial burden on municipal shoulders. Currently, Kingston's subsidy obligations amount to roughly $13.7M annually for prescribed social housing programs. While about $3.7M in fixed federal funding is being provided to offset these subsidy costs, this funding continues to decline and is expected to disappear in Kingston by 2034. The legislation also obliges Service Managers (SM's) to maintain a minimum number of units affordable to low and moderate income households through service level standards.

Many of the social housing projects which provide housing on a rent-geared-to-income basis (RGI), are well-on in age and have growing capital replacement requirements. The original agreements under which they were developed are set to expire and they are reaching mortgage/debenture maturity – the point at which the original debt financing instruments with which they were created sunset. This project milestone, deemed the Expiry of Agreement (EOA) date, is a key transition point because it's also the point at which federal funding retires and SM accountability roles with prescribed funding providers also change. Despite these changes, municipal costs for subsidy funding and administration continue to grow and these obligations remain a perpetual requirement under current legislation. As a result, the financial sustainability of the social housing portfolio in Kingston is a growing concern for the City.

This Study

Having a strategic approach to providing affordable housing, meet service level requirements and manage funding obligations over time is critical for municipalities in their legislated role as Service Managers. To more fully understand local impacts, the City of Kingston engaged a qualified consulting team to identify impacts associated with the step down of federal funding and EOA. As part of this *Funding Step Down and EOA*

Strategy, the City also stipulated the need to identify cost saving measures that would help offset financial impacts and sustain legislated service levels post-EOA while having regard for finite municipal budget resources.

The overall approach to completing this *Funding Step Down and EOA Strategy* involved three primary modules and incorporated a range of research and consultation techniques. The three modules were:

- Module 1 – Review of Federal Funding Step Down
- Module 2 – Review of Expiry of Agreement (EOA) Implications
- Module 3 – Review of Rent Supplement programs

A report of findings was developed for each of the three modules of the work, detailing issues and options. Findings from the three modules has been consolidated in this summary report which provides a formal strategy and implementation plan to help guide the City in mitigating impacts going forward.

Throughout this report, summary statistics and analysis results are provided which are based on constructed datasets for the Kingston social housing portfolio. These datasets, one for the 'brick and mortar' stock and the other for rent supplement units, have been developed based on best available information from the City, augmented with data from other sources as well as prior research. Details regarding these datasets and the analysis completed using them can be found in the report of findings for each module.

<u>Service Manager Obligations</u>

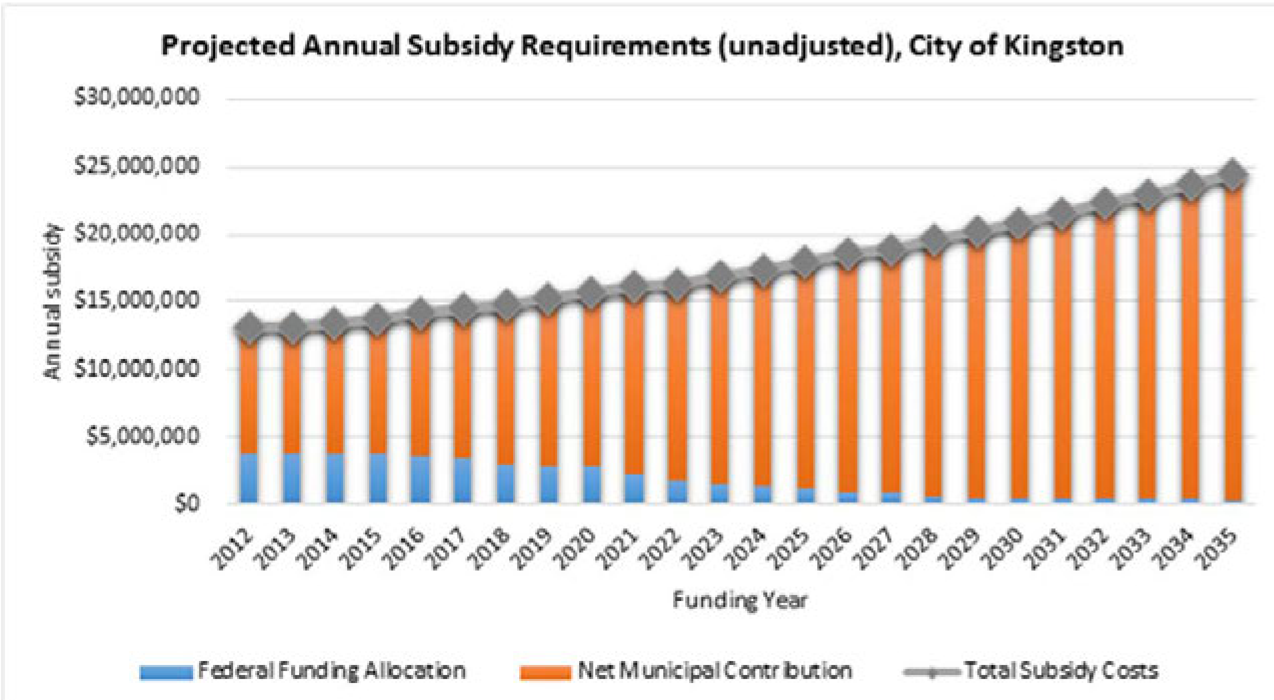
As part of the study, a legal opinion was procured to confirm legislated obligations for Service Managers and prescribed housing providers post-EOA. This opinion concluded that:

- Despite the decline in federal funding and maturity of debentures/mortgages, there are on-going subsidy and administration obligations for the City post of EOA in most programs.
- The City has some discretion with regards to funding Federal Program provider's post of EOA, although viability will be a practical concern for these providers given their reliance on sizable federal funding pre-EOA.
- The City has a high proportion of its prescribed stock that contributes towards required service level standards (2,003 out of 2,215 prescribed units or 90%+).
- To be counted towards service level standards, units must provide RGI assistance as contemplated by the HSA legislation. As a result, alternate rent structures may not counted towards fulfilment of service standards.

Projected Impacts

As a result of the study analysis and findings, impacts arising from federal funding step down, EOA dates and rent supplement program delivery have been projected. Findings indicated that:

- Subsidy costs are expected to increase significantly over the next 20 years as federal funds decline, operating costs increase and projects hit EOA dates.
- After accounting for debenture and mortgage retirement (roughly $4.5M), municipal subsidy is projected to double from about $10M per year currently to roughly $20M per year by 2035. Cost increases will be particularly notable in Public Housing and Provincial Reformed programs.
- Capital shortfalls are a significant and looming concern. There is currently a $22.7M shortfall in funding to meet today's capital requirements. This gap is expected to grow to more than $150M by 2035 due to sustained capital needs outpacing finite funding resources earmarked to address them



- These impacts will be felt differently among local housing providers, depending on the legacy program under which they operate. Projects with higher RGI components or higher per unit subsidies will tend to have more substantial impacts.
- Apart from the financial impact of increasing subsidy costs as the Service Manager, the City will also encounter direct impacts as the shareholder of KFHC

Mitigation Options

Options to mitigate projected impacts were also reviewed, analyzed and prioritized based on level of potential effect. They can be grouped generally into either operating or capital options.

The operating side - Estimated municipal subsidy costs by 2035 are projected to equal $20M (net) annually which is an Increase of $10M over current annual levels.

To mitigate this subsidy increase, the following potential offsets were evaluated and quantified:

- Pre-EOA mortgage renewals - up to $850K (one time)
- Operational savings - up to $250K annually
- Reduce RGI units to match the service level standard - up to $175K annually
- Rent Supplement unit substitution – up to $465K annually
- Utilize alternate rents – $166K to $1.8M annually

In order to realize savings projected for alternate rents, legislative/policy changes would be required at the Provincial level. Also, Rent Supplement (RS) substitution savings would only be available for a limited period of time given the upcoming funding horizon for discretionary RS programs.

In terms of overall magnitude, the proposed operating mitigation options – alone or in concert with one another - would not address the cumulative operating impacts projected. However, they could serve to defray costs, thereby helping to limit the amount of additional municipal subsidy required to meet social housing funding obligations over the next 20 years.

The capital side – The estimated capital shortfall is expected to grow to $150M or more by 2035 as a result of sustained capital needs and limited capital funding. Capital costs are only indirectly linked with subsidy costs, but have a direct impact on project viability.

To mitigate impacts arising from unfunded capital costs, a number of potential options associated with asset leveraging were reviewed. These primarily revolved around utilizing built-up equity in the social housing portfolio. The most basic of these was securing capital though re-financing which would yield an estimated maximum of $63M to $77M based on current carrying capacity. However, debt servicing for this financing would add back up to $4.4M in subsidy costs which would serve to further exacerbate step down and EOA operating impacts. Furthermore, the amount is well below the projected capital shortfall and would not be able to address the full spectrum of capital needs that are projected over the next 20 years. Additional support/assistance will be required to help manage these large capital issues.

Taking Action

A set of 19 recommendations have been provided to help the City of Kingston (as SM) strategically respond to the impacts of federal step down and EOA. These recommendations cover a wide breadth of actions and are intended to provide a multi-faceted approach to mitigating impacts.

Module 1 – Federal Funding Step Down

1. *Continue to advocate for reinstatement of federal funding*
2. *Secure a firm commitment from MMAH to 'untargeted' funding beyond 2020*
3. *Continue to pursue cross funding/program substitution that enable re-deployment of federal dollars*
4. *Maintain service levels at the prescribed level across the portfolio*

Module 2 – Expiry of Agreements

1. *Explore cost saving potential in greater detail and pursue available operational cost savings*
2. *Continue to pursue interim mortgage renewals on best terms to reduce costs*
3. *Seek Modifications to legislative Service Level Standard (SLS) obligations*
4. *Pursue legislative flexibility in determining what units meet service level standards*
5. *Actively pursue additional capital funding to help address shortfalls*
6. *Liberate asset equity in the most sustainable assets to help address capital shortfalls*
7. *Consider redevelopment options for public housing assets that help to increase supply of affordable housing and offset capital needs in existing stock*

Module 3 - Rent Supplement Program Review

1. *Enhance overall administration through improved system tools*
2. *Improve program management by refining operating practices and fee structure*
3. *Target preferred placement with 'best value' landlords that have lower rent structures*

4. *Minimize costs through negotiation/re-negotiation of rental increases on preferred terms*
5. *Seek Housing Services Act (HSA) flexibilities to allow alternate rent structures under legislation that will count towards service level requirements*
6. *Maintain moratorium on deploying new units under Regular Rent Supplement program stream*
7. *Use Strong Communities Rent Supplement program (SCRS) substitutions to support service levels on an interim basis*
8. *Increase use of Investment in Affordable Housing program (IAH) to provide substitutions that support service levels on an interim basis*

Implementation

Some of these recommendations are already being explored in part via the Rideau Heights re-development that the City and KFHC is engaged in. Expanding on these outcomes and advancing implementation of the recommendation in this report will be key in managing the costs associated with federal step down and EOA. Implementation will be important in four key areas:

Advocacy – External assistance will be required to generate a meaningful response to federal step down and EOA issues. Working in concert with other municipalities and sector organizations, the City will need to continue to advocate to the Province for adequate funding and sufficient program flexibility.

Active portfolio management – Refining internal systems and enhancing tools to help monitor and more strategically manage programs will be key for the City, especially in the RS program area where costs will continue to rise at a proportionally faster rate. Establishing a sound base of data will be key to managing service level obligations and RS allocations

Cost savings and program effectiveness – A number of cost savings opportunities were identified which should be pursued with local providers via the annual reporting and operational review processes. These opportunities can be pursued in short order as a matter of good practice in order to seek pre-EOA cost efficiencies.

Asset leveraging – In addition to exploring approaches/options to asset leveraging and developing an asset rationalization strategy, cultivating mutually beneficial partnerships to help manage impacts will be critical, especially for the many housing projects which are owned/operated by community partners, not the City.

A listing of recommendations and supporting actions is provided in the Appendix following.

Appendix – Summary Table of Recommendations and Supporting Actions

Module 1 – Federal Funding Stepdown	Supporting the Recommendations
1. ***Continue to advocate for reinstatement of federal funding*** – Working with other SM's and sector organizations, the City should continue to pursue reinstatement of the federal funding on a permanent, on-going basis. While this would not fully address the cost pressures associated with cost escalations, it would at least ensure that existing funding would not be diminished as SM's face substantial EOA impacts going forward.	Advocating for reinstatement of federal funding could be accomplished through: • A Council resolution of support for established housing sector positions on federal funding re-instatement • Meetings with local MP's and MPP's to reinforce concerns • Supporting the efforts of SMHN, AMO, OMSSA, ONPHA and CHF in their advocacy initiatives with MMAH and CMHC
2. ***Secure a firm commitment from MMAH to 'untargeted' funding beyond 2020*** – In an environment where federal funding continues to decline, the recent trend to make available 'untargeted' federal funding has been somewhat helpful in softening the impact. However, the amounts earmarked vary dramatically from year to year and are not identified beyond 2020. Having greater predictability in this funding would help SM's to better plan and allocate resources.	To advance greater transparency on untargeted funding beyond 2020, the City could: • Raise the issue with MMAH staff, especially at the ADM level, to flag the concern and seek action • Pursue the issue with other SM's through SMHN, AMO or OMSSA to raise awareness and seek support in advocating for MMAH changes
3. ***Continue to pursue cross funding/program substitution that enable re-deployment of federal dollars*** – While modest opportunities are available to offset costs between programs, the use of alternate funding can help to curtail cost escalations. This is especially true in the case of Rent Supplement programs where subsidy provided is highly reliant on secured market rents and the level of subsidization required by eligible households. Where it's possible to make use of alternate programs and still meet service level obligations, these would present opportunities to redeploy federal funding against other federal cost pressures in the portfolio.	Enabling re-deployment of federal funding between programs can be supported by: • Using discretionary RS programs (SCRS, IAH) to help fulfill service level requirements while this funding is available • Re-allocate the federal funding that would otherwise be spent to support federal cost pressures in other cost-shared programs

4. ***Maintain service levels at the prescribed level across the portfolio*** – Kingston has a high proportion of its social housing units contributing to meet legislated service standards. This standard is quite high when considering the total number of prescribed social housing units in the portfolio, leaving the City limited flexibility in how it can meet the standard. At present, it appears that the SM is actually providing a number of units above this standard, each of which adds subsidy costs. While there is sustained need in the community for affordable housing, maintaining SLS levels within prescribed programs and enhancing this standard only with discretionary programs may offer a means to address local needs while working to contain prescribed costs within prescribed funding envelopes.	To maintain service level standards only at prescribed levels, the City could: • Defer re-allocating prescribed RS units which are terminated until such time as the service level is reached • Use only discretionary RS funding to augment the unit count beyond the established service level threshold
Module 2 – Expiry of Agreements	**Supporting the Recommendations**
1. ***Explore cost saving potential in greater detail and pursue available operational cost savings*** – The analysis in this report has identified potential areas for savings as well as prospective orders of magnitude, based on available data and assumptions. Exploring operating costs in particular is seen as a key area where savings could result in more immediate pre-EOA savings. Careful consideration of provider impacts arising from cost savings measures will need to be factored into this exercise. While annual savings realized may be modest by comparison, the cumulative effect of these savings over time will be notable.	To pursue operational costs savings, the City could: • Further examine operating cost norms among projects and providers within the portfolio to confirm costs savings opportunities • Use the Annual Information Reporting process to identify and establish operational cost savings targets with providers • Consider using incentives to further encourage cost savings (e.g. allow savings to be retained for specific capital needs) • Work with housing providers to explore other potential operating cost savings through: o bulk purchasing related to contracted services (i.e. snow removal, landscaping, repair & maintenance etc.) o shared services (maintenance & administration) o consolidated/amalgamated organizational structures where there is a demonstrated

	overall benefit • Actively promote preventative maintenance measures among providers which help to contain capital costs
2. ***Continue to pursue interim mortgage renewals on best terms to reduce costs*** – A specific area of costs savings identified in the analysis is the potential savings associated with pre-EOA mortgage renewals, primarily in the Provincial Reformed segment of the portfolio. While not directly linked with EOA impacts, the projected savings from these renewals would assist in reducing SM subsidy costs, especially over the next 10 to 15 years. Active monitoring and participation in the renewal process will help to ensure that cost savings can be realized.	To ensure on-going savings via mortgage renewals, the City could: • Continue to work actively with MMAH staff on planning for and monitoring pre-EOA mortgage renewals to seek out best terms • Coordinate information-sharing with prescribed housing providers to encourage prudent decision-making
3. ***Seek Modifications to legislative Service Level Standard (SLS) obligations*** – One of the major impediments to SM flexibility is the obligation to maintain service level standards in perpetuity. This is particularly troublesome in Kingston where the service standard accounts for 2,003 out of the 2,215 prescribed units, leaving very little flexibility in terms of alternative approaches to meeting the standard. The continued obligation at this high level also means a substantial and growing financial burden over time as subsidy costs continue to rise. Seeking adjustments to reduce the current standard or to provide a clear end date to some/all of the units covered by the standard would provide increased flexibility to meet local needs as well as critical financial relief.	To secure more realistic service level standards, the City could: • Continue to raise the issue with MMAH staff, especially at the ADM level, to seek legislative action • Continue to pursue the issue with other SM's through SMHN, AMO or OMSSA to build support for legislative changes • Meet with local MPP's to advocate for legislative changes
4. ***Pursue legislative flexibility in determining what units meet service level standards*** – Like service level standards, regulatory language exists around which units can be counted towards SLS and which cannot. To further clarify this language, a legal option was secured which surmised that only units which were not specifically excluded and which provided	To expand flexibility in how service level standards can be achieved, the City could: • Raise the issue with MMAH staff, especially at the ADM level, to secure a more flexible legislative interpretation • Pursue the issue with other SM's through SMHN,

assistance in accordance with the RGI scheme set out in Act were eligible to count towards the service standard. In addition to the high service level standard, this rigid obligation to adhere to the defined RGI scheme only serves to limit the ability of the SM to use alternate approaches to meeting SLS requirements. Seeking MMAH flexibility to broaden this interpretation would help to expand local alternatives that may be more cost effective (i.e. alternate rent structures).	AMO or OMSSA to build support for added clarity around policy flexibility or legislative change (if deemed required)
5. ***Actively pursue additional capital funding to help address shortfalls*** – From the study analysis, it is very clear that substantial capital requirements within Kingston's portfolio cannot be met today and will only serve to amplify EOA impacts. This unfunded shortfall is expected to continue to grow at the very time when investing in the stock is needed to continue to meet local housing needs. The sheer size of this shortfall is troublesome and additional senior government assistance in the form of a renovation/repair program (i.e. SHRRP) or an interest free financing vehicle is critical to reducing this sizable requirement.	Advocating for additional capital funding from senior government could be accomplished through: • A Council resolution of support for established housing sector positions on the need for additional capital funding • Meetings with local MP's and MPP's to reinforce needs and underscore concerns in terms of social infrastructure • Supporting the efforts of SMHN, AMO, OMSSA, ONPHA and CHF in their advocacy initiatives with MMAH and CMHC
6. ***Liberate asset equity in the most sustainable assets to help address capital shortfalls –*** Notwithstanding the need for senior government assistance, the SM can and should pursue leveraging available equity within the current portfolio. The Public Housing component of the stock offers the most promise in this regard, given its accumulated equity and shareholder alignment with the City. Debt service requirements for leveraging this equity may also be more readily managed within the LHC given on-going capital funding but analysis has shown that there are limits beyond which subsidy costs would have to increase in order to meet payment obligations. While accessible equity will not address total projected capital need, it would assist in addressing current backlogs and help to ensure	To leverage available equity within the Kingston portfolio to address capital shortfalls, the City could: • Work with KFHC, as the primary public housing operator, to identify equity opportunities and capital shortfalls within the KFHC portfolio • Support KFHC in establishing a portfolio-wide asset management plan that builds on the work already undertaken as part of the Rideau Heights redevelopment • Enter into a dialogue with other local housing providers regarding their plans for using equity opportunities to address capital shortfalls in their respective portfolios

that assets can be maintained in reasonable service condition in the interim.	• Explore available/emerging sector tools and financial resources that can help to address the capital funding gap for providers • Encourage creative partnerships with private sector interests to attract capital investment and help leverage available social housing equity
7. ***Consider redevelopment options for public housing assets that help to increase supply of affordable housing and offset capital needs in existing stock*** – Leveraging assets can clearly help to generate working capital but given the size of projected capital shortfalls, all working capital could be consumed and it would still not be sufficient to meet cumulative needs. For that reason, the judicious use of 'liberated' capital is key to maximizing its impact. Where assets are to be utilized to generate new housing opportunities, it will be critical to ensure that a 'net plus' approach is adopted – that is, assets generate a benefit greater than their current value. In the case of redevelopment, this would mean that existing units would not simply be redeveloped and replaced but that additional affordable housing units could be generated and project related capital shortfalls could be addressed. This approach would help to ensure the leveraging of finite resources by generating a return on investment that is more than just replacement value.	To maximize the leveraging potential of public housing assets within the Kingston portfolio, the City could: • As shareholder, actively work with KFHC in the staging and strategic implementation of its asset management plan • Build on the work already undertaken as part of the Rideau Heights redevelopment to prioritize opportunities across the KFHC portfolio that: o Reduce the existing capital gap o Extend the life of existing assets o Expand the supply of affordable housing on a 'net plus' basis o Leverage other public sector assets and investment opportunities o Attract private sector investment through creative partnerships
Module 3 - Rent Supplement Program Review	**Supporting the Recommendations**
1. ***Enhance overall administration through improved system tools*** – Challenges exist within current administrative systems which limit the City's ability to manage its diverse Rent Supplement program portfolio. Improving administrative datasets, expanding strategic reporting tools and refining	To improve RS administration tools, the City could: • Improve the existing dataset it uses to manage/track all units within the RS program • Expand the management reports available to help

oversight roles will enhance decision-making for portfolio management.	track RS activity and take-up at a program level • Examine refinements in functional administration that could be effected between the City and KFHC
2. ***Improve program management by refining operating practices and fee structure*** – Current program management bridges responsibilities across both the City and KFHC. The increasing share of required municipal Rent Supplement funding over the next 20 years will make effective program management more critical than ever. Streamlining contract processes with landlords, balancing resource allocations and re-scoping the KFHC service agreement will help to improve management practices going forward.	To streamline RS administration, the City could: • Re-visit policies, procedures and roles for contract administration with RS landlords • Re-examine administrative roles and responsibilities within the context of the City's planned approach to the RS suite of programs in the future • Re-evaluate the KFHC service agreement with a view to ensuring it reflects planned roles, responsibilities and funding going forward
3. ***Target preferred placement with 'best value' landlords that have lower rent structures*** – While current negotiated market rent structures are competitive, continued placement of new and re-allocated units can help to manage Rent Supplement cost escalations. While lower rental structures are desirable, the quality of accommodations must also be maintained.	To contain RS costs, the City could: • Continue to actively seek out and contract placements with landlords which offer 'best value' in terms of initial rents, renewal terms and building conditions • Maintain terms and clauses which allow for greater flexibility where landlords prove difficult or inflexible
4. ***Minimize costs through negotiation/re-negotiation of rental increases on preferred terms*** – Within the pool of existing Rent Supplement landlords, on-going rent increases present a primary cost pressure. Continuing to strategically manage rental terms at initial placement and at agreement renewal will help to support subsidy cost control.	To contain RS costs, the City could: • Continue to negotiate preferable and fair renewal terms with 'best value' landlords • Consider cancellation of agreements with difficult or inflexible landlords, re-allocating these units to 'best value' landlords who can offer preferred terms
5. ***Seek Housing Services Act (HSA) flexibilities to allow alternate rent structures under legislation that will count towards service level requirements*** – Based on authorities as interpreted by legal opinion, the ability to utilize alternate rent structures are constrained by current legislation. Allowing	To expand flexibility in the use of alternate rent structures, the City could: • Raise the issue as part of discussions on service level flexibility with MMAH staff, especially at the ADM level

additional flexibilities would enable the City to consider more strategic and cost-effective approaches to subsidizing affordable units. This is especially true in the Rent Supplement portfolio where subsidy costs on a per unit basis are higher than many other forms of social housing.	• Pursue the issue with other SM's through SMHN, AMO or OMSSA to build support for added policy flexibility or legislative change (if deemed required) • Where flexibilities are secured, use preferential placement of RS allocations to minimize per unit RS costs
6. ***Maintain moratorium on deploying new units under Regular Rent Supplement program stream*** – As Rent Supplement units continue to hit their EOA horizon, the municipal share of subsidy payable continues to grow for these non-discretionary units. By deferring deployment of Regular units and using discretionary Rent Supplement programs via substitution to maintain service level obligations, the City would be able to defray municipal subsidy costs on an interim basis.	The City could support the strategic use of non-discretionary RS programs by: • Deferring re-allocation of prescribed RS units which are terminated until such time as the service level is reached • Use only discretionary RS programs (SCRS, IAH) to help fulfill service level requirements while funding is available • Re-apply prescribed RS unit funding to replace discretionary RS funding when it sunsets
7. ***Use Strong Communities Rent Supplement program (SCRS) substitutions to support service levels on an interim basis*** – Discretionary funding under the SCRS program is available up until 2023. While the City is substantially utilizing this program, deploying funding from this program in place of Regular units could help to defray municipal subsidy costs. As the City uses an RGI approach for the SCRS program, no changes would be required to make these units eligible for service level standards.	To maximize the potential impact of discretionary SCRS funding, the City could: • Allocate all available SCRS funding during the term of the SCRS program • Utilize deferred funding from the prescribed RS program to supplement RS units from 2023 forward in order to maintain service levels
8. ***Increase use of Investment in Affordable Housing program (IAH) to provide substitutions that support service levels on an interim basis*** – Discretionary funding under the IAH Rent Supplement program is available up until 2021. The City is utilizing this program, but there is residual unallocated funding available and these funds could be deployed in place of Regular units to help defray municipal subsidy costs. Because the City does not use an RGI approach in the IAH program,	To maximize the potential impact of discretionary IAH-RS funding, the City could: • Modify the approach to rent calculation within the IAH-RS stream to reflect RGI requirements • Allocate all available IAH-RS funding during the term of the IAH-RS program • Utilize deferred funding from the prescribed RS

changes would be required in order to make these units eligible for service level standards, barring any legislative flexibilities that could be secured (per Rec. #5 above).	program to supplement RS units from 2021 forward in order to maintain service levels