



**City of Kingston**  
**Information Report to Housing and Homelessness Advisory Committee**  
**Report Number HHC-16-005**

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<b>To:</b>	<b>Chair, Housing and Homelessness Advisory Committee</b>
<b>From:</b>	<b>Lanie Hurdle, Commissioner, Community Services</b>
<b>Resource Staff:</b>	<b>Sheldon Laidman, Director, Housing &amp; Social Services</b>
<b>Date of Meeting:</b>	<b>March 10, 2016</b>
<b>Subject:</b>	<b>End of Operating Agreements and Step-Down Funding Strategy</b>

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**Executive Summary:**

The Operating Agreements between the City of Kingston and social housing providers are nearing expiry. The City of Kingston, in its role as Service Manager, has sought advice as to the legislated obligations for both parties going forward. In addition, under the Canada/Ontario agreement, the current federal funding received by the City of Kingston for its social housing programs has been steadily declining with a forecasted end date of 2035. Both items are recommended for detailed review in the City's 10 Year Housing and Homelessness Plan.

In response to this issue, the City of Kingston hired SHS Consulting/Refact Consulting to review and analyse the overall impacts of the End of Operating Agreements (EOA) and Federal Step-Down Funding.

At a special Council meeting held on February 3, 2016, SHS Consulting/Refact Consulting presented an overview of their findings and the financial obligations faced by the Service Manager going forward. At this meeting, it was also identified that municipalities have identified this matter as one of key importance and efforts are ongoing to bring the issue to upper levels of governments' attention. The Power Point presented by the consultant is attached as Exhibit A. Staff will bring a recommendation report with strategies to be implemented with regard to this matter to the March 22<sup>nd</sup> Council meeting.

The intent of this report is to ensure the Committee is made aware of this significant issue as it will form a significant part of the Department's work plan over the next number of years.

**Recommendation:**

This report is for information purposes only.

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**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	Not required

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**Options/Discussion:**

On January 1, 1998, the City of Kingston, as Service Manager for the City of Kingston and County of Frontenac, assumed responsibility for the social housing costs previously funded by the Province. On January 1, 2001 the Service Manager also became responsible for the administration and oversight of the Social Housing Program.

With the download of responsibility, the Service Manager signed “Operating Agreements” with the former provincial housing providers. These agreements are due to expire over the next 18 years once the housing providers’ mortgages are paid in full. The federal housing providers continue to have agreements with the federal government which will also expire over time. With the End of Operating Agreements (EOA), funding obligations and responsibilities will change for the housing providers and the Service Manager. The one exception is Kingston & Frontenac Housing Corporation which has a Shareholder Agreement with the Service Manager.

The federal government has continued to provide some funding to the Service Manager for social housing costs. In 2008, the federal government began decreasing its share of the funding, referred to as “Step-Down Funding”, and the Service Manager has subsequently increased its portion to compensate for the loss. It is expected that all federal funding will end in 2035 with the EOA, resulting in an estimated annual municipal subsidy cost of \$20M (net) and an estimated capital shortfall of up to \$150M.

As indicated in Information Report Number 13-181 and in order implement recommendations from the 10 Year Housing and Homelessness Plan, a consultant was to be hired to review and analyse the overall impact of the Step-Down Funding and EOA. In February 2014, SHS Consulting/Refact Consulting was contracted and began their work to identify cost savings measures to offset the Federal Funding Step Down. In addition, the consultant was asked to explore options to sustain the legislated service levels and 2,003 rent-geared-to-income (RGI) units, post EOA, while recognizing limited municipal budgetary resources.

SHS Consulting/Refact Consulting separated the area of study into the following three modules:

Module 1 Review of Federal funding step-down: an analysis of the impacts in managing the Federal step down funding was conducted using impact analysis modelling which assisted in developing mitigation options.

Module 2 Review of EOA implications: a legal opinion was obtained to clarify the obligations of both the Service Manager and local housing providers post EOA. Using this information, impact analysis modelling was conducted to forecast project viability leading up to and post EOA.

Module 3 Review of Rent Supplement programs: a review of the rent supplement programs delivered by the Service Manager was conducted to identify potential service delivery efficiencies, administrative streamlining and associated costs savings. Alternative rent

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calculation options were also reviewed to determine how they may contribute to sustaining rent supplement units and supporting mandated service level standards.

As a result of the work completed in these modules, a strategy for mitigating the EOA impacts and Federal Step-Down funding has been developed and the recommendations with the full consultant's report will be presented to Council on March 22<sup>nd</sup>. The main value of the exercise has been to document and identify the extent of the future financial obligations facing the Service Manager as legal and legislative barriers are limiting the City's ability to mitigate the impacts of these issues. Due to the complexity and depth of the issue, SHS Consulting/Refact Consulting/Refact Consulting presented their findings to Council at a February 3, 2016 special Council meeting. A copy of the consultant's presentation is attached as Exhibit A.

**Existing Policy/By-Law:**

10 Year Housing and Homelessness Plan – Recommendation# 18:

That the City maximizes 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; and
- Establishing a plan for managing funding step-down by:
  - Creating a detailed funding horizon profile by program and project;
  - Developing an impact analysis against the funding horizon profile; and
  - 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; and
- 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.

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**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.

**Contacts:**

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Sheldon Laidman, Director, Housing & Social Services 613-546-2695 extension 4957

**Other City of Kingston Staff Consulted:**

Lee Campbell, Manager, Housing and Childcare Programs, Housing & Social Services

Melanie Bale, Financial Analyst, Housing & Social Services

**Exhibits Attached:**

Exhibit A Step Down Funding and End of Operating Agreement Strategy Presentation to City Council – February 3, 2016 by SHS Consulting/Refact Consulting

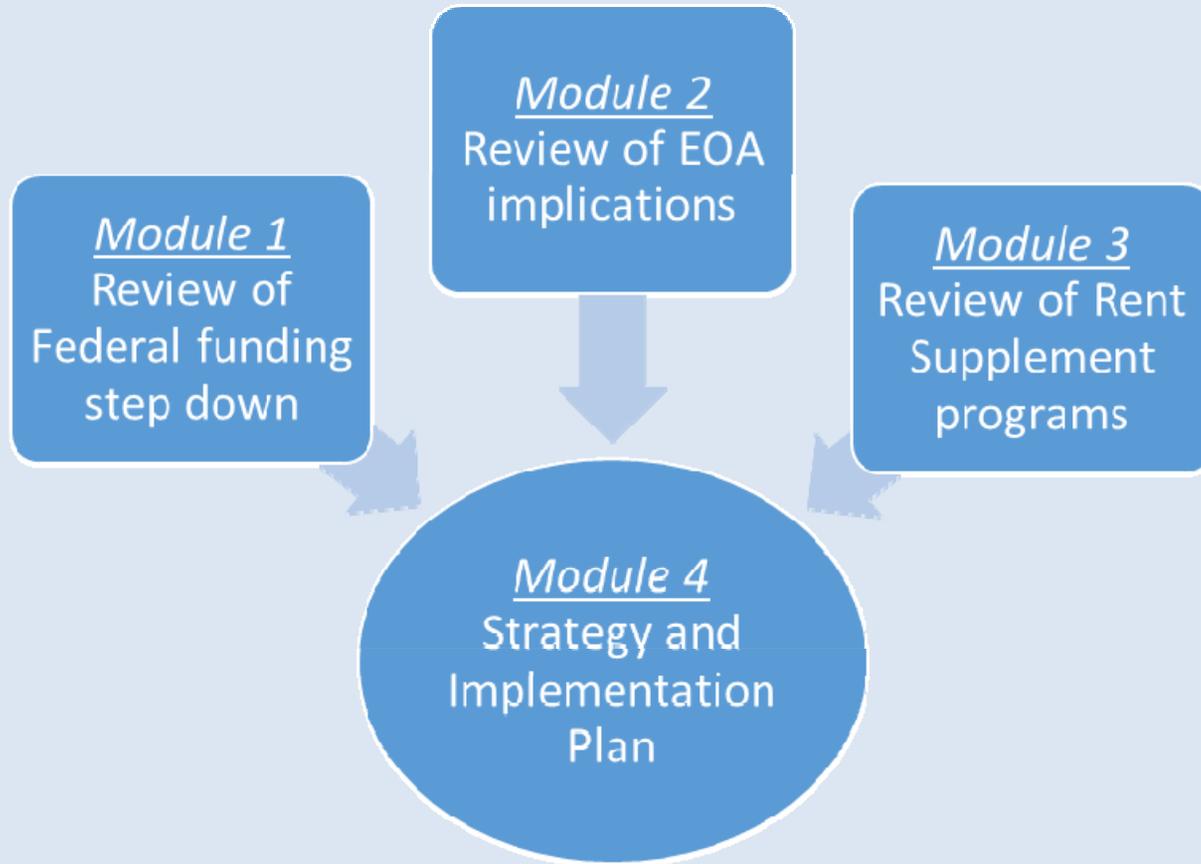


# Step Down Funding and End of Operating Agreement Strategy

Briefing for City Council  
February 3<sup>rd</sup>, 2016



# The Study Process



# The Kingston Portfolio

## 'Brick and Mortar' Projects

- Public Housing = 967 units
- Provincial Reformed = 749 units
- Federal Programs = 51 units

**1,767 units total**

## Rent Supplement

- Commercial and N/P rent supplement = 448 units

***Prescribed portfolio = 2,215 units  
(91% RGI units)***

***Service level standard = 2,003 units  
(90% of prescribed units)***

## Non-legislated R/S Programs

- MIK = 71 units
- SCRS = 69 units
- IAH-RS = 54 units

**194 units total**

# Key Concepts

## Federal Funding Stepdown

- Traditional cost-sharing of legacy programs
- Federal share of subsidy varies by program
- Fixed Federal dollars flowed via Service Manager (SM)
- Sun setting of federal dollars as projects hit EOA date
- Continued decline in Federal funds to SM to 2034

## Expiry of Agreements (EOA)

Date at which:

- Previous/current operating agreement expires
- Original mortgage/debenture for project property matures
- Federal funding terminates for cost-shared projects
- Rent supplement project funding agreement expires

# Projected Bottom Line Impacts

## Operating Side

Estimated municipal subsidy costs by 2035 = \$20M (net)  
*(annual increase of \$10M from 2015)*

## Capital Side

Estimated capital shortfall by 2035 = up to \$150M  
*(cumulative, up from \$22.7M in 2015)*



# Impacts Will Vary by Program

## Subsidy Payable to Prescribed Providers by Source, City of Kingston (2015)

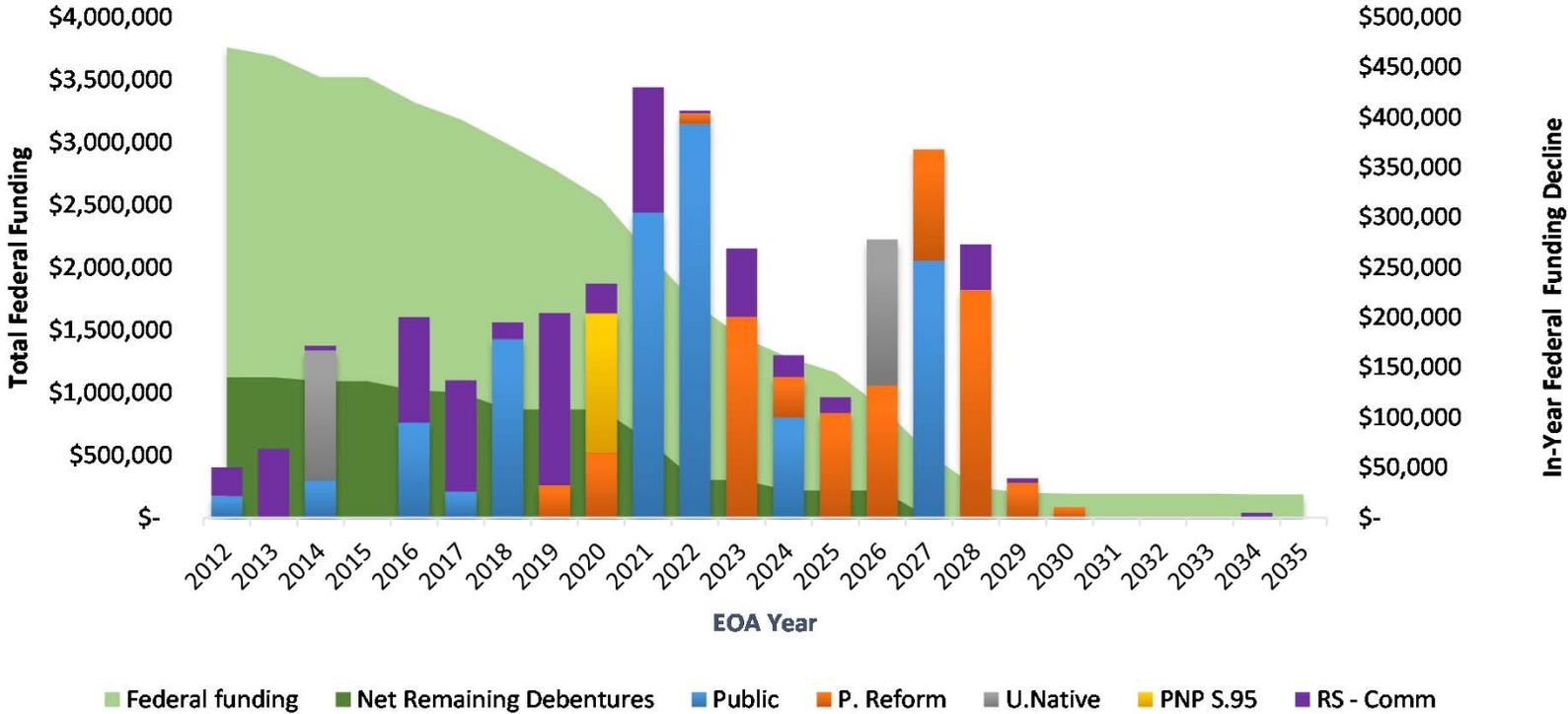
Total Subsidy to Prescribed Providers	Federal	Municipal	Total
Public Housing program (incl. debentures)	\$1,376,254	\$4,068,810	\$5,445,064
Rent Supplement programs	\$889,440	\$2,385,755	\$3,275,195
Provincial Reformed programs	\$966,921	\$3,809,066	\$4,775,987
Federal Programs	\$347,099	-\$74,183	\$272,916
Untargetted Federal funds	\$146,821	-\$146,821	\$0
<b>Net Funding (excluding debentures)</b>	<b>2,636,657</b>	<b>\$10,042,627</b>	<b>\$12,679,284</b>
<b>Total Funding</b>	<b>3,726,535</b>	<b>\$10,042,627</b>	<b>\$13,769,162</b>

Per Unit Subsidy to Prescribed Providers	Federal	Municipal	Total
Public Housing program (incl. debentures)	\$1,423	\$4,208	\$5,631
Rent Supplement programs	\$1,985	\$5,325	\$7,311
Provincial Reformed programs	\$1,291	\$5,086	\$6,376
Federal Programs	\$6,806	-\$1,455	\$5,351
Untargetted Federal funds	n/a	n/a	n/a
<b>Net Funding (excluding debentures)</b>	<b>1,260</b>	<b>\$4,800</b>	<b>\$6,061</b>
<b>Total Funding</b>	<b>1,781</b>	<b>\$4,800</b>	<b>\$6,582</b>

Source: MMAH Federal funding allocation Charts and City of Kingston projections

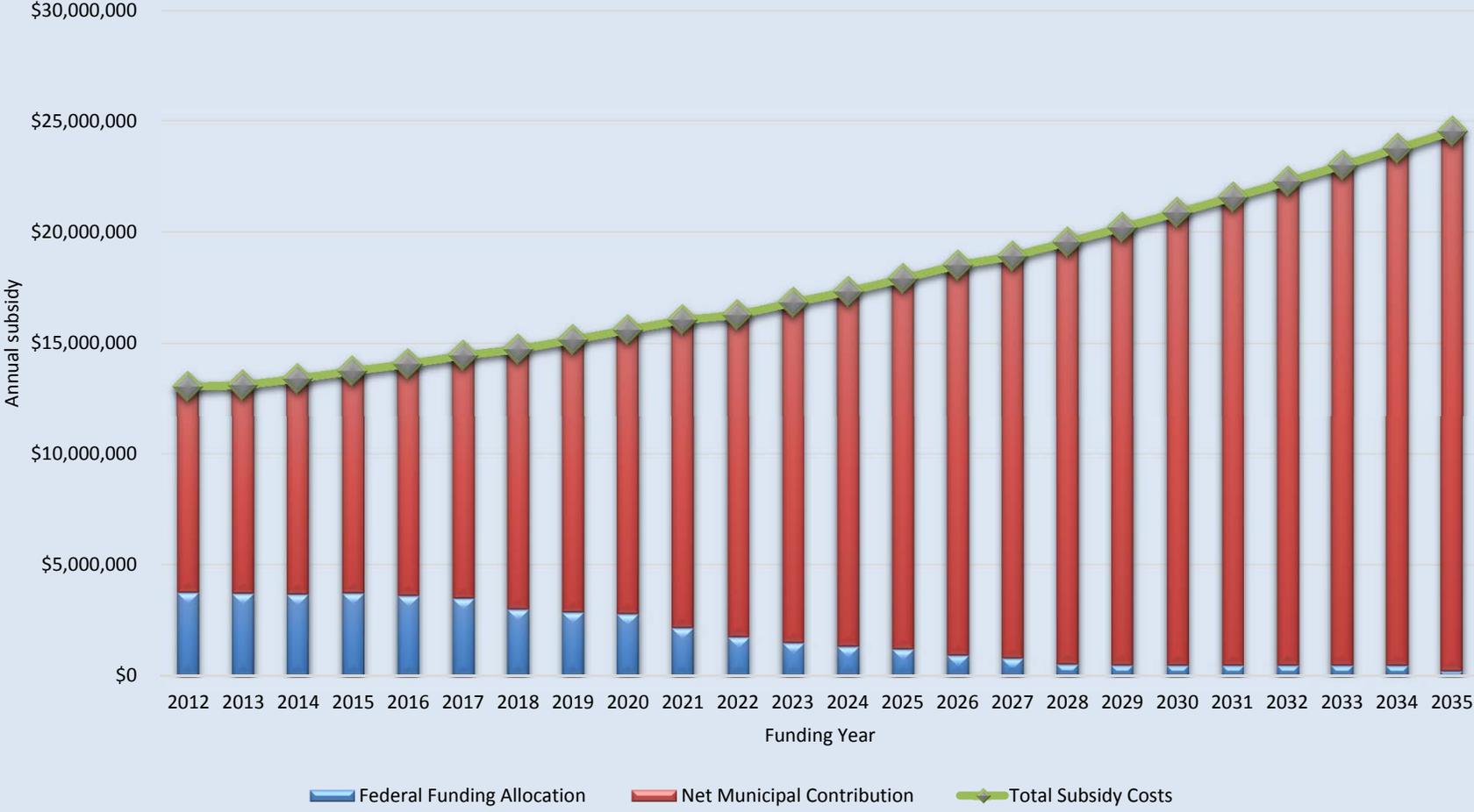
# When Impacts Occur

### Federal Funding Step Down by Program & Year (constant 2012 \$'s, excludes unallocated funds)



# Growing cost, Declining funding

Projected Annual Subsidy Requirements (unadjusted), City of Kingston



# Federal Stepdown Impacts

- Current federal share of \$3.7M is about 20% of subsidy (2015), reduces to 10% by 2021, eliminated by 2034
- Increasing obligation of SM to cover cost increases and federal stepdown post-EOA
- Municipal subsidy payable could go from about \$10M to \$24.5M by 2035 but offset by \$4.5 as debentures/mortgages mature (\$20M net)
- Federal impact biggest \$'s in Public Housing (\$1.3M) and also Rent Suppl. (\$1,985/unit)
- Most direct impact on housing providers is in federal programs (esp. Urban Native)
- Two former federal projects were moved into Provincial Reformed programs
- High RGI levels and service level standard (SLS) obligations bind the City as SM

# EOA Realities

## Funding Obligations

- Legal opinion confirmed post-EOA obligations by program (excl. federals)
- Only RGI units are to be counted towards SLS
- Substantial number of cost shared units & high SLS means on-going financial obligations post-EOA

## Building Conditions

- Sizable capital requirements based on Asset Manager (\$27.5M current backlog)
- FCI index shows 'poor' rating (> 30%) starting in 2021/2022 without capital infusion
- Prov. Reformed projects have many 'fair' ratings (10% to 30%)

# Projected EOA Impacts

## Operating

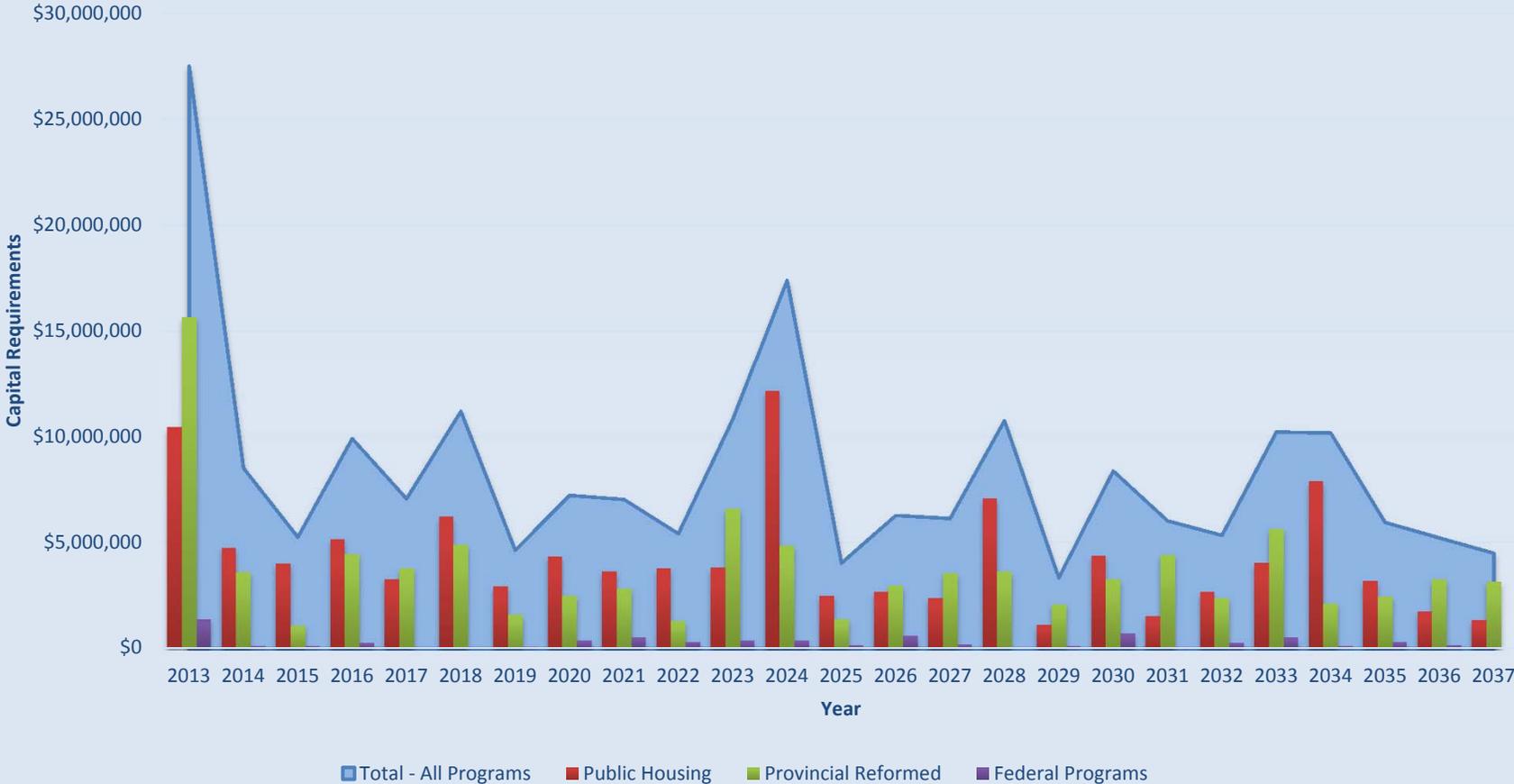
- Projected annual subsidy costs at 2035 remain prominent in Public Housing (\$9.5M) and Prov. Reformed (\$8.6M)
- Cost savings opportunities are modest, up to \$250K in total (est. at 2.6% of 'manageable' costs)
- Mortgage renewal savings are available pre-EOA (\$850K cumulative)

## Capital

- Current unfunded capital requirements of \$22.7M continues to rise
- Cumulative capital requirements of almost \$200M by 2035
- After accounting for planned contributions, projected capital shortfall of up to \$150M by 2035

# On-going Capital Pressures

## Projected Capital Needs by Year and Program



# Mitigation Options

## Operating Side

Estimated municipal subsidy costs by 2035 = \$20M (net)

- Versus -

### Prospective Offsets:

- Pre-EOA mortgage renewals - up to \$850K cumulative
- Operational savings - up to \$250K
- Reduce to SLS only - up to \$175K
- R/S substitution\* – up to \$465K
- Alternate rents\*\* – \$166K-\$1.8M

## Capital Side

Estimated capital shortfall by 2035 = up to \$150M

- Versus -

### Prospective Offsets:

- Leveraging equity through refinancing – \$63M to \$77M

**BUT**

- Add back subsidy costs of \$4.4M for debt service (or more if higher loan ratio sought)

# Assessment of Mitigation Options

## Operating

- Subsidy-wise, targeted cost reductions, income mixing and R/S substitution offer modest on-going savings
- Alternate rents offer an array of savings (\$166K to \$1.8M) but do not meet current RGI test

## Capital

- Capital repairs can be addressed in part through re-financing of equity but limits on debt service capacity
- Savings from refinancing/re-purposing are better served addressing capital shortfalls

# Overall Synopsis

- Sizable increase in subsidy costs are expected as federal funds decline, costs increase and projects hit EOA
- Direct impact on City as shareholder of KFHC and as SM
- Some cost adjustments, cost savings and R/S admin. practices may help to limit inevitable cost increases
- Capital shortfalls are a looming concern - projected requirements are well beyond SM financial capacity
- Need for additional SM legislative flexibilities in order to better address issues

# Strategic Directions

- *Advocacy* – seeking capital funding, RS discretionary funding and legislative flexibility from Province
- *Active portfolio management* – strategic monitoring and management of SLS + RS allocations
- *Cost savings and program effectiveness* - pursuit of opportunities internally and with housing partners
- *Asset leveraging* - exploring approaches/options

***Some initiatives are already being tested via the Rideau Heights re-development***

# Questions



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