Know Your Funding Model

To manage your finances well you need to know your funding model in order to **plan for compliance in budget setting, operations and reporting.** Different government programs have different funding models used to calculate government subsidy. Funding models were all originally defined in operating agreements[1] between Canada Mortgage and Housing Corporation (CMHC) and/or the Ministry of Municipal Affairs and Housing (MMAH) and the housing provider.

- For projects developed under the former Provincial or Federal/Provincial programs, the operating agreements have been replaced by the *Housing Services Act* [2]*(HSA)* and its regulations.

- Federal program projects, and those Provincial and Federal/Provincial projects whose administration was transferred to the Ministry of Health and Long-Term Care (MOHLTC) or the Ministry of Community and Social Services (MCSS), have retained their operating agreements.

Funding Programs

Most funding programs fall under 4 main categories:

1. **Housing Services Act**
   The HSA and the SHRA before it defines the government subsidy calculations using a benchmarking [3] process that established base funding, then applies indices to benchmark expenses and market rents each year to reflect changing economic conditions. The base year for providers under this benchmarking system was their 2006 fiscal year. It is indexed forward each year.

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[1] Operating Agreement: A contract signed between a government agency and a social housing provider that sets out funding, operating, and other responsibilities of the parties. Providers with federal unilateral funding and providers administered by the Ministry of Health and Long-Term Care or the Ministry of Community and Social Services retained their operating agreements; the operating agreements for all other providers (unless they were specifically excluded from the legislation) have been replaced by the HSA and regulations.

[2] *The Housing Services Act* replaced the *Social Housing Reform Act* on January 1, 2012.

[3] Benchmarking: A management tool that allows the deliverer of a product or service to compare its performance with like providers. Benchmarking is an important instrument in the design of the new funding model for social housing, and means setting a narrow range of acceptable operating costs for social housing providers. Through benchmarks, the funding of operating costs and capital reserves becomes more predictable for both Service Managers and housing providers.

There are 2 different funding formulae under the HSA and they are set out in O. Regulation 369/11:

- providers with mixed portfolios of RGI and market rents and
- providers with 100% RGI tenants

2. **Federal**
   Federal program funding models are defined by the *National Housing Act* (NHA). They are referred to by their respective sections in the NHA, either Section 95 or Section 26/27. There are several different formulae under the NHA and we will look at these in detail in this section.

3. **Transferred**
   Supportive housing providers who developed projects under Provincial and Federal/Provincial programs continue to use their original operating agreements, but the administration of their programs was transferred to their respective support ministries; either the Ministry of Health and Long-Term Care (MOHLTC) and/or the Ministry of Community and Social Services (MCSS). Similar to HSA providers, the funding formula differs depending on whether the provider has a mixture of market and RGI units, or 100% RGI units.

4. **Local Housing Corporations (LHCs)**
   The funding formula for individual LHCs[4] is varied depending on their corporate relationship to their Service Manager. The HSA General regulation sets out minimum requirements for Service Manager funding of their respective LHC.

Government Subsidies

Government subsidies for all housing programs cover only the shelter costs. If a provider has retail or commercial space, or runs support programs, that part of their operations **cannot** be subsidized from housing operations. It must have its own revenue stream to cover expenses; from commercial rents, fundraising, or other types of government programs. These are referred to as non-shelter revenue and expenses.

[4] Local Housing Corporations: A new corporation created by the *Social Housing Reform Act* and controlled by the Service Manager as sole shareholder, to take over the ownership and other responsibilities of Local Housing Authorities (LHAs).

Some providers manage projects developed under different programs and their "portfolio" will include subsidies using more than one formula.

Capital/Replacement Reserves

Reserve Funds

All programs, except LHCs, require that money be set aside from annual operating budgets in reserves for future replacement of larger building components.

- Federal programs call them **replacement reserves**
- HSA and Provincial programs refer to them as **capital reserves**

Capital Items

There are different kinds of capital items in a housing project; including major building components, systems, and equipment. Capital items are generally considered to be building components paid for by the mortgage. Expensive items with relatively long lives that were purchased after initial construction may also be considered capital items, such as computer systems. Capital items have an expected useful lifespan that will vary according to quality and project conditions. The useful life of capital items comes to an end when the cost to repair or maintain them is no longer worthwhile because it will not extend the useful life by a reasonable length of time. Major repairs or renovations, whose benefits extend beyond the fiscal period and cannot be paid for out of annual operating budgets, can also be considered capital items. Examples include major roof repairs or window caulking where extensive scaffolding must be erected.

Major Building Components include:

- heating systems, including boilers, forced air furnaces, radiant heat components, solid fuel burning systems, chimneys and related components,
- domestic hot water tanks, booster pumps, circulating pumps and sump-pumps found in multiple-unit building,
- wells, septic tanks and tile beds, and
- required air handling systems

Basic Facilities include:

- kitchen facilities such as stoves and refrigerators, sink and faucet installations, countertops and cabinets, and
- bathroom facilities such as toilets, sinks and fixtures, vanities, tubs and fixtures

Safety Features include:

- fire alarm systems such as hardwired smoke alarms, smoke and heat detectors linked to a central alarm, CO^2 detectors,
- required fire fighting or prevention equipment,
- emergency lighting, and
- intercom system in multiple unit buildings

Other Major Facilities, Equipment and Features include:

- parking lot, enclosed garage, driveway and walkway surfaces,
- waste management systems,
- interior floor coverings,
- exterior fences,
- laundry equipment,
- water softeners

In all programs there are rules about how the reserves for capital repair and replacement can be invested. Some Service Managers want to vet planned capital expenditures and give their approval prior to work being done. Be aware that in all programs **the amount of annual reserve contribution is generally considered to be inadequate**. It requires careful management and planning to stretch reserves funds as far as possible.

HSA funded (formerly provincially funded)

Funding Details

Details of funding for all providers covered by the HSA are outlined in Parts II and III of O. Regulation 369/11.

The regulation is important because it:

- defines revenue and allowable operating costs,
- specifies in its schedule which 100% RGI providers fall under Part III of the regulation and have their own different funding formula,
- gives responsibility for benchmarking to MMAH,
- defines how indices are calculated and applied,
- describes the funding formulae, and
- specifies rules around retention of surplus

Tip - Calculating Subsidies

ONPHA has budget spreadsheets available for both mixed and 100% RGI portfolios that include all of the formulae to calculate your subsidies. There is also a spreadsheet to verify Service Manager year-end subsidy reconciliations which is downloadable from the ONPHA web site.

Indexed Benchmarks

Expenses Indices

When you calculate subsidies each year, different inflationary or deflationary indices (a positive or negative number depending on the year-to-year fluctuations in market rents and expenses) are applied to the previous year's indexed benchmark expenses. There are different indices for different types of expenses as follows:

- administration and maintenance
- insurance
- bad debt
- electricity
- water
- gas
- capital reserve contributions

These indices are based on the annual changes to the Ontario Consumer Price Index (CPI), a measure of the rate of price change for goods and services bought by Canadian consumers, adjusted for each province. They are published in the fall each year by MMAH in a Social Housing Bulletin and are available either from your Service Manager, the MMAH website or the ONPHA website.

Market Rent Indices

These indices are applied to previous year indexed market rents and vacancy loss (for market units) if you have both market and RGI households. MMAH publishes different indices for apartments and townhouses and for different municipalities across the province reflecting changing rental market conditions.

Index Lag

Providers submit their budgets for the following fiscal year using the index numbers from the current year. If the economic climate changes, for example, a prolonged cold weather snap causes a spike in heating costs; expenses will be higher than budgeted for. Even though the shortfall will be addressed in the following year, the rising expense may cause cash flow problems. It is not all bad news! In an economic climate where costs are decreasing, having the current budget calculated with the past year's indices will work in your favour. If you have a surplus share agreement with your Service Manager, your decreased costs will mean an increase in your accumulated surplus.

Determination of Subsidy for Projects with Market and RGI

Two Different Subsidy Calculations

For providers with both market and RGI units, government funding from the Service Manager is broken down into two subsidies that are calculated separately.

Rent-Geared-to-Income Subsidy (RGI Subsidy)

RGI subsidy is the difference between the actual geared-to-income rents paid by tenants **and** the indexed benchmark rents or actual market rents for their units, whichever is lower.

RGI Subsidy Calculation	
Indexed market rents for RGI units	$77,875
Actual market rents for RGI units	$78,720
Lesser of indexed or actual market rents for RGI units	$77, 875
MINUS Projected rent from RGI units	$48,000
EQUALS Total RGI Subsidy	$ 29,875

Tip - Maximizing RGI Subsidy

To ensure that you are getting the maximum amount of RGI subsidy, make sure that your average market rent for each unit size is set equal to or higher than the indexed benchmark market rents.

Operating Subsidy

The operating subsidy bridges the gap between revenue from indexed benchmark market rents and benchmark non-rental revenue, and the cost of mortgage, property taxes, and indexed benchmark operating costs.

Operating Subsidy Calculation	
	Mortgage costs
PLUS	Property taxes
PLUS	Indexed benchmark operating costs (administration and maintenance, insurance, bad debt, electricity, water, gas, capital reserves)
MINUS	Indexed benchmark revenue (indexed benchmark market rent minus indexed benchmark vacancy loss plus benchmark non-rental revenue)
EQUALS	Total Operating Subsidy

Determination of Subsidy for Projects with 100% RGI units

Subsidy Calculation

The formula combines both the operating and RGI subsidy into a single subsidy. The subsidy is calculated by subtracting all rental (which reflects any vacancy loss) and non-rental revenue from indexed benchmark expenses.

100% RGI Funding Formula Overview		
Action	**Item**	**Index Applied**
ADD	REVENUE	
	Rental Revenue	
	Actual Non-rental Revenue	
SUBTRACT	INDEXED BENCHMARK EXPENSES	
	Administration and Maintenance	Ontario Consumer Price Index (CPI) - all items
	Insurance	Ontario CPI - Homeowners home and mortgage insurance sub- index
	Bad Debt	Ontario CPI - all items
	Electricity	Ontario CPI - Electricity sub-index
	Water	Ontario CPI - Water sub-index
	Natural Gas	Ontario CPI - Natural gas sub-index
	Oil and Other Fuel	Ontario CPI - Oil and other fuel sub-index
	Capital Reserves	Ontario CPI - all items
SUBTRACT	Mortgage Payments	Actual
SUBTRACT	Property Taxes	Actual
SUBTRACT	50% of the Operating Surplus	Actual
EQUALS	SUBSIDY	

Tip - Set a Market Rent Level

In most 100% RGI projects all tenants are paying rent geared to their income. However, it is possible for some tenants to have an increase in income that results in a rent calculation that reaches the market rent level. Also, some tenants may lose their eligibility for RGI subsidy. You should set a market rent ceiling so you are prepared for either of these scenarios.

HSA Accumulated Surplus

Generating a Surplus

The operating subsidy formula for HSA providers with market and RGI units allows providers to generate a surplus in the following ways:

- charging market rents, if possible, above the indexed benchmark market rent for the area,
- increasing non-rental revenue (parking, laundry etc.) above the benchmark non-rental revenue, as this item is not indexed each year in the subsidy calculation, and
- keeping expenses below the indexed benchmark expenses.

For 100% RGI providers, indexed benchmark market rents are not used in the funding formula, so there is no opportunity to generate a surplus by setting high market rents. You must keep operating costs below the indexed benchmark expenses used in the subsidy formula to generate a surplus.

Operating Reserves Cap

Both mixed and 100% RGI HSA projects are allowed to accumulate a surplus of operating reserves to a maximum of $300.00 per unit. Once that amount has been accumulated, any extra surplus must be split evenly between the provider and the Service Manager. You are only allowed to reach the $300.00 per unit threshold once. After that, you must share 50/50 with the Service Manager even if your accumulated surplus goes below $300.00 per unit in the future.

How Is a Surplus Recovered?

The Service Manager's share of the year-end surplus is recovered by reducing a monthly subsidy payment after they do their subsidy reconciliation based on the provider's audited financial statements. Some Service Managers allow providers to keep their entire surplus as long as it goes into the providers' capital reserve fund and they may put other restrictions on its use.

	Sample Surplus Calculation		
A	Accumulated surplus at the beginning of the year	$ 2,000	
B	Net Income for the current year ear	$ 1,500	
C	Total unadjusted surplus at the end of the current year	$ 3,500	
D	Maximum accumulated surplus before sharing (eg 10 units X $300)	$ 3,000	
E	Amount to be Shared	$ 500	C minus D
F	50% to Service Manager	$ 250	
G	50% to Provider Accumulated Surplus	$ 250	
H	**Accumulated Surplus at the end of the current year**	**$ 2,250**	A plus G

Tip – Build up Accumulated Surplus to Cover Contingencies
An accumulated surplus is money in the bank for a rainy day. You can use it to cover cash flow shortfalls arising from rapidly increasing expenses such as jumps in insurance premiums or utilities, or unexpected legal expenses. It makes good business sense.

Federally Funded

Program Administration

The administration of programs funded by the federal government through the CMHC, including Federal Unilaterals[5], was devolved or transferred in the late 1990's. However, the federal government continues to pay subsidies to the province for these projects until the operating agreements expire. The province, in turn, passes the money on to the Service Managers for the projects administered at the municipal level of government.

Rent Supplement Agreements

Many projects have a separate rent supplement agreement[6] with the Service Manager.

Targeted vs. Non-Targeted Assistance

Federal housing assistance is divided into two main categories: targeted and non-targeted. A "targeted" household at the time of entry into the program either:

- Qualified as per the Housing Income Limits[7] , which are income levels for each unit size in each service area, set out in Regulation 370/11 of the *Housing Services Act*. The *Housing Services Act* requires Service Managers to have a specific number of RGI units in their service area, which are occupied by tenants whose incomes are below the HILS in effect at the time of initial occupancy, or
- Met income requirements for housing assistance in force **prior** to the SHRA.

Non-targeted households make up the remainder.

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[5] Federal Unilaterals: Non-profit housing providers, whose mortgage is held or whose subsidy was administered by CMHC under Section 26, 27 or 95 of the National Housing Act.

[6] Rent supplement agreement: Paid to a landlord to bridge the gap between a tenant's rent-geared-to-income and the market rent ceiling set by the municipality, to fill units in their building with applicants from the social housing waiting list.

[7] Household Income Limits: Income levels for each unit size in each service area, set out in Regulation 368/01 of the Social Housing Reform Act. The Social Housing Reform Act requires Service Managers to have a specific number of RGI units in their service area, which are occupied by tenants whose incomes are below the HILS.

Operating Agreements

The funding formula for Section 95 providers is found in operating agreements that were signed with CMHC and are based on a subsidy model that ends once the mortgage is paid off. At the time of devolution[8] , the operating agreements remained the same except they are now administered by the Service Manager.

Expiry of Operating Agreements

The operating agreement period is usually the term of the mortgage (which in Section 95 projects is a maximum of 35 years). Because of this, over 99% of Canada's social housing operating agreements will expire by the year 2033 and federal government subsidy will end. The withdrawal of subsidy is linked to the date when a housing provider's mortgages or debentures are paid off. Subsidy formulae vary among social housing programs, and so will the effect of the subsidy withdrawal. For example:

- If just before that point your annual mortgage payment exceeds your total annual subsidy, you could experience an improvement in your financial situation when both expire.

In the reverse situation - when subsidy in the year before the expiry of your agreement exceeds the mortgage payment - you may experience financial difficulty.

Depending on a provider's circumstances - which program(s) they were originally funded under, what state their replacement reserves are in, how much deferred maintenance has built up, and how high their RGI percentage is - each will face a different financial scenario.

[8] Devolution: In the context of non-profit housing, devolution means the handing over or "downloading" of social housing administration and funding, from the Province to the Service Managers. The exception is providers transferred to MOH/LTC or MCSS. Devolution also refers to handing over the federal responsibilities for non-profit housing to the Province - the funding responsibility was transferred in 1998, the administration was implemented under the Social Housing Reform Act.

Tip - Analyze the Impact of Expiry on your Projects

Every federally-funded provider should determine the impact of the loss of subsidy **well in advance** of the expiry of their agreement(s). A strategic plan will help prepare for the event and may be critical to the ability of the provider to continue to subsidize current tenants at the time the agreement expires.

ONPHA and Canadian Housing Renewal Association have developed single and multi-project spreadsheets with guides that will give you a snapshot of how your operating agreement expiry will affect your project or portfolio. These tools are free.

Rent-Geared-to-Income Scale

Some federal projects may operate with two different RGI scales. The federal RGI scale is calculated based on a minimum of 25% of the adjusted household income[9], while the provincial (HSA) scale is based on 30%. There are different deductions to household income, and the application of the scale may also differ. This information is found in the appendices of your operating agreement. In general:

Section 95 Non-Profit

- tenants pay rent based on the federal RGI scale, or other amount determined by the housing provider
- rent supplement units pay rent on the HSA RGI scale
- some providers adopt the HSA scale for all subsidized tenants

Section 95 Urban Native

- any subsidized tenant pays rent according to the federal RGI scale, or other amount determined by the housing provider

[9] Adjusted household income: The total of all household income based on the income definition found in the appendix of the operating agreement, minus the exclusions from the income equals the adjusted household income.

Section 26/27 Non-Profit and Section 26 Limited Dividend

- if there is rent supplement assistance, the HSA RGI scale applies only to the units receiving the assistance
- other tenants pay Lower End of Market (LEMs). Rent increases generally limited to rent control guideline.

Replacement Reserves

All housing providers funded under municipal, private and urban native programs are required to make annual contributions to a replacement reserve to accumulate funds to cover the cost of replacing worn out capital items. It is up to the Service Manager to determine the approach to handling replacement reserve expenditures.

Section 95 - Municipal Non-Profits

No Operating Surplus

This funding model is very inflexible, and does not allow for any operating surplus for the housing provider.

Market Rents

Minimum market rents are set using a Rent Inflation Factor (available from MMAH) applied to the prior year's rent. The Rent Inflation Factor is used to determine the minimum market rent that is expected to be charged. If the provider is unable to rent the market units at the assigned rate, there will be less revenue to cover costs.

Subsidy Calculation

Although the subsidy is estimated based on an indexed revenue, it is actually calculated in the Annual Information Return[10] (AIR) based on the **lesser** of the budget or the actual. This means that if a housing provider spends more than the allowed budget they will have an operating loss, but if they spend less, they cannot keep the surplus.

[10] Annual Information Return: Annual reporting form between non-profits and Service Managers.

Funding Formula Overview		
	Item	**Index Applied**
ADD	REVENUE	
	Budget or actual Market Rents, whichever is the lesser	Rent Inflation Factor provided by MMAH
	RGI Rent	
	Vacancy Loss	
	Non-rental Income (including interest)	
SUBTRACT	EXPENSES	
	Actual or budgeted operating costs, whichever is the lesser	Indices provided by MMAH
	Actual Property Taxes	
	Capital Reserves	
SUBTRACT	Mortgage Payments	
EQUALS	Total Subsidy	

Tip - Monitor Spending
Because there is no accumulated operating surplus possible, you need to spend carefully to stay within your budgeted amounts.

Section 95 - Private Non-Profits (PNPs)

Subsidy Calculation
This funding model provides a subsidy to reduce the mortgage interest rate to 2%. In exchange for this reduction in interest rates, private non-profit providers are expected to subsidize tenants who require a reduced rent.

In some cases the full mortgage payment was not subsidized if providers had commercial space from which to generate income. The amount of the mortgage that is used for calculation purposes is called "eligible mortgage for subsidy". Each time the mortgage is renewed; the calculation goes back to the original "eligible" amount (not the new balance on the mortgage) and calculates the subsidy with the new interest rate.

- At the time operating agreements were signed, interest rates were significantly higher than 2% and the subsidy paid the difference. The provider used this "subsidy pool" to provide reduced rent to RGI tenants.

- The decline in interest rates since the original agreements were signed has reduced the subsidy and the number of RGI tenants that can be subsidized from the "pool".

Example - Sample Subsidy Calculation

Fluctuating Interest Rates Effect on Subsidy	
Item	**Amount**
A. Eligible mortgage for subsidy	7,250,000
B. Mortgage payment at 13.25% (original rate)	78,811.79
C. Mortgage payment at 2% of A (base rate for formula)	23,985.74
D. Annual operating subsidy (B - C)	54,826.05
E. New mortgage payment (eligible mortgage for subsidy -A- at 5% (renewed interest rate). This is different from the actual new mortgage payment that the provider must pay, which is the balance of the mortgage x 5%	36,352.99
F. Mortgage payment at 2% of A (base rate for formula)	23,985.74
G. New annual operating subsidy (E - F)	12,367.25
New mortgage payment vs. new subsidy	
H. Change in actual mortgage payments after renewal	-40,513.94
I. Change in actual operating subsidy payments after renewal (difference between D and G)	-42,458.80
J. Difference in operating subsidy after mortgage renewal (mortgage payments down by 40,513.94; subsidy payment down by 42,458.80	(1,944.86)

Rent Setting
Rents are set based on level of income; the lowest based on RGI scale of the tenant paying a maximum of 25% of their income for rent; to the Lower End of Market[11] (LEM). Service Managers set the LEM annually for their respective PNP's.

Rent Supplement

Some Section 95 PNPs also receive rent supplement from the Ontario Community Housing Assistance Program[12] (OCHAP). This is a rent supplement program that provides RGI assistance to allow PNPs funded under the federal Sec. 95 program to house low-income tenants over and above the number that could be subsidized by relying on federal assistance alone. This program is administered by the Service Managers. The *Housing Services Act* rules for eligibility, rent calculation, and use of the Coordinated Access System apply to these units.

Accumulated Surplus Allowed
Section 95 PNP's are allowed to accumulate surplus of up to $500.00 per unit.

Tip - Renewing Your Mortgage
If you renew your mortgage at a higher rate of interest, you may have more money in your pool to subsidize RGI tenants.

Section 95 - Urban Native

Purpose of the Program
The Section 95 Urban Native program was created to provide affordable housing for families, seniors or individuals of native ancestry[13].

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[11] Lower end of market: The rental charge equivalent to the lower end of the range of market rents charged in the private market for similar accommodation in the same general area. This is the maximum rent that may be charged for section 95 projects.

[12] Ontario Community Housing Assistance Program: This is a rent supplement program that provides RGI assistance to allow PNPs funded under the federal Sec. 95 program to house low-income tenants over and above the number that could be subsidized by relying on federal assistance alone. This program is administered by the Service Managers. The Social Housing Reform Act rules for eligibility, rent calculation, and use of the Coordinated Access System apply to these units.

[13] Native ancestry: Indians as defined the Indian Act (Canada), Non-status Indians, Metis, or Inuit.

There are three distinct categories of Urban Native Projects:

1. **Pre-1986**

   - A mix of subsidized (RGI assistance) and market renters (able to pay Lower End of Market, the rental charge equivalent to the lower end of the range of market rents charged in the private market for similar accommodation in the same general area. It is the maximum rent that may be charged for Section 95 projects or LEM)[14].
   - Assistance is based on the difference between the amortization of the eligible capital cost at the mortgage interest rate AND a 2% rate amortized over 35 years.
   - Because there is no additional assistance (see below), providers are allowed to accumulate a subsidy surplus of $500.00 per unit for RGI purposes.

2. **Pre-1986 with Urban Native Additional Assistance (UNAA)**:

   - same financial mechanism as Pre-1986, and
   - additional assistance (UNAA) to cover the gap between the allowable subsidy as calculated above and additional eligible operating costs

3. **Post-1985**

   - projects that fully subsidize native households in core housing need[15] refers to households that occupy a crowded or inadequate dwelling and who currently pay less than 30% of their income for shelter, but for whom basic shelter costs for an adequate and suitable dwelling available in their market area would consume 30% or more of their income; OR households who pay 30% or more of their income for shelter and for whom adequate and suitable dwelling available in their market area would consume 30% or more of their income.
   - subsidy bridges the gap between the tenant revenue and eligible operating costs

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[14] Lower End of market: The rental charge equivalent to the lower end of the range of market rents charged in the private market for similar accommodation in the same general area. It is the maximum rent that may be charged for Section 95 projects.

[15] Core housing need: Refers to households that occupy a crowded or inadequate dwelling and who currently pay less than 30% of their income for shelter, but for whom basic shelter costs for an adequate and suitable dwelling available in their market area would consume 30% or more of their income; OR households who pay 30% or more of their income for shelter and for whom adequate and suitable dwelling available in their market area would consume 30% or more of their income.

Urban Native Additional Assistance

- In 1983, pre-1986 projects were given the opportunity to enter into a supplementary agreement to receive additional assistance. UNAA allows the project to operate on a fully subsidized basis to cover operating deficits that occur.

The UNAA agreement specifies:

- what constitutes native ancestry,
- that a subsidy surplus fund CANNOT be established,
- the amount of additional assistance is to be advanced based on the project's annual budget,
- that semi-annual reviews will be undertaken by the Service Manager to reconcile the additional assistance to actual need, and
- any excess assistance is to be refunded to the Service Manager.

Tip - Check your operating agreement

There are many variations in the agreements under the Urban Native programs. Make sure you are conforming to your own agreement(s).

Section 26/27 - Municipal and Private Non-Profit

Purpose of the Program

These programs provided CMHC mortgages at 8%, which at the time of negotiation was a lower-than-market rate. Providers are required to take tenants whose incomes, on move-in, were equal to or below the Housing Income Limits (HILS).

Rent Supplement Agreements

Some Section 26/27 providers have a rent supplement agreement with the Service Manager under the Community Sponsored Housing Program (CSHP) which allows them to offer some units at rent-geared-to-income, as well as an operating agreement. If there is a rent supplement agreement, the *Housing Services Act* RGI calculation rules **apply only to those units receiving this assistance;** other tenants pay the economic rent. Providers are required to submit confirmation of new tenant incomes to the Service Manager annually.

Agreement Period

The agreement period is the term of the mortgage, which is up to 50 years, depending on the project.

Section 26 Limited Dividend

Purpose of the Program

The Section 26 Limited Dividend Program is a market-based program that assisted private entrepreneurs in financing the construction, purchase or improvement of projects. By receiving a reduced interest rate amortized over a long period of time (40 - 50 years), owners agreed to pass this economic benefit on to tenants in the form of lower rents.

There are two distinct categories of Limited Dividend projects:

1. **Pre-1968**: projects approved prior to 1968 required a locked-in mortgage for 40-50 years, and

2. **Post-1967:** mortgage documentation allowed the option to repay and discharge the mortgage without penalty. In this situation, the Operating Agreement would also be cancelled.

Rent Supplement Agreements

Projects under this program do not receive ongoing subsidies, although some have entered into rent supplement agreements.

Ministry of Health and Long Term Care and Ministry of Community and Social Services

Purpose of the Program

Some providers receive government funding for support services for tenants as well as housing. As part of the process of getting out of the housing business, MMAH transferred the administration of housing programs for those providers to the Ministry supplying their support funding. Currently:

- **The Ministry of Health and Long Term Care** (MOHLTC) has the responsibility to fund and administer housing for people with high needs, such as the mentally ill, those with acquired brain injury, those with substance abuse problems and the frail elderly in need of support services in order to live independently.

- **The Ministry of Community and Social Services** (MCSS) funds and administers providers serving tenants with developmental disabilities or acquired brain injury.

Operating Agreements and Funding Formulas

Housing providers who were transferred to MOHLTC and MCSS have their original **operating agreements.** Formerly Federal providers use the same formulas as Section 95 - Private Non-Profits.

There are **two funding formulas** for providers with provincial operating agreements:

- housing with 100% of tenants receiving RGI (most providers fall in this category), or
- a mixture of market rents and RGI.

MOHLTC/MCSS Projects - 100 Per Cent RGI

Operating and Rent Subsidies

Under this funding model, operating and rent subsidies are combined. The funding formula has **very little flexibility** as there is no opportunity to generate a surplus from market rents. If providers spend more than their allocated cost they will experience operating losses.

Generating a Surplus

However, there is no surplus sharing with the funding ministry, so if providers can keep costs below the indexed cost base, they can generate a surplus.

Funding Formula Overview		
	Item	**Index Applied**
ADD	REVENUE	
	Tenant rent revenue	Actual
	Non-rental revenue	Actual
SUBTRACT	EXPENSES	Index supplied by funder
SUBTRACT	Permanent increases to the cost base	Not indexed
SUBTRACT	Capital reserves	Not indexed
SUBTRACT	Mortgage payments	Actual
SUBTRACT	Property taxes	Actual
EQUALS	SUBSIDY	

Local Housing Corporations

Former Public Housing

Local Housing Corporations (LHCs) are controlled by the Service Manager who, as sole shareholder, has taken over the ownership and other responsibilities of what used to be known as Local Housing Authorities[16], or "public housing."

At the time of devolution, some Service Managers set up former public housing as independent non-profits, some absorbed them into the municipal structure as part of the existing housing department, and others amalgamated the Local Housing Authorities with their municipal non-profit corporations. Some Service Managers negotiated new funding formulae with their LHCs, some continued to fund them like the former public housing.

Tip - Get to Know Your Service Manager Requirements

Because there are many variables to LHC funding models, you need to fully understand the requirements of your Service Manager.

The Affordable Housing Program (AHP)

There are several versions of the program; the Pilot, Strong Start, Waves 1 and 2 (Residual Funding), and AHP Extension (2009):

- **Pilot** - the subsidy consists of capital funding in the amount of $25,000 per unit.
- **Strong Start, Waves 1 and 2** - the subsidy provided is $70,000 per unit in total funding; 38% of this is federal funding as a forgivable loan for up-front construction. The remaining funding from the province is paid out over 20 years and is used to subsidize the mortgage.

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[16] Local Housing Authorities: An agency of the provincial government which managed public housing owned by the province of Ontario, and carried on other administrative responsibilities such as the rent supplement program for private-sector landlords. The LHAs ceased to exist as of January 1, 2001.

- AHP Extension – the subsidy is a joint federal/provincial contribution of an average of $120,000 per unit, paid out through the construction process. There is no ongoing payment to offset operating costs in this model.

Rent Subsidy

A percentage of units in the project must have rents set at an average of 80% of average market rents for the area as established by CMHC. Those rents can be increased by no more than the MMAH rent increase guideline each year. The provider achieves this affordability level due to up-front and ongoing government funding. Revenue from market units also contributes to the project affordability but market units are not eligible for government contributions.

Administration and Contribution Agreements

Service Managers sign an Administration Agreement with MMAH, and the provider signs a Contribution Agreement with the Service Manager.

Tip - Understand your Operating Agreement

Because there is no common operating agreement for AHP providers, you must pay strict attention to the details of your agreement with your Service Manager in order to remain compliant!

Additional Subsidy and Supplement Programs

MOHLTC Rent Supplement Programs

Providers may have rent supplement agreements under any of the following programs:

- Homelessness, Phase I and II,
- Service Enhancements, Phase I and II, and
- Mental Health Program, 750 and 500.

Under these programs the provider may either own or lease units and offer them to tenants on a geared-to-income basis. Rent supplements are based on:

- the market rents paid by the provider minus the RGI rent from tenants, if the provider themselves is renting the units, or
- approved operating costs minus the RGI rent from tenants, if the provider is the owner of the units

Supports to Daily Living

Supports to Daily Living is a subsidy that is given to some alternative housing providers and administered by the municipality. The funding is intended to cover additional administrative costs related to the provision of alternative housing. Criteria for the receipt of these funds vary in each Service Area, and the amount is negotiated each year.

Strong Communities Rent Supplement

The Strong Communities Rent Supplement Program offers long-term funding to Service Managers and gives municipalities' flexibility in providing rent supplements to households in need of assistance.

The program provides funding for regular rent supplement units, as well as supportive housing units in partnership with the Ministry of Health and Long-Term Care (MOHLTC) and the Ministry of Community and Social Services (MCSS).

Under this program, Service Managers can provide subsidy through:

- rent supplement agreements with private landlords, non-profit or co-operative housing providers to subsidize market units rented to households who pay rent-geared-to-income (RGI); and
- agreements with individual households to directly subsidize their rent

Tip - Accessing the Strong Communities Program

For more details on this rent supplement program, including application forms, go to the MMAH website.