Social Housing and the Provincial-Municipal Fiscal and Service Delivery Review

Sustaining a New Partnership

A discussion paper

SOCIAL HOUSING SERVICES CORPORATION
THE BUSINESS OF HOUSING

Prepared by the Social Housing Services Corporation

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EXECUTIVE SUMMARY

This report, by the Social Housing Services Corporation(SHSC), discusses key issues, outlines guiding principles and suggests ways in which to improve the operating environment for the social housing sector as the Provincial-Municipal Fiscal and Service Delivery Review prepares to meet its objectives of being “affordable, accountable, transparent and flexible”.   While funding decisions are always a balancing act, social housing requires a high priority due to its critical role in maintaining viable communities in Ontario.

The 1996 review of provincial-municipal services took place in an atmosphere of financial constraints that emphasized the liabilities of social housing, not its assets. In 1996, the newly-elected Conservative government established the “Who Does What” Panel to conduct a review to rationalize the provincial-municipal relationship. In a last minute twist, social housing was added to the list of provincial programs devolved to municipalities.

Housing is a multi-dimensional asset: it is a public good which improves health outcomes, a social program which provides safe and affordable housing, a component of the physical infrastructure and a valuable financial asset reflecting decades of public investment. Combine these with the vertical reality of three levels of government with different roles and capacities, and the multitude of differing program developed over the past 40 years, and the result is an intricate matrix that defies simple solutions. To unravel these complexities, this paper uses five fundamental principles through which to view opportunities to save and enhance the existing social housing stock.

Principles for re-balancing the social housing equation
1) Well-funded, well-managed social housing is integral to stable, healthy communities. 2) Income redistribution programs should not be financed by property taxes. Municipalities should have access to revenue streams that are appropriate to, and that adequately support the level of funding needed for social housing. 3) Housing is a capital investment and requires flexibility in the tools available to ensure benefits for future generations. 4) Local governments are best placed to respond to and deliver social housing programs. 5) Municipalities need clear authority in critical areas where they bear the financial risk. Providers who are also funders and owners, must be part of the decision-making process.

This discussion paper represents the position of the SHSC, composed of municipal politicians, service managers, and community housing providers. As such, this analysis balances the needs of these different interests in our communities to ensure a common good. Affordable housing is in very short supply and it is important to protect what we have, while we build more.

- When senior levels of government off-load their costs and risks, it is the municipalities who do the catching. The Province no longer pays for social housing but continues to dictate how it is run. The federal government is gradually weaning municipalities off federal funding at an ultimate cost of over $100 million per year. Municipalities have faced a 40% increase in their social housing costs, amounting to over $1 billion. There can be no fiscal sustainability without financial support from the senior levels of government.

- There is a broad consensus that income redistribution programs should not be loaded on the property tax. The worst example is how provincial social assistance costs are incorporated into municipal social housing budgets. At a cost of $175 million per year, municipal taxpayers are out of pocket $1.6B since devolution in 1998.

- Every homeowner knows that delayed maintenance is a penny-wise, pound-foolish strategy. A provincial report concludes that capital reserves for non-profit housing have been underfunded by $184 million since 1998. But it isn't simply about the amount of money. It is about how money can be used. We know that grouped investments yield higher rates, just like group services reduce costs. Energy conservation investment savings can make a huge difference in reducing runaway operating costs. It is about the wise use of resources, good management and capital planning, and attention to ongoing maintenance. Municipal capital financing needs to be innovative and comprehensive. For housing, we need a financial tool kit and the latitude to make autonomous decisions.

- Another issue is administrative complexity. Service managers are faced with the mind-numbing task of administering up to 44 different housing programs, depending on how you count them. A housing provider faces similar issues - it may have two identical projects side by side, but face completely different rules for operating and reporting. The SHRA needs to be streamlined to provide a social housing framework which does not micromanage municipalities and housing providers - but encourages and rewards good business practices. Non-profit housing co-operatives, currently under municipal scope, have proposed that they be transferred over to the Agency handling the federal co-operatives as one possible solution. Now is the time for the provincial government to reduce the number of programs, permit the efficiencies of portfolio management, within a framework of essential provincial standards.

- In an unnecessary and overly-cautious twist of "say for pay", the Province retained mortgage administration while municipalities are responsible for both the carrying costs and the potential mortgage default. The Province claims that by indemnifying mortgages with CMHC, it carries the contingent liability; however, under the SHRA, the municipalities bear the financial risk. The Province needs to work with social housing stakeholders to increase the accountability and transparency of mortgage administration by transferring it to the municipal sector.

- Non-profit housing providers are the backbone and owners of social housing, however, their Boards and staff face the difficulties of the first, rushed attempt, at devolving social housing. These serious challenges include deteriorating buildings, increased administrative burdens and an increasingly impoverished tenant population. The Social Housing Reform Act acts as a straightjacket, decreasing flexibility in serving our communities, while increasing the financial risks. Is it any wonder there are so few volunteers for the non-profit Boards? A new policy framework is needed to renew the governance of social housing, supported by legislation that respects our volunteers, encourages greater integration with educational and economic opportunities, provides incentives for commitment and good management, and works hand-in-hand in support of its leadership role in energy conservation.

Some say the Province should simply take back social housing. That is not the answer. With the exception of funding and the possible transfer of co-operative housing to a new agency, the answer is not to undo what has been done. The undoing would not be simple, quick or cheap. Worse, it would be a distraction from dealing with the obstacles that stand in the way of creating ladders to opportunity. Municipalities are doing the right job – housing markets are local in nature, and municipalities are best able to respond quickly to local needs. Municipalities, in their role as service managers, are integrating social housing into local employment, community enterprise, educational opportunities, and social supports. We should build on this track record.

Social housing has too long been undervalued as part of our communities and the social infrastructure. The capital value, at $40 billion in replacement costs, is substantial. Local economies benefit by employment of local staff and trades, businesses benefit from access to workers in low cost housing, Ontario benefits from the investment in building materials and creating ladders to success.

Ignored, and treated as a liability, social housing will become just that. Treated as an asset, it will renew our capacity to serve present and future generations. The choice is clear.

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1. Introduction

At the August 2006 AMO annual conference, Premier McGuinty announced a provincial-municipal review of how to improve the delivery and funding of municipal services. The Provincial-Municipal Fiscal and Service Delivery Review will be conducted by both levels of government with the public report released in Spring 2008.

The Province identified several areas for study, including:

- Delivery and funding of housing, social services, public health, and emergency services
- Municipal financing tools, e.g. user fees, debt instruments
- Infrastructure funding
- The Ontario Municipal Partnership Fund.

The McGuinty government stated that any solutions must be consistent with the fiscal plans of both levels of government and must recognize the great diversity of Ontario's municipalities and regions. In addition, outcomes must be affordable, flexible, accountable, transparent, sustainable, and strategic and forward looking.

The economic timing for this review could be better. The Province's economic and fiscal outlook forecasts that high oil prices, a strong Canadian dollar and a weakened U.S. economy means slower growth for Ontario in the 2007/08 fiscal period, before a return to higher growth in 2008 and 2009. [1] The bloom may be off any overly-rosy outlook for this next round of provincial-municipal negotiations.

This report, by the Social Housing Services Corporation, discusses key issues facing the social housing sector, outlines guiding principles and suggests ways in which to improve the operating environment for the system of social housing in Ontario. While policy and funding decisions are always a balancing act, social housing requires a higher priority.

The Social Housing Service Corporation's (SHSC) business relationship with service managers and non-profit housing providers provides an impartial basis on which to offer the following report.[2]

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[1] Ontario Economy Continues to Grow and Create Jobs, Ontario Ministry of Finance
(go to www.fin.gov.on.ca/english/media/2006/nr10-fs06.html)

[2] SHSC was established under the provisions of the Ontario *Social Housing Reform Act, 2000* as an independent corporation representing the interests of its members consisting of municipal Service Managers, Local Housing Corporations, non-profit and co-operative Housing Providers previously administered by the provincial government.

SHSC fulfills the need for a central and essential body to serve as a resource to 47 Service Managers and 1,600 Housing Providers in 455 municipalities and districts across Ontario who collectively manage 250,000 social housing units. SHSC is governed by a fifteen-member Board of Directors, two of whom are appointed by the Province of Ontario, with the balance from its membership including sector representatives from Algoma District, Barrie, Burlington, Grey, Haldimand, Hamilton, Ottawa, Parry Sound, Peel, Niagara and Toronto.

2. Thinking about Housing when Everything is Connected to Everything Else

Affordable housing, social housing, assisted housing, public housing, co-operative housing, non-profit housing . . . one of the obstacles in understanding housing issues is the wide range of terminology that shades slight differences in meaning of the various housing programs over the past 40 years.

Moreover, the day-to-day pressures for housing are spread across the entire public policy horizon, starting with social policy, moving through economic and financial concerns, and circling around environmental values. Providing affordable shelter, protecting families at risk, assuring health and safety, demonstrating energy conservation - these are all important social objectives. Addressing these concerns is a challenge, given the ups and downs of the relationships among the three levels of government. Interest rates and monetary policies, availability of capital and mortgages, building codes, land use planning, growth targets, zoning, shelter subsidies, affordable housing programs, smart metering ... the list of public interventions goes on and on.

This grab bag of different instruments is complicated by the divide between greater federal fiscal maneuverability and the rigidities of provincial/municipal financing. You get a sense of the complexities of housing problems and housing solutions. Everything is connected to everything else.[3]

A useful way of simplifying the complexities of housing is to view it through five fundamental principles.

Principles for re-balancing the social housing equation
1) Well-funded, well-managed social housing is integral to stable, healthy communities. 2) Income redistribution programs should not be financed by property taxes. Municipalities should have access to revenue streams that are appropriate to, and that adequately support the level of funding needed for social housing. 3) Housing is a capital investment and requires flexibility in the tools available to ensure benefits for future generations. 4) Local governments are best placed to respond to and deliver social housing programs. 5) Municipalities need clear authority in critical areas where they bear the financial risk. Providers who are also funders and owners, must be part of the decision-making process.

[3] While Janice Gross Stein doesn’t mention housing in her chapter, “Canada by Mondrian: Networked Federalism in an Era of Globalization”, her analysis of matrix decision-making is directly applicable. For more information, see the Conference Board publication “Canada by Picasso – the Faces of Federalism”, Conference Board of Canada, 2006.

3. A Short History of Local Services Realignment – Social Housing as an Afterthought

The 1995 Ontario election resulted in a Conservative government which promised smaller government and tax cuts. Immediately upon taking office, it ended the development of new social housing projects, reversing the policies of the previous Rae and Peterson governments. With that accomplished, the government was left with how to implement its promises to end the "boondoggle" of public housing by selling off the public housing stock and introducing a system of shelter subsidies paid directly to needy households.

At the same time, the federal government began discussions with the provinces to devolve its responsibility for administration of its own social housing to the provincial level. When the Province concluded that shelter allowances were too expensive and the private sector would not pay enough for public housing, the stage was set for a remarkable and unforeseen re-structuring of provincial and municipal services.

The 1996 "who does what" initiative, led by David Crombie, recommended the exchange of a number of provincial services for increased provincial funding of the cost of education. Municipalities would be given a number of new services in exchange for education, a policy field in which the municipal responsibility was only to collect the education portion of property taxes. Notably, social housing was excluded from the set of provincial programs.

At the last minute, the provincial government included social housing in the 1998 devolution package of provincial programs. With the exception of federally-funded housing co-operatives, the administration and management of federal and provincial social housing was transferred to municipalities.

The Province began billing municipalities for the former provincial share of social housing as of January 1, 1998. The Social Housing Reform Act passed in 2000, cancelled operating agreements with the non-profit housing providers and imposed a new funding and administrative framework to transfer these responsibilities to the municipal level.

Government documents[4] at the time stated that the 'Who Does What' initiative sought to provide the following benefits of this realignment of local services:

- Greater accountability to taxpayers
- Better service at lower costs
- Simple, smaller, more accountable and less costly government
- Greater autonomy for municipal government
- Reduction of duplication and waste

[4] http://www.mah.gov.on.ca/userfiles/HTML/nts_1_1537_1.html

> More specifically, for social housing the government promised that "[T]he new agreement allows the province and municipalities to simplify social housing programs, streamline administrative arrangements and serve clients more effectively."[5]

Almost a decade after municipal tax payers began paying 40 percent of the costs of social housing, it is timely to review how well the devolution of social housing is working and how best to support municipalities in their role as Service Managers.

As is shown below, the Social Housing Reform Act institutionalizes many elements that run counter to the five principles. The current government is attempting to deal with some of this through consensus reforms, where possible. What is needed in the Local Services Review is a comprehensive overview of how the Province and the Federal governments can respect the five principles so that municipalities and housing providers can best maximize the value of social housing as part of our community infrastructure.

4. Social Housing – why is it seen as a liability?

Social housing's $2.5 billion in costs are covered by a mix of user pay (through tenant rents), federal transfers, and municipal outlays. Tenants, through their non-profit housing providers, pay about $1.0 billion, per year, in rents or housing charges. The federal government pays about $500 million through a declining transfer payment. Municipalities make up the difference, about $1.0 billion. Strangely enough, the provincial government pays nothing but calls the shots.

When the senior levels of government download their costs, it is the municipalities who do the catching. The withdrawal of financial support by the provincial government, and over time by the federal one, reflects their policies to pass down all financial risks to the municipal governments. However, economists all agree that the local property tax is not elastic enough to support income-redistribution programs and only the two senior levels of government are positioned to deal with economic downturns in the regions or province. In short, the devolution of social housing exposes municipalities to greater risks, while insulating the senior levels who can most afford to deal with them.

Municipalities have demonstrated their ability to manage social housing as a local service, but they lack the resources to deal with increased social need, declining physical stock, interest rate risks, etc. This shifting of costs and risks from the senior levels of government stands in stark contrast with how the private sector treats each other.

When CAPREIT, a large Canadian landlord, bought out RESREIT, another large landlord, in 2004 for $510M, it did so with a willing buyer and a willing seller exchanging information about the value and condition of the portfolio. Only after 'due diligence' by the purchaser, did the two companies settle on the price and terms. And, once the deal was done, CAPREIT was solely in charge of the almost 11,000 former RESREIT properties.

[5] http://www.mah.gov.on.ca/userfiles/HTML/nts_1_4075_1.html

Contrast that approach with what the Provincial government did in1999. Instead of a willing buyer, there was a surprised and reluctant recipient. Municipalities had not asked for the download of provincial responsibilities. In fact, many opposed it. Municipalities did ask for detailed information on the condition and unfunded capital needs of the stock. What they got instead were evasions about capital shortfalls, unfilled promises of greater efficiency, and sad stories as the extent of ‘Projects in Difficulty’ unfolded before them.

There was no negotiation offered over price and terms. To cap it all off, “say for pay” is honoured more in the breach than in the observance. The Province continues to run social housing through layers upon layers of reporting requirements, and regulations that run from determining operating cost benchmarks, the governance structure of housing providers, monthly income reporting by tenants, and prohibitions on certain debt instruments that would allow necessary investments.

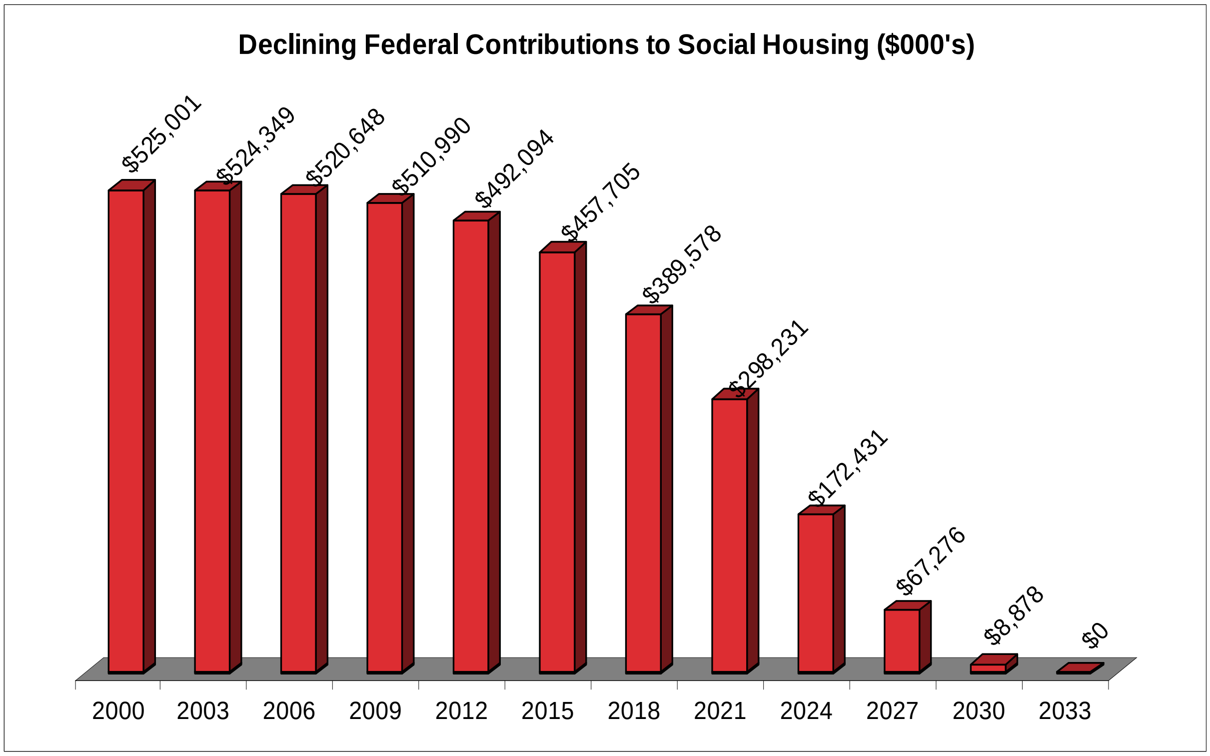
A lot of this is water under the bridge. In some cases, it is the bridge that is under the water. Service managers want the Province to deal with the problems that were downloaded along with the social housing stock. These include the imbalance between federal/provincial and municipal cost-sharing, the off-loading of provincial welfare costs on municipal social housing budgets, under-funding and rigidities in dealing with capital reserves, provincial management of municipal mortgages, and an unwieldy administrative apparatus. All governments inherit the decisions of previous ones. But they must not overlook the mistakes. Here are some of the things that need fixing.

a) The Federal Transfer: What is Missing from this Picture?

As part of the Canada-Ontario Social Housing Agreement which downloaded the federal housing program, cost-sharing was replaced by a predetermined and ever-dwindling funding schedule. CMHC binds the Province to use these funds only for approved housing programs.

The chart below shows how the federal transfer was fairly stable in the first 5 years. . In 2000, the first year of the agreement, Ontario received $525million, declining to $522 million in 2005. [6] Starting this year, gravity takes over, and in three years, a further $20 M will have been eliminated. The decline in the federal transfer then snowballs - by 2032 it is gone.

[6] CMHC, Public Funds and National Housing Act (Social Housing), July 2006, Table 51



Source: Schedule E, Social Housing Agreement, Nov. 1999

Many homeowners celebrate the end of a mortgage with a bottle of champagne. For social housing, a stiff shot might be more in order. The federal transfer, payable as long as there is a mortgage, in general, covers more than the cost of mortgages. Once the mortgage is paid down, the federal transfer ends, and service managers are left alone to face the burden of increased operating losses. While information is scarce, a conservative estimate would be an additional $106 million pressure on municipal budgets once the federal transfer is eliminated.

This liability represents an immense challenge for the municipal sector, one that starts with a pinch and ends with a bite. Social housing, conceived at the federal level and delivered by the provincial, has been effectively orphaned and left at the municipal doorstep. The federal and provincial governments need to re-enter into appropriate cost-sharing arrangements with municipalities.

Another concern is the lack of accountability and transparency for how the Province makes allocations of the federal funding payments to service managers and other approved programs. In 2001, the Minister projected a 2005 payment level of $412.2M to service managers for social housing costs, leaving over $110M in federal funds unaccounted for.[7] Tracing provincial revenues and expenditures is a murkier art than for municipal budgets. It is not clear how the federal transfer has been used for other approved programs such as debentures and rent supplements.

Something is missing from this picture – a federal presence as well as transparency and accountability. Municipalities have been paying a large portion of the costs of social

[7] The Ontario Gazette, Vol. 134-13, March 31, 2001, p.423

housing for nine years. Municipalities need to see the whole picture in order to participate in the Provincial-Municipal Fiscal and Service Delivery. Even more importantly, we need to get the federal government back to the table.

b) **Eliminating Hidden Provincial welfare subsidies**

About 20 percent of tenants in social housing receive social assistance and pay rents based on a schedule originally designed to upload welfare costs to the federal government. However, when social housing was devolved to municipalities, the rent schedule was left unchanged. The result is an inadvertent subsidy paid by municipalities as a result of different cost-sharing arrangements for welfare and social housing. Provincial social assistance programs are cost-shared 80:20 - that is the province pays roughly 80% of the cost of providing benefits, with the municipality picking up the rest. In social housing, the province contributes nothing, while the municipalities cover 100% of the costs, after revenues from residents and the federal transfer.

Tenants living in social housing and in receipt of social assistance pay rent based on a provincially-determined rent scale. By keeping the rent schedule for social assistance recipients very low, the province has shifted $175 million in annual provincial welfare costs to municipalities' social housing costs. Two examples demonstrate how municipalities more heavily subsidize social assistance recipients in social housing than in the private rental sector.

Example 1, single person on ODSP, market rent of $600

Source of revenue	Private Sector	Social Housing
Provincial (80%)	$342	$87
Municipal (20%)	$85	$22
Maximum shelter allowance	$427	$109
Tenant Payment	$173	0
Extra Municipal Contribution	0	$491
Total Rent	$600	$600
Total Municipal Contribution	$85	$513
Municipalities pay an extra $428 per month ($513-$85), or $5,136 per year if the ODSP client lives in social housing		

Example 2, family of 3 on OW, market rent of $900

Subsidy level	Private Sector	Social Housing
Provincial (80%)	$457	$181
Municipal (20%)	$114	$45
Maximum shelter allowance	$571	$226
Tenant Payment	$329	0
Extra Municipal Contribution	0	$674
Total Rent	$900	$900
Total Municipal Contribution	$114	$719
Municipalities pay an extra $605 per month ($719-$114) or $7260 per year if the OW client lives in social housing		

Virtually every municipality in Ontario is burdened by this unfair arrangement. The impacts on selected municipalities are: Durham, $5.3M; Huron $0.7M; Kingston, $1.7M; Ottawa, $25.1M; Niagara, $2.2M, and Windsor, $4.6M. Since 1999, municipalities have paid at least $1.4 billion to reduce the province's income redistribution costs.

Not to draw too fine a point, but with the exception of the Health Premium, the Province has been able to freeze or decrease its tax rates at the same time that municipalities have had to increase theirs each and every year.

By increasing rents in social housing to the shelter maximum, the burden of provincial welfare costs would be reduced for municipalities, while protecting social assistance households - they would receive all of the rent increase from social assistance. Not only is this a fair thing to do, it is a relatively easy thing to accomplish –requiring only a change to provincial regulations.

c) **Capital Reserve Deficits: Penny Wise, Pound Foolish**

At the time of devolution, municipalities voiced their concern that social housing was not in good repair and that they would face massive costs down the line. Provincial officials responded that social housing was in better shape than the majority of private rental. More recently, the Province admitted that capital reserves have not been funded adequately. A 2002 MMAH report[8] concluded that capital reserve contributions need to be 1.15 to 2.23 times higher than the current level, in order to deal with the backlog and

[8] IBI Group, Replacement Reserves in the Non-Profit Housing Portfolio (Revised Draft), July 2002, available from the Ministry of Municipal Affairs and Housing

projected repairs, estimated at $23M per year. This shortfall, over the 8 years since 1999, amounts to $184M.

Municipalities, after five years of direct knowledge of the program, have seen their fears realized, especially for ‘projects in difficulty’. The penny-wise, pound foolish strategy has already delivered some ugly surprises and more are expected. In Kenora, for example, one building will be uninsurable unless structural work is finished – work that cannot be covered by the project’s capital reserve. In Toronto, the province had to provide capital assistance in order to demolish and replace the crumbling Don Mount Court, as it was beyond repair. Under-investing in building maintenance is a sure fire means to end social housing as we know it.

The solution requires some careful consideration, as social housing does not have access to the same tools as private rental – namely equity financing and the ability to raise rents (given its mandate to provide affordable housing through a mix of RGI and low-end of market rents) sufficient to cover costs. Now the province is demanding higher energy standards as part of its SmartMeter initiative to conserve electricity, which will place capital reserves under further pressure.

Social housing was built on a shoestring and to minimum program standards over the past forty years.[9] Program rules, designed to contain costs, have resulted in sixty-one percent (61%) of apartment units in social housing projects heated by now very expensive electricity. Twenty-two percent (22%) of social housing tenants pay for electricity use.[10] The tenants don’t have the resources for investments in energy conservation, nor do the housing providers. Housing providers have few options but to ask the service manager for any shortfalls. Due to provincial restrictions, social housing lacks the ability of private landlords to borrow against the value of the building and pay it back from rent revenues or decreased energy costs.

We all know that maintaining our buildings is cheaper than delaying maintenance and instead replacing major components. Keeping a roof in good repair is less expensive than ripping out walls to eliminate mould. And when it is time to replace the roof, meeting current insulation standards can be done far more efficiently and effectively. SHSC works with Service Managers and providers to ensure proper capital planning is done and to encourage staff and Boards to invest in up-to-date Building Condition Assessments (BCAs) and energy audits – because scarce funds need to be spent wisely. Keeping our housing stock in good repair is not just good for the health and safety of our tenants, it is good for the economy. Local trades are employed to install the building materials. Most of these building products are manufactured in Ontario. What we need is the right amount of capital and the ability to use it flexibly.

The issue of capital reserves has dogged the Province ever since the Provincial Auditor noted that it made little sense for the Province to borrow money at a higher rate than

[9] Provincial housing programs used Maximum Unit Prices (MUPs) as a ceiling on construction costs. This penny-wise, pound-foolish strategy kept capital costs down but resulted in high operating costs due to the prevalence of electrical heating.
[10] SHSC survey of 311 housing providers, excluding Toronto Community Housing Corporation.

what housing providers subsequently achieved in their savings account. That situation has changed.

Today, Social Housing Investment Funds are achieving returns higher than the cost of servicing Provincial debt."[11] SHSC has achieved annualized returns since inception of 7 percent per annum on the capital reserve pools invested through its financial subsidiary, demonstrating how pooled investments get better yields than those of individual smaller accounts. [12] Even better, SHSC energy audit projections, under its GreenLight Initiative, indicate an 8 percent return (through lowered and deferred operating costs) on selective energy conservation investments.[13]

The benefits and costs of investing in our buildings, especially for energy conservation, are clear. As a start, the Province needs to make good on the capital debt owed to the municipalities. But more than that, it makes sense to increase the range of financial strategies available to service managers. For housing, we need a financial tool kit instead of a bag of hammers.

d) Simplifying the Service Manager Role through Portfolio Management

Housing may be a long-term capital investment, but its initial development often reflected the immediate pressures, economic and political, of the time in which it was built. Each program had its own eligibility conditions, different targets for low income, unique financing and subsidy arrangements, all of which are mirrored in separate monitoring and reporting requirements. Depending on how you count them, there are between 8 to 44 programs to administer. What this means in practice is that two identical buildings, built under separate programs, face very different operating environments. This needless complexity is a real headache for the housing provider as well as the service manager.

This is totally unlike other programs administered by the service manager. Child care centres are the best example. Each child care centre may have been developed to meet particular requirements at the time; however, the service manager faces only one set of administrative procedures in dealing with the province and the provider network.

A common sense approach would allow service managers to simplify the administrative functions by moving to portfolio management. Portfolio management would greatly stream-line administrative functions by moving towards one set of rules as much as possible. Housing providers would also face reduced overhead. Provincial standards at a high level would remain to ensure that service levels, targeting, and priority groups continue to be met – without the chokehold of micromanagement embedded in existing legislation. There are better approaches.

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[11] The 2006 Ontario Budget papers state that the "effective interest rate (on a weighted-average basis) on total debt is 6.1 per cent, compared to 6.3 per cent on March 31, 2005 and 10.9 per cent on March 31, 1991 http://www.ontariobudget.ca/english/paperd.html

[12] SHSC Financial Inc. Blended Portfolio since January 1, 2003.

[13] For more information on SHSC's GreenLight program, click on "Energy" at www.shscorp.ca

Another benefit is that administrative resources could be focused on the small number of housing providers who are poor managers. Requiring the same level of oversight on good performers is a waste of administrative resources that are better targeted to marginal cases. Portfolio management allows service managers to work with, not against their providers and to increase the effectiveness of their resources and interventions. Municipalities pay for municipal administration and know best how to operate it effectively and efficiently.

It is noteworthy that the federal government has allowed a substantial reduction in the number of separate program requirements for its federal co-op housing program. The Co-operative Housing Federation (Ontario Region) has proposed that the housing co-operatives, now under municipal management, be uploaded to the agency dealing with the federal co-ops. This appears to make great sense, as co-operatives have more in common with each other than they do with public housing or municipal and private non-profits.

e) Mortgage Administration: Did you want a Belt with those Suspenders?

In what may be the most perverse twist of "say for pay", the Province retained management responsibility over the non-profit mortgage portfolio while saddling municipalities with the potential exposure in case of mortgage default. The 2,400 mortgages total $8.7B with an annual interest of about $435M – no small matter.

The Province claims that it wears the pants as it has indemnified the mortgages with CMHC, and consequently bears the ultimate responsibility in case of default. The twist comes with the SHRA which gives the Province the right to claw back any costs associated with a mortgage default from the service manager.

Thus, the Province stops its contingent liability 'pants' from falling down with both the belt of municipal liability and the suspenders of provincial control.

Given municipal responsibilities to cover operating losses of non-profit housing providers and potential defaults, their accountability should be matched by increased responsibility for mortgage administration. It is their dime at risk – as such, they would play closer attention to debt strategies. Instead of a provincial one-size-fits-all approach, mortgage strategies could be tailored to local needs, risk tolerances and portfolio requirements.

For example, service managers would have greater flexibility to intensify or rejuvenate a project to meet local housing needs. Alternatively, municipalities could invest in energy conservation measures which yield higher returns than the cost of realizing them. Program administration would be stream-lined, as the necessity for service managers to trek to Queen's Park for approval would be reduced.

SHSC estimates that service managers have realized mortgage savings of $540M since 2000, or about $80M per year, as a result of lower interest rates. Some municipalities, e.g. Peel, Toronto set aside these savings as a capital reserve, whereas others used these savings to offset increased operating costs realized under the SHRA. Mortgage rates have now stabilized and no further savings are available to offset previous subsidy constraints or increased costs.

Inevitably, mortgage interest rates will increase. As mortgages represent about 70% of the cost of social housing, municipalities will face substantial financial pressures. For each one percent rise in mortgage interest rates, municipalities will see an $87M increase in costs. By adjusting the term of a mortgage, a service manager may avoid significant cost increases that other wise result in closure of a community centre or other public amenity. It only makes sense, given municipal exposure, that they administer the mortgage portfolio for which they are liable.

5. Housing Providers – our Community Partner and Ally

If municipalities were reluctant to take on new responsibilities and unfunded liabilities, housing providers were deeply suspicious of municipal control over social housing. In large measure, this lack of trust was created as a result of community opposition to the development of new social housing projects during the 1980s and 1990s. In some cases, municipal councillors sided with the NIMBY (Not In My Back Yard) forces, who fearful of increased parking and social problems, opposed the zoning changes often required to make social housing feasible.

Over the past 5 years of municipal administration, non-profit housing providers have eased into working relationships with their service managers. But non-profit housing providers too have experienced their own problems with down-loading.

A recent report to the federal government by Imagine Canada and the Canadian Policy Research Network identifies the importance of strong community organizations to our social infrastructure.[14] Its key finding states . . . "despite their critical importance, many community organizations in Canada are struggling to effectively play their role in society and realize their full potential to do so. Those in the sector are faced with increased service demands, dwindling financial resources, shoe-string operating budgets, staff burn-out, and other serious challenges to their ability to serve Canadians and their communities."

This is an apt description of the situation among our non-profit housing providers. Years of disinvestment, the aging of Boards and buildings, increased service demands, and budget constraints are taking a toll on the staff and volunteers who oversee our social housing communities. The Social Housing Reform Act's reliance on regulations, as opposed to guidelines, has reduced the discretion available while increasing administrative complexity. The concern is that as staff or property management functions weaken, the Boards take up the slack, at the expense of their more appropriate role. This distortion of roles saps the strength of community leadership.

[14] Building Blocks for Strong Communities, by Mark Goldenburg, published by Imagine Canada and Canadian Policy Research Networks, March 2006 (go to: www.nonprofitscan.ca /Files/misc/building_blocks_for_strong_ communities_key_findings_and_recommendations.pdf

What is required is a re-setting of their respective roles so that staff have the tools to manage professionally while Boards create opportunities to link into community development, thereby revitalizing the role of social housing.

a) Professional Management and Continual Improvement

At the community level, social housing has been blessed with excellent and experienced staff who know their business. Many of them came from the Province. Others have a deep knowledge of municipal government and property management. The 90/10 rule applies to social housing just as it does to auto dealerships, fast food outlets, and schools. Ninety percent of social housing projects are managed by responsible Boards of Directors and competent staff.

The future outlook is less clear however. Many staff are reaching their retirement age and service managers foresee great turnover in the next five years. The particular skill sets required for property management and tenant relations with low-income populations is not widely available. Newer staff may only have some of the skills required. Learning on-the-job, although a time-honoured practice, will not result in a timely acquisition of the skills necessary to manage our communities.

Add to this, the increased presence of private property management firms. Competitive bidding has led to lowered services reflecting the smaller margins of private companies. Additional demands for service are reflected as add-on costs. The temptation to reduce building maintenance is strong resulting in off-loading of costs to the capital side. This is not good practice in any business, let alone one housing those without choices.

What is needed is additional support to train new staff in meeting the challenges of dealing with an aging house stock and tenants who need to be treated with respect. The necessity to re-tool our buildings for energy conservation and to educate tenants on use of energy-efficient appliances and lighting, for example, are just one of the new tasks that our staff will face. Redevelopment and renewal, as it occurs, requires great sensitivity to tenants who may face temporary re-housing. The property management function becomes more demanding as our communities get older and our staff need to possess the right background to deal with it.

b) Revitalizing the Role of the Board

The start-up of a new non-profit housing project is an exciting time for volunteers, staff and tenants. Working up the financials, finding a site, developing drawings, overseeing construction and opening the doors of a brand new facility for grateful tenants is a high water mark. This high level of engagement diminishes over time. Soon enough the problems of tenant relations, staff turnover and the inevitable aging of the physical structure take their toll. Over time, the energies of founding Board members lag or drift away and finding replacements becomes time-consuming. Incoming members may lack the background and commitment of the founding Board.

Social housing has matured into a later stage of development, transitioning from the excitement of building new organizations and projects to the more mundane tasks of maintaining and managing these operations in an increasingly restrictive environment. These serious challenges include deteriorating buildings, increased administrative burdens and an increasingly impoverished tenant population. The SHRA acts as a straightjacket, decreasing flexibility in serving our communities, while increasing the financial risks. Is it any wonder there are so few volunteers for the non-profit Boards who must deal with the liabilities of delivering housing in this environment? The answers lie in re-establishing a positive legislative framework to renew the mandate for social housing; legislation that respects our volunteers, encourages greater integration with educational and economic opportunities, hand-in-hand with its leadership role in energy conservation.

There is much to be done in our communities and our social housing communities can act as a focal point for community development and other initiatives. Boards can find a new role creating horizontal linkages so that families on social assistance can better access child care and employment opportunities. Working poor families may benefit from greater access to training opportunities, apprenticeships etc. through which to gain new skills. Local employment and volunteer opportunities abound, be it setting up a babysitting co-op, linking volunteer tutors to new immigrant families, helping seniors and others isolated by physical disabilities with shopping and cleaning assistance.

This is meant to be a suggestive list, not a prescriptive one, of how Boards can help create opportunities to the role of our projects as a gateway for inclusion in the broader community. To attract the new type of community-minded citizens requires a sustained effort. Service managers, who share the interest in community programming, need to be involved in mobilizing the volunteers required. Finally, the SHRA needs to be replaced with a new regulatory framework – legislation that carries the stamp of this government's more positive view of how social housing should meet society's needs.

6. Should the Province take back Social Housing?

By this point in the paper, there are several readers scratching their heads and thinking "well, the Province should simply take back social housing!" At face value, this seems at least fair. The Province was responsible for downloading social housing and its financial pressures to municipalities, so they should take both back. A closer look concludes that, it makes more sense for the Province to sustain its investment in safe and affordable housing.

A Provincial "Take Back" would be neither simple, quick nor cheap.

Municipalities had to set up housing departments and agencies, hire staff (many of them former Ministry of Housing employees), obtain office space and equipment, establish IT and accounting processes, etc. The Province faced extra legal and human resource costs in order to shed the programs and civil servants that were no longer necessary. This proved a lengthy process - only in the past year did the Social Housing Branch cease to exist. Reversing that process would only consume more time, attention and money – resources that are needed elsewhere.

Municipalities are doing the right job

Eight years ago, the province argued that social housing fits best at the municipal level. Housing markets are local in nature and municipalities are the closest and most open level of government to communities. Housing reflects the local economy and needs to respond to community needs. The great diversity of municipalities in our Province argues against a one-size-fits-all approach. In many ways, the provincial decision to download housing to local governments was a good decision made with the wrong terms and conditions.

Municipalities are doing a good job.

Six years ago, municipalities took on these new responsibilities in an atmosphere of surprise and mistrust. Service managers have deepened their understanding of the municipal role in housing. Most service managers are doing a good job. For example, many service managers set up a rainy day fund to set aside savings from cheaper mortgage renewals. Another example - not one municipality has had to pay up for a mortgage default. Service managers have started to integrate and take advantage of possible synergies around their various human services, for example, by using child care as a gateway to employment, rent banks to prevent evictions. In other words, if it ain't broke, don't fix it.

It's Time to Focus on Sustaining the Future

Still, there are things that need fixing. To meet the new challenges that face us, social housing needs to do its part. Leading the way on energy conservation, helping new immigrants settle into our community, providing warmth in winter for our families, and a place to call home. Social housing is about reducing human misery, creating vibrant communities and that is far more compelling than an unnecessary re-organization.

If it would be a mistaken diversion for the province to take back housing responsibilities, it would be a larger failure for the Province to fail to address the problems it transferred. The right thing to do is to fix the down-loading of mistakes, not undo the devolution of responsibility.

7. Social Infrastructure Renewal

In 2003, the new Provincial government created the Ministry of Public Infrastructure Renewal (MPIR). MPIR was set up to oversee the Province's capital planning and allocations across government departments. For a time, housing took a place alongside health care, education, transportation, etc. There are many good reasons why housing reverted to the Ministry of Municipal Affairs and Housing. But the understanding that affordable housing is part of our social infrastructure should not be forgotten.

The promise of social housing, that it provides safe, affordable accommodation in open, mixed communities is sustainable for the most part, but its future is at risk. To-day the media points out how disinvestment in particular communities and individual buildings can become social problems. The remainder of this paper reminds us of how social housing strengthens our communities and how to treat it as a shared asset.

Social housing is embedded in our communities. Managed by 47 service managers, working with 1,600 housing providers in 455 municipalities and districts across Ontario who collectively manage the homes to some 275,000 households and 600,000 persons, social housing is part of the community fabric.

Its capital value is substantial. The replacement cost of our social housing stock is over $40 billion.[15] That reflects the investment by Ontario taxpayers over time, the volunteer contributions of the Boards of Directors, the time of co-op members, and the municipal staff who oversee it all. All homeowners know that delayed maintenance means doubled costs. Investing in our capital stock is cheaper in the long run than avoiding it.

Contributions to the economy. The trades who keep our housing in good repair live and spend in the local community. The bricks and mortar, the copper wires and pipes, the 2 by 4s, and sheets of drywall are all made in Ontario, supporting our resource and manufacturing sectors. When rents are affordable, tenants buy food and clothing from the retail sector. In areas with expensive housing markets, social housing allows employers with ready access to a nearby workforce. These diffused economic benefits are often under-recognized on government balance sheets.

Contributes to equal opportunity. When children live in a stable, safe home, they are better able to take advantage of our public education and learn the skills required by our emerging economy. Children from low income households should not be handicapped by over-crowded or unsafe housing. The dream of all Canadians is to provide their children with the opportunities and tools for success. Affordable rents can mean that families have the ability to pay for the extras such as music lessons, sports equipment, fees or even tutoring – as a means of promoting well-rounded citizens of tomorrow.

An investment in our communities. Social housing is about opening up choices for those who often don't have many. Social housing ensures that families have room to live, with space for privacy, rest and study. Seniors and the disabled are able to remain in their communities, in accessible housing, surrounded by families and friends. Children can afford to live close to their parents and grandparents, for the important support that families give each other. Safe, affordable housing is also a known determinant of health – which is to say that the investment in social housing can lead to healthier outcomes for individuals, communities and health care expenditures.

Provides leadership in energy conservation. The Province has made the creation of a conservation culture a top priority. Many non-profit providers are taking advantage of SHSC's Green Light Initiative to acquire energy-efficient appliances and upgrade to high energy conservation standards. This leadership in energy matters demonstrates a

[15] 275,000 units, including LHCs, with a replacement cost of $150,000 = $41.2B

viable path for the private rental landlords who operate the over-whelming share of rental housing in Ontario.

Creates Leverage for Community Renewal. Much of our older stock was built in or near downtowns, or on public transit routes. These remain excellent locations for redevelopment if a building has reached the end of its useful life. Through partnerships with local agencies and the private sector, new mixed-income communities can be developed to provide for the needs of today's families.

8. What do municipalities really want?

In a nutshell, we want the same thing as the province when it stated the goals of the Fiscal and Service Delivery Review: "any solutions must be consistent with the fiscal plans of both levels of government and must recognize the great diversity of Ontario's municipalities and regions. In addition, outcomes must be affordable, flexible, accountable, transparent, sustainable, and strategic and forward looking."

But more than that. The province should set the basic operating standards and principles, ensure that adequate resources are available, and then get out of the way. Connecting all the dots . . . the problems and the solutions . . . requires that both senior levels of government need to return to housing. Municipalities are best able to fulfill their role in delivering housing programs when the Province and the federal government are meeting their responsibilities.

Ignored, and treated as a liability, social housing will become just that. Treated as an asset, it will renew our capacity to serve present and future generations. The choice is clear.