The Fiscal Impact of Expiring Federal Social Housing Operating Subsidies

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Introduction

There is much discussion about the expiring of Federal Social Housing subsidy and the impact that this may have on low-income households that rely on subsidized housing.

Various advocates and organizations seek to present data quantifying the amount of annual reductions. This brief first sets the context then summarizes the data, based on official CMHC published information.

Understanding the context

Social housing, refers to dwellings in which rents are set at some below market level, and often on the basis of a percentage of the households' income (25%-30%). Social housing is owned and operated either by provincial housing corporations, or by nonprofit corporations and co-operatives. In total social housing totals about 700,000 homes and is roughly 5% of the countries total housing stock.[1] This was developed under programs prior to 1994, although subsidy is ongoing and now ending. Thus in reviewing the type of subsidy arrangement, the funding status as of December 31st 1993 is used in Table 1 below.

The vast majority of social housing was developed under joint federal-provincial/territorial funding programs, which provided both loans and operating subsidy. In most (59%) the federal government paid a larger share of the subsidy (50-75%), but there was an active provincial/territorial role and contribution.

A smaller proportion (41%) the total social housing stock was developed and operated without any provincial involvement (mainly from 1973-85) and roughly half of this involved only loans, with no ongoing subsidy. In total only 20% involving 133,100 homes was initially funded with only federal subsidy assistance.

Table 1: Distribution of Federal versus cost shared subsidy in Social Housing (at December 1993)

	Federal Unilateral	FPT Cost shared	Total
No Subsidy	132,830 (20.5%)	0	132,830
Subsidy	133,102 (20.6%)	380,360 (58.9%)	513,462
Total	244,263 (41.1)	380,360 (58.9%)	646,292

Source: Derived from Canadian Housing Statistics 1993 (Table 67), 1994 (Table 66)

In 1996 the federal government made a decision to negotiate agreements with the provinces and territories to transfer administrative responsibility. Federal funding would continue to flow, but frozen at the 1995/96 level. While provinces/territories therefore took on the risk of ongoing inflation in subsidy expenditures, these were initially more than offset by a downward trend in mortgage rates as renewing

[1] In total there are some 700,000 social housing units in Canada. This includes 630,000 constructed (or acquired) under a variety of federal and federal provincial programs as well as 65,000 created by
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mortgages experienced a reduction in mortgage payments and thus lower subsidy. The fixed federal share of ongoing subsidy flowed to the P/Ts, who took on the subsidy payment, oversight and agreement administration for non-profit and co-operative projects, in addition to continuing to manage provincial/territorial properties.

The P/Ts effectively took on subsidy responsibility but their gross speeding was reduced by receipt of federal transfers.

By 2000, eight of the then 12 jurisdictions had executed social housing transfer agreements. Nunavut subsequently took on their share when created from part of the former NWT in 2000 and BC signed on in 2006. So this transfers additional former federal units to PT administration (although still receive federal subsidy through to end of agreements).

As a result of the negotiation of these FPT Social Housing Agreements (SHA) in all but three jurisdictions (Alberta, Quebec and PEI), the federal responsibility for ongoing subsidies to social housing projects was transferred to the PT. So this transferred many of the unilaterally federally funded social housing homes to PT administration.

CMHC 2013 – CHS table 43) reports that as a result of both original cost sharing arrangements or subsequent administrative transfer (Social Housing Agreements) the vast majority of remaining social housing in 2013 is administered by the provinces and territories. PT administration covers 464,000 of the 543,000 units remaining under agreements (net of on reserve and RRAP); only 109,100 are funded exclusively by CMHC.

Table 2: Units under administration by CMHC (Dec 31, 2012)

Rental Assistance	4,600
Co-operatives	50,700
NP/UN/PH	24,050
RNH	200
Limited Dividend	252
On Reserve	29,300
Total CMHC	109,102

Source CHS 2013, Table 43

Of these 109,000 almost 30,000 of these are On Reserve, an area for which the federal government has exclusive responsibility. It is not clear how First nations will manage when these subsidies end.

Across the remaining 80,000 most are in programs that either have no ongoing subsidy (some sec 27 among the 24,000 NP) or have a subsidy under the mortgage differential program in which the mortgage is larger than the subsidy so at expiry viability will improve).

Only 8,200 unilateral federally funded urban native are seriously at risk. These involve 100% deep targeting as almost all are expected to have negative viability at the end of federal agreements.

Nature of subsidy design also impacts viability

For the residual federal units, just over half of these (37,000 non-profit and co-ops) involve a subsidy program in which the subsidy amount is calculated as a mortgage differential, based on a mortgage of 2% versus the actual rate (historically always higher). Because a mortgage at a rate higher than 2% is larger than one calculated at 2%, the amount of the actual mortgage payment always exceeds the amount of the subsidy (calculated at the 2% rate). As such, when these agreements and subsidies expire, the reduction in the mortgage payment is larger than the reduction in subsidy, yielding an improvement in project level net income. Thus over half of the residual federally funded units will not have any negative consequence as result of the terminating federal subsidy.

The main challenge will be among the aboriginal units – especially the 8,200 Urban Native. [2] There has been no indication from CMHC as to whether they have any willingness to renew or extend subsidy.

Termination of subsidy coincides with maturing mortgages

The other important aspect of the expiring federal subsidy is that in most cases subsidy agreements were written to match the period over which mortgage loan repayment was required. Providing housing with low rents did not generate sufficient income to cover the mortgage payment and operating expenses. Thus subsidies were (in most cases) required to ensure that projects owned and operated by P/T public housing corporations, non-profit corporations and co-operatives were able to manage mortgage payments alongside other operating costs.

As the underlying mortgages mature, there will be no further mortgage payments and thus need for less subsidy. This means that in many projects even with low-modest rents may generate sufficient rent revenues to cover remaining operating costs. However in some situations, and especially in cases where a high proportion of tenants in any property are very low income (as is the case in P/T owned public housing and in Urban Native projects – together accounting for roughly 215,000 units, approximately one-third of social housing) ongoing subsidy will be required.

However, as noted above the responsibility for ongoing subsidies falls mainly to provinces and territories (and in Ontario to municipalities). This means that unlike the federal government, which is walking away from any further involvements the P/Ts will have to sustain, and likely increase, current operating subsidies in order to ensure that lower income tenants do not face higher, unaffordable rents.

That is, 85% of the pre 1994 social housing is under the guardianship of the provinces and territories, who have mostly indicated they will sustain their share of

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[2] A small number of the post 1985 Urban Native portfolio is cost shared and thus under Provincial administration (Nfld, Que and Manitoba, totaling 2,050 units)

subsidy, which should preserve affordability for rgi tenants; and of those under federal administration fewer than 10,000 are likely to be at risk and require extension of subsidy in order to continuing housing low income households.

The issue is not so much that poor people will be directly impacted by declining federal assistance, because the Provincial and territorial housing ministries (and municipalities in Ontario) have indicated that they will step up to the plate and sustain assistance. The issue is increasingly one of an imbalance and unfair shift in subsidy expenditures onto the province and territories (and municipalities in Ontario).

This is another example of Federal social policy by stealth. Having induced the P/Ts into signing social housing agreements, largely on the backs of what were suggested as opportunities for savings under mortgage renewals, the federal government has gradually extricated itself from any ongoing fiscal responsibility. As the project level operating agreements and related subsidies terminate, the federal government has left the neighbourhood.

Unmet capital funding to sustain assets

In addition to having to cover any ongoing rising operating subsidies on the existing social housing where federal subsidy has ended, the P/Ts (and municipalities in Ontario) must also shoulder the burden of capital replacement on these aging assets.

Because the properties are 35-50 years old at the time of federal expiring subsidy, these structures are in need of significant capital renewal (roofs, parking garages, appliances boilers etc.). While some non-profit and co-op properties have some capital reserves to fund such items, in most these reserves are insufficient, and will need to be augmented by substantial new capital subsidy (or ongoing assistance to help carry refinancing).

Estimates of necessary capital investment can be developed premised on an industry norm of spending an amount equal to 2% of the asset value each year for capital renewal and modernization. Based on aggregate asset values, as provided by provinces and territories for a separate analysis, total capital investment in the amount of $1.3B is required in 2012/13 and this inflates to $1.7B over the 10 years to 2023. This entire amount falls on the shoulders of the PTs as the federal-CMHC transfers are fixed.

Notably, this amount is close to the total current federal subsidies that are declining.

Again the federal government has extricated itself from any additional funding responsibility.

The Fiscal Impact of Expiring Federal Social Housing Operating Subsidies

In order to identify the phasing of terminating federal subsidies data were obtained from CMHC in 2002 under an FOI request. This provided scheduled federal spending by province. The data included all PTs except AB and PEI. As of 2002, all provinces except BC, AB, QC and PEI has executed a social housing transfer agreement (BC signed agreement in 2006; the remaining 3 still have not done so).

CMHC continued to unilaterally administer its portfolios in jurisdictions without agreements, absorbing any ongoing inflationary increases in subsidy as well as any savings on mortgage renewals. In those jurisdictions that entered into agreements, they have taken on full responsibility for any inflating costs, but also have benefitted as interest costs on mortgages declined as mortgages have been renewing at lower rates since the mid 1990's.

Based on the scheduled reductions (for all except AB and PEI) the aggregate annual reduction in federal subsidy can be determined. In order to estimate the annual reductions, the planed reduction aggregated across the 10 jurisdictions for which data were available (note Nunavut had not yet been created) were used and calculated as a year-to-year percentage change from the base year (1995/96). This method implicitly assumes that the phasing in the two missing provinces (PEI and Alberta) matches the national average. Using the annual percentage reduction in federal subsidy transfers allows the annual and cumulative amounts to be readily calculated.

To complete the calculation the starting amount of subsidy from CMHC is used. CMHC published data in Canadian Housing Statistics provides the total federal expenditures by year. The basis for the transfer agreements was fiscal 1995/96. While CMHC ended funding for all new off reserve social housing as of Dec 1993, it continued to fund a new supply program on reserve as well as renovation programs, so annual federal spending continued to increase even as transfer agreements were being negotiated (and beyond).

Our focus here is on the expenditures linked to social housing commitments up to Dec 1993 (excluding on reserve). Total federal expenditures at the end of fiscal 1996 were $1, 848.5 million. This included $101.5 million for subsidies on reserve and $55.5 million related to earned forgiveness on renovation loans. Netting these out the net federal spending off reserve (1995/96) was $1,691.5 million. This is the base level used to determine the impact of declining federal subsidies as a result of terminating operating agreements.

Based on the scheduled declines, as presented in schedules to each province and territory, the aggregate declines from this base amount are determined. The table below presents the resulting estimates.

Appendix A: Planned Reduction in Federal Off Reserve Social Housing Spending

	Annual spending ($ Millions)	As % 95/96	Reduction from prior year	Reduction from base year (95/96)	Cumulative federal reductions over time
1996/97	$1,691.5	100%	$0.0	$0.0	$0.0
1997/98	$1,691.5	100%	$0.0	$0.0	$0.0
1998/99	$1,691.4	100%	$0.1	$0.1	$0.2
1999/00	$1,691.2	100%	$0.2	$0.3	$0.5
2000/01	$1,690.3	100%	$0.9	$1.2	$1.7
2001/02	$1,687.1	100%	$3.2	$4.4	$6.2
2002/03	$1,682.5	99%	$4.5	$9.0	$15.1
2003/04	$1,676.8	99%	$5.7	$14.7	$29.8
2004/05	$1,667.4	99%	$9.4	$24.1	$54.0
2005/06	$1,656.1	98%	$11.2	$35.4	$89.3
2006/07	$1,640.6	97%	$15.6	$50.9	$140.3
2007/08	$1,625.7	96%	$14.8	$65.8	$206.1
2008/09	$1,605.2	95%	$20.5	$86.3	$292.3
2009/10	$1,582.9	94%	$22.3	$108.6	$400.9
2010/11	$1,558.3	92%	$24.6	$133.2	$534.1
2011/12	$1,529.5	90%	$28.8	$162.0	$696.1
2012/13	$1,497.5	89%	$32.0	$194.0	$890.1
2013/14	**$1,457.0**	**86%**	**$40.4**	**$234.5**	**$1,124.6**
2014/15	$1,408.4	83%	$48.6	$283.1	$1,407.7
2015/16	$1,347.1	80%	$61.3	$344.4	$1,752.1
2016/17	$1,272.0	75%	$75.1	$419.5	$2,171.5
2017/18	$1,202.3	71%	$69.7	$489.2	$2,660.7
2018/19	$1,126.4	67%	$76.0	$565.1	$3,225.8
2019/20	$1,055.1	62%	$71.2	$636.4	$3,862.2
2020/21	$979.0	58%	$76.2	$712.5	$4,574.7
2021/22	$898.2	53%	$80.8	$793.3	$5,368.1
2022/23	$773.4	46%	$124.8	$918.1	$6,286.2
2023/24	$645.5	38%	$127.9	$1,046.0	$7,332.1
2024/25	$530.3	31%	$115.2	$1,161.2	$8,493.3
2025/26	$423.9	25%	$106.5	$1,267.6	$9,760.9
2026/27	$329.2	19%	$94.7	$1,362.3	$11,123.2
2027/28	$238.9	14%	$90.3	$1,452.6	$12,575.8
2028/29	$162.5	10%	$76.4	$1,529.0	$14,104.7
2029/30	$112.1	7%	$50.4	$1,579.4	$15,684.1
2030/31	$81.4	5%	$30.8	$1,610.1	$17,294.2

2031/32	$63.9	4%	$17.4	$1,627.6	$18,921.8
2032/33	$50.5	3%	$13.4	$1,641.0	$20,562.8
2033/34	$37.8	2%	$12.7	$1,653.7	$22,216.5
2034/35	$21.4	1%	$16.5	$1,670.1	$23,886.6
2035/36	$7.1	0%	$14.2	$1,684.4	$25,571.0
2036/37	$0.4	0%	$6.7	$1,691.1	$27,262.1

Source: Schedule "E" to Provincial –Territorial Social Housing Agreements (as provided under an FOI request to CMHC); and CMHC Canadian Housing Statistics 1998, Table 57 (Public Funds Authorized under the National Housing Act). Data complied by Steve Pomeroy, Focus Consulting Inc. Ottawa.

Reviewing the table it is evident that initial there was only a small reduction. This has grown exponentially reaching just over $100 million in 09/10 and double that by 2013. This is 86% of the starting level in 1995/96. Within 8 years federal spending will have declined by more than 50%.

Because subsidy levels vary by programs the number of units does not exactly match the spending reductions, but is quite close. Again, excluding on reserve and rental renovation units, the total units under administration and receiving federal subsidy in 1996 was 619,781. By 2001 the percentage still receiving subsidy had declined to 94% and was at 88% at the end of 2012 (similar to the 89% of subsidy as of March 2013).

Looking to the future the pace of units coming out from federal subsidy will roughly approximate the percentage reductions in federal funding.