ATTACHMENT 1

SOCIAL HOUSING IN ONTARIO

A Discussion Paper of the Service Manager Housing Network

CAPITAL RESERVES

Introduction

Service managers are proactively pursuing the issue of looming capital replacement liabilities in social housing - costs that are beyond the municipal capacity to absorb. It's a major issue for service managers because they are on the front line legally and financially, and most acutely aware of the consequences of failing to adequately maintain existing social housing.

This paper explores the current status of capital reserves in social housing from needs, accountability and funding perspectives. Service managers will not shirk their responsibility to do everything possible to retain the housing stock. They make recommendations that encourage investment from all levels of government - an investment that cannot realistically be borne exclusively by the property tax base. The Association of Municipalities of Ontario has endorsed the positions set out in this paper.

Social Housing is a valuable asset that requires the focus of all levels of government

Canada's supply of social housing is a valuable asset - one of which all levels of government have a responsibility to preserve. This housing makes the difference between misery and stability for countless or our most vulnerable citizens and will continue to do so for many decades to come.

The cost of reasonable maintenance will be overwhelmed by the cost of deferred repairs and replacement. But the indirect costs in other parts of our "safety net" will be vastly larger, knowing the stability that this housing represents to hundreds of thousands of tenants and the foundation it provides for people's well-being. Loss of any of this stock can only put additional stress on the already growing pressures on expenditures for homelessness, health, the justice and corrections systems and education.

Each level of government has a vested interest in containing and solving this problem.

Over the course of decades, the federal government has invested billions in an array of housing programs. The federal government has thankfully begun to fund new affordable housing supply measures and committed to funding assistance for both supply and demand in the form of rent supplements. Again, any losses from the existing social housing stock will increase the pressure for more costly new initiatives.

Provincial governments have jurisdiction over most of the components of the social safety net. The effectiveness of those programs will diminish, and their costs will increase if access to social housing is further restricted because of stock losses.

Affordable housing for a full range of households is crucial to municipal competitiveness. Thus while threats to the existing stock will surely land on service managers' doorsteps in the first instance, at least in Ontario, actual losses could be quite damaging to municipal economies.

SERVICE MANAGER HOUSING NETWORK

The Service Manager Housing Network links the staff responsible for administration of social housing in the 47 service managers across Ontario. Established last year to replace the Ontario Regions Social Housing Group, the network is intended to facilitate communication among service managers and their partners, to promote professional development amongst its members and to manage and advise on social housing policy and program issues from the service managers' perspective.

The network is a two-year pilot project permitting service managers to explore the role of social housing as a local community service and promote stronger relationships with stake-holders such as the Social Housing Services Corporation (SHSC), the Ontario Municipal Social Services Association (OMSSA), the Co-operative Housing Federation of Canada (CHFC) and the Ontario Non-Profit Housing Association (ONHA).

For information please contact the chair of the Network, Rob Cressman at (905) 825-6000, ext. 4445.

Capital reserve funds are inadequate - a situation that will only wo

The most direct, rapidly emerging threat to the viability of existing social housing is the inadequacy of replacement reserve funds held by individual projects. Annual contributions to reserves set in the past by program rules were not realistic. The cost to catch up over the next ten years is conservatively estimated at approximately $450 million in present value terms.

Neither housing providers nor the senior levels of government had sufficient motivation in the past to undertake rigorous analysis of project capital needs. But in Ontario, service managers, confronting a new regime of liabilities and accustomed to long-term capital budgets and reserve funding, have done the work and consistently found that project reserves will be widely depleted in just a few years.

Some service managers have already received requests from housing providers to pay for repairs beyond the capacity of the housing providers' reserve funds. While totalling into the millions, these requests are just the tip of a huge iceberg.

The Social Housing Services Corporation (SHSC) canvassed service managers regarding their building condition audits and reserve fund studies. The results of those completed to date are fairly uniform - and quite disturbing:

- Current reserve contributions range from $424 to $624 per unit per year for former provincial housing providers, and $389 to $424 per unit per year for former federal housing providers.
- Fifty-five percent of former federal housing providers will deplete their reserve funds in the next five years, 36 percent in the next 10 years, and none will make it past 15 years with any capital reserves.
- Many former provincial housing providers will deplete their reserves in the next five years and the bulk of depletions will occur in the 6- to10-year and 11- to 15-year timeframes, with very few projected to make it to the end of the 30-year forecast with a positive reserve fund balance.
- Non-profit projects would require an average of $1,225 per unit per year in present-value dollars to avoid negative reserve balances, or an increase of $600 to $700 per unit, per year from current contribution rates.

Funding responsibilities for all social housing costs in Ontario have been transferred to municipalities, which rely on a stressed property tax base.

Finding sufficient money to undertake needed capital repairs was generally not a problem when programs were still administered directly by the federal and provincial governments, which could and did step in to provide assistance as shortfalls arose. However, Federal/Provincial Social Housing Agreements not only transfer the risk of federally administered projects to the provinces, but establish a declining schedule of federal dollars to support those projects. In Ontario, the risk associated with provincially administered projects has been passed to municipal service managers with unsubstantiated assurances of fiscal neutrality.

Municipalities do not take account of these liabilities in isolation. There are many other social housing program risks looming. These obligations have been imposed by statutes, leaving municipalities no choice but to add the burden to an increasingly stressed property tax load. In addition, there have been other programs downloaded and other cost sharing formulae skewed against municipalities. The property tax pressures municipalities experience clearly undermine their ability to properly fund a program ultimately seen as income re-distributive in nature.

The substantial financial exposure associated with depleting reserve funds is at least reasonably quantifiable. But that does not necessarily make it easier to plan for, since so many other future program costs are less certain. Other direct and indirect risks include the following:

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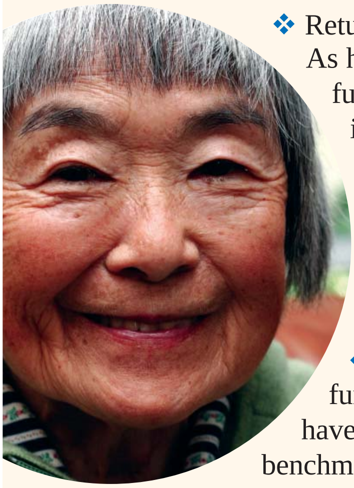

❖ Return on investment of reserves - As housing providers' reserve funds are depleted, the pooled investment of those reserves would become more costly and be unable to command the same rates of return, meaning even fewer dollars available for actual remediation.

❖ Benchmarking and the new funding model - Many issues have arisen with the issued benchmark numbers and the general service manager consensus is that subsidies will increase beyond what is actually required. With benchmarks in place, the new funding model will finally have a chance to be tested. Substantial uncertainty exists as to its long-term viability.

❖ Mortgage rates - Mortgages have nowhere to go but up, which could quickly offset any savings to date.

❖ Utility costs - Utility cost increases will likely exceed other operational indices, pushing up operating subsidy demands.

❖ Rent-Geared-to-Income (RGI) revenues - Incomes of low income households are not keeping pace with costs, translating into higher RGI subsidy demands. This is a serious concern for projects or portfolios with a high percentage of RGI residents.

❖ Pooling of social housing costs in the GTA - GTA pooling inherently runs counter to seeking program savings, provides a disincentive to invest in the existing programs because benefits do not accrue locally, and places pressure on some Councils to under-spend locally because of concern for the overall social housing financial obligations.

❖ Regulatory changes - New legislation and regulations (e.g. Fire Code, drinking water, access for people with disabilities, etc.) are becoming more frequent and imposing or threatening to impose costly retrofit expenses.

❖ Maturing mortgage and expiring subsidies - Whether covered by formal operating agreements or not, individual housing projects will experience the termination of current subsidy arrangements at an accelerating pace over the coming years. Federal and municipal funders will have dollars freed up, which will provide opportunities for needed assistance. With offsetting termination of mortgage obligations, many projects will be self-sustaining. But many others will face ongoing needs for capital assistance or RGI subsidies, with service managers being the first place that housing providers turn for help.

❖ Community Reinvestment Fund (CRF) - With the revamping of the CRF into the Ontario Municipal Partnership Fund, the housing component was frozen at the 2002 billings level and did not reflect municipal administration costs, increasing budgetary pressures on recipient service managers.

❖ New supply - Participation in new affordable housing supply initiatives has and presumably will demand municipal financial supports, forcing painful decisions between setting aside funds to protect the existing stock and trying to create early relief from growing waiting lists.

Service managers are initiating risk mitigation strategies…but are they enough?

While it is clear that additional financial support from the senior levels of government will be necessary, Ontario's service managers are committed to doing what they can to mitigate the risks. Among the strategies already underway or being explored include:

- **Return on investment of reserves -** Service managers are working to ensure full compliance with requirements for pooled investments. The SHSC has already been successful in attracting non-prescribed investments and is broadening its marketing in that regard. Increasing the size current funds will decrease costs and defer depletion. SHSC is working on provider education to better match individual investment practices with actual capital needs.

- **Utility costs -** Service managers, housing providers, and the SHSC are piloting energy consumption analyses and project retrofits, tapping into new sources of capital funding.

- **Maintenance and prevention -** Service managers and housing providers are working toward best practice models for preventative maintenance, the provision of technical support, and associated training.

- **Emergency stabilization fund -** More and more service managers are establishing funds to deal with periodic building reviews, capital repairs and emergency capital funding requests.

- **Professional development/accreditation -** There is wide acceptance that there needs to be clearer standards for property managers and associated staff, possibly leading to an accreditation process to provide stronger assurances that maintenance and capital planning activities are competently undertaken.

- **Refinancing -** The potential to tap into project equity through refinancing or re-leveraging existing assets is being reviewed, together with the legal and policy changes that would be necessary to make this happen.

- **Responding to housing providers -** Discussion has begun on policies to be used in responding to housing providers' request for financial assistance for capital replacement beyond their ability to meet through reserves.

As service managers develop mitigation strategies, they will be working with each other to share knowledge with a view to ensuring comprehensive and effective approaches. Consultation with housing sector associations and other key stakeholders such as the SHSC and Ontario Municipal Social Services Association will likewise be essential. The Canadian Mortgage and Housing Corporation and provincial Ministry of Municipal Affairs and Housing staff will need to be engaged in these discussions - not just to contribute knowledge and ideas, but to move the required regulatory and policy levers.

No matter how successful service managers are in mitigating the risks and the local financial impacts of capital replacement needs, the problem requires the federal and provincial governments to share in solutions. This means that both levels of governments will have to reverse the legal, financial and philosophical directions established in the past through the Federal/Provincial Social Housing Agreements and the Social Housing Reform Act in Ontario. While budget and campaign pledges to foster new affordable housing are welcomed, federal and provincial rhetoric about "getting back into the housing business" must extend to the existing social housing stock.

The provincial and federal governments did the right thing in helping to create social housing in the first place. Now they need to do the right thing by joining in partnership with municipalities to protect their investments.

Compiled by the Regional Municipality of York (Community Services and Housing Department) for the Service Manager Housing Network (SMHN), a network for service manager staff who deliver publicly funded housing programs across Ontario. Thanks to the writing team of staff from Peel, Halton, Durham, Toronto, London, Peterborough, Waterloo, Simcoe County, Thunder Bay, Greater Sudbury, Rainy River, Niagara, Nipissing, the Social Housing Services Corporation and the Ontario Municipal Social Services Association. For more information, please contact Rob Cressman (SMHN), Chair at (905) 825-6000, ext. 4445.