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2008 HOUSING PROVIDER BUILDING REPAIR FUNDING PLAN

The Community Services and Housing Committee recommends the adoption of the recommendations contained in the following report, March 13, 2008, from the Commissioner of Community and Health Services, with the addition of Recommendation Nos. 6 and 7 as follows:

6. That Regional Council authorize staff to proceed, subject to confirming and maximizing available funding from recently announced provincial initiatives.

7. That staff be requested to report back on any required refinements to this policy.

1. RECOMMENDATIONS

It is recommended that:

1. The Commissioner of Community and Health Services be authorized to approve advances of additional subsidy pursuant to section 111 of the *Social Housing Reform Act*, *2000*, to a housing provider for building repairs of up to $500,000 in aggregate, subject to availability of funds in the approved budget. The Commissioner be authorized to approve and execute on behalf of The Regional Municipality of York all required subsidy advance documents and agreements, subject to prior review by Legal Services.

2. The Commissioner of Community and Health Services together with the Commissioner of Finance be authorized to jointly approve secured loans to a housing provider where building repairs will exceed $500,000 in aggregate, subject to availability of funds in the approved budget. The Commissioners be authorized to jointly approve and execute on behalf of the Region all required loan and security documents and agreements, subject to prior review by Legal Services.

3. Annual commitments made, through an executed “Additional Subsidy Agreement” or secured loan agreement to housing providers to fund their required building repairs, that remain unspent at the end of the Region’s fiscal year be contributed to the Region’s Non-Profit Housing Capital Repair Reserve fund and withdrawn, as required, in future years to fulfil the funding commitments made to the housing providers under these agreements.

4. Staff review these authorities in the context of recommendations that will arise from the Provincial Municipal Fiscal and Service Delivery Review and report their findings to Council.

5. Staff report annually advances of additional subsidy and secured loans made in support of building repairs.

2. PURPOSE

This report seeks approval for a strategy to fund essential building repairs through advances of additional subsidy and loans secured by collateral mortgages to housing providers who lack sufficient capital reserves themselves to fund these necessary repairs. This report also recommends that this strategy be reconsidered in the future context of recommendations that will arise from the Provincial Municipal Fiscal and Service Delivery Review. The attachment to this report is to be considered in a closed session of Committee and Council because its subject matter pertains to the security of property and certain information contained within this report is advice that is subject to solicitor-client privilege.

3. BACKGROUND

3.1 Social housing buildings are a valuable community asset

The Region currently owns or administers 72 social housing complexes with a total of about 6,000 social housing units.

In addition to the services that social housing delivers to seniors, limited income families, and residents with disabilities, the portfolio is a significant property asset with total property tax assessment value of about $500 million. If the Region had to replace these units with new construction, it would cost approximately $1 billion.

3.2 Social housing providers don’t have enough capital reserves to keep their buildings in good repair

Social housing providers are required to contribute a portion of their annual revenues into reserve funds for capital repairs. However, the Social Housing Program does not provide sufficient funding to sustain Capital Reserves as a viable strategy.

The Region identified this risk when the Province was preparing to transfer Social Housing Programs to Service Managers. In 2001 and again in 2005, the Region commissioned Building Condition Assessments and Reserve Fund Studies to quantify the risk. In June 2006, Council received a report summarizing the results of the Building Condition Assessments and Reserve Fund Studies. The cumulative funding shortfall to 2020 was projected at $65 million.

Several housing providers have already depleted their reserves and almost all housing providers are expected to fully deplete their reserves by 2020.

3.3 The Provincial Municipal Fiscal and Service Delivery Review should consider housing providers' capital funding needs

The Provincial Municipal Fiscal and Service Delivery Review has requested the Ministry of Municipal Affairs and Housing to reliably quantify the need for additional capital funding. The Ministry, in turn, partnered with the Social Housing Services Corporation to conduct a comprehensive capital needs survey of housing providers and Service Managers. The surveys were completed in mid-January 2008, with rolled-up results expected in February. Municipalities continue to press the Province to address this funding responsibility as part of the Review process.

4. ANALYSIS AND OPTIONS

4.1 Housing providers can only ask the Region for building repair funds

The federal and provincial governments do not provide additional capital repair funding. Housing providers are legally prohibited from renegotiating or extending their mortgages. The Region, as Service Manager, remains the principal source of capital funding for housing providers.

The Region has implemented a number of measures to ensure effective use of housing providers' existing capital reserve funds and to optimize housing provider capacity to fund necessary work. These measures have resulted in significant savings through expert advice, planning, surplus retention programs and training and education.

However, there are seven housing providers with depleted capital reserves who will require assistance from the Region to complete necessary building repairs in 2008. Of these, four received funds from the Region in 2007. A new capital funding plan is now necessary to ensure that these and other providers maintain safe and sustainable facilities.

4.2 Proposal for a building repair funding plan

Housing Services Branch proposes a funding mechanism whereby:

- Funding is made available to housing providers through an advance of additional subsidy for repairs under $500,000 and through a secured loan for repairs over $500,000.
- Housing providers must meet specific project criteria.
- Funds are paid back to York Region.

4.3 Criteria to fund a repair project

In order to qualify for regional assistance, a housing provider must demonstrate that the capital work proposed is necessary, that the proposed remediation is the most cost effective approach, and that the work cannot proceed without financial support. Regional staff perform site assessments and work with identified housing providers to obtain any technical reports required to determine the appropriate scope of work and project budgets. The housing provider's need for additional funds is determined after considering whether the proposed repair or replacement meets at least one of the following criteria:

- Repairs are required to address a health and safety or regulatory standard, *(e.g. repairing sink holes in a parking lot).*
- Repairs are required to prevent deterioration of the asset, *(e.g. caulking windows to prevent water penetration and mould growth).*
- Building elements have reached the end of their useful life and bulk replacement is more cost effective than replacing individual components as they fail. *(e.g. furnace, appliance or window replacement).*

The private attachment to this report (*see Attachment 1*) lists the seven housing providers identified as requiring regional assistance in 2008 and provides an overview of the work required, with tentative project budgets. The actual allocation will depend on the funds available in the approved 2008 Operating Budget and upon the outcome of project specification work and tender processes. The attachment is provided to Council in private in order to ensure that the proposed allocations remain confidential until the necessary authorities, legal agreements, budgets and tenders are approved.

4.4 Providing building repair funding preserves the assets and increases the Region's capacity to fulfill long-term program obligations

Under the *Social Housing Reform Act, 2000*, housing providers will eventually be released from all program obligations, presumably as their mortgages retire. However, there is no corresponding provision that eliminates the Region's obligation to maintain the mandated number of rent-geared-to-income units. Providing funding through secured loans that extend housing providers' program obligations improves the Region's long-term capacity to meet service level standards.

The Region continues to invest millions of dollars in the social housing portfolio through mandated annual operating subsidy payments. Housing providers must have a means to access additional capital funding if these valuable assets are to be preserved. Securing the incremental capital investment by registering a collateral mortgage against title gives the Region greater control over the long-term disposition of the portfolio. Housing providers will be obliged to continue to participate in the social housing program until the collateral mortgages are discharged. In the event a housing provider is ultimately unable to repay the debt, the Region will have the option of acting on its security.

4.5 York Region provides funds through a subsidy advance or a secured loan

Additional subsidy advances

The *Social Housing Reform Act, 2000* empowers the Region to provide advances of additional subsidy with appropriate terms and conditions without the consent of the Minister. As an interim measure, subsidy advances provide a mechanism to address emergency work, to support smaller projects or to facilitate the first stages of a larger project. It is proposed that advances of additional subsidy apply to amounts not exceeding $500,000.

Repayment is guaranteed through the nature of the fund as a subsidy payment whereby the Region controls the providers' flow of subsidy payments.

Loans secured by collateral mortgages

The following conditions are proposed to provide capital funding to housing providers where the funding exceeds $500,000:

- Registration on title of an assignment of rents, general security agreement and collateral mortgage ranking behind the primary lender's first mortgage, subject to Ministerial Consent.

- Repayment beginning when the Region determines the housing provider has the financial capacity to pay or at the latest upon retirement of the first mortgage.

- Interest rates set in consultation with the Commissioner of Finance, based on the Social Housing Services Corporation Capital Reserve Fund investment pool returns.

- Requirement for the housing provider to continue to comply with social housing program obligations until the loan and all accrued interest is paid in full with a prohibition against third party refinancing or sale without the Region's written consent.

- Requirement to submit annual capital plans for regional approval and to spend only in accordance with the approved plan until the loan and all accrued interest is paid in full.

Appropriate controls and accountability

All housing providers who receive additional funds through either a subsidy advance or a secured loan are required to submit annual capital plans for the Region's approval and may only spend their Capital Reserve Funds on approved projects until such time as the funds and any applicable interest are repaid in full.

When a housing provider performs capital work funded through a subsidy advance or a secured loan, regional staff closely monitor tendering processes, contract awards, site work and payments. If the housing provider is at risk of insolvency or otherwise unable to ensure that work is completed in a timely and appropriate manner, the Region may appoint a Receiver and Manager to operate the housing project and undertake the work on the housing provider's behalf.

Repair projects of the nature typically required by housing providers typically have a longer procurement cycles due to the value of the work being undertaken, as well as longer delivery and installation timeframes for building systems (furnaces) and other upgrades. Some work, such as roofing and other exterior work may also be subject to restrictions due to weather conditions. Under the agreements, the Region only makes payments to housing providers, as required, to pay project related invoices as the work is completed.

Each year as part of the budget process, staff will identify housing providers likely to require additional funding to complete necessary capital work in the upcoming year for inclusion in the annual budget process. Each year staff will also report to Council on the prior year's loan and/or subsidy advance activity.

5. FINANCIAL IMPLICATIONS

Building Condition Assessment and Capital Reserve Fund studies completed in 2005 projected that housing providers' additional capital funding requirements will total approximately $65 million by 2020. Providing necessary funding will preserve the social housing buildings for current and future residents while giving the Region greater long-term control over the social housing portfolio.

The approved 2007 Operating Budget included $757,000 to fund capital repairs for housing providers with insufficient reserves to address pressing repair requirements. The 2008 Operating Budget proposes $1.8 million for this purpose.

Capital repair work may not always be completed in the same fiscal year as the funding commitments were made, however the Region has an obligation to fulfill the funding commitments in a future year as the work is completed. Funds allocated from the Region's annual operating budget, may not be carried forward or expensed in a current fiscal year for work not completed by year end. The unspent funds collected for this purpose can be contributed to the Non-Profit Housing Capital Repairs Reserve at year end and withdrawn as needed to fulfil the funding commitments and ensure there is no additional tax levy impact in a future year.

6. LOCAL MUNICIPAL IMPACT

Social housing buildings are located in every local municipality. Thousands of York Region residents live in social housing communities and thousands more are on the waiting list. Well maintained buildings are an important community asset. If housing providers aren't able to access the funds needed to maintain their buildings, vulnerable residents could find themselves living in substandard or unsafe housing and surrounding neighbourhoods could be negatively impacted.

7. CONCLUSION

Social housing is a valuable community asset. York Region's social housing portfolio has an assessed value of approximately $500 million and a replacement cost of approximately $1 billion. In order to preserve these assets for long-term use, housing providers require additional funding for capital repairs.

This report describes strategies undertaken to mitigate housing provider capital reserve fund shortfalls and to increase regional control over housing providers' capital spending. It also requests approval for subsidy advance and secured loan vehicles to lend housing providers money for capital repairs in 2008 pending completion of the Provincial Municipal Fiscal and Service Delivery Review.

For more information on this report, contact Sylvia Patterson, Director, Housing Services at Ext. 2091.

The Senior Management Group has reviewed this report.

(The confidential attachment referred to in this clause was included in the agenda for the March 19, 2008 Committee meeting.)