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SOCIAL HOUSING BUILDING CONDITION ASSESSMENT AND CAPITAL RESERVE FUND STUDY RESULTS

The Community Services and Housing Committee recommends adoption of the recommendations contained in the following report, May 25, 2006, from the Commissioner of Community Services, Housing and Health Services:

1. RECOMMENDATIONS

It is recommended that:

1. The Regional Chair request a meeting with the provincial Minister of Municipal Affairs and Housing to discuss the requirement for provincial funds to address the projected cumulative Social Housing Capital Reserve Fund shortfall of $65 million that will be incurred over the next 15 years.

2. Staff report back in the fall with options to mitigate the projected Capital Reserve Fund shortfall.

3. The Regional Clerk forward this report to the Minister of Municipal Affairs and Housing, local MPs and MPPs, the Chief Administrative Officers of other Service Managers, the Association of Municipalities of Ontario, the Ontario Municipal Social Services Association, the Ontario Non-Profit Housing Association and the Co-operative Housing Federation—Ontario Region for information.

2. PURPOSE

The purpose of this report is to inform Committee and Council of the results of the recently completed Building Condition Assessment study of the social housing portfolio and to recommend that the Region engage the Province in discussions regarding funding of the projected Capital Reserve Fund shortfalls.

3. BACKGROUND

The social housing portfolio is a valuable community asset. The estimated property tax value of the nearly 6,000 units owned or administered by the Region exceeds $500 million and the replacement cost of those buildings is close to $1 billion. Furthermore, the portfolio assets provide affordable housing for entry level workers and in-place support for Regional initiatives such as rapid transit. The continuing value of this asset to the Region is dependent on ensuring these properties are safe, efficiently operated and in compliance with regulatory standards.

A Building Condition Assessment (BCA) is an important aid to effective long-term capital planning. The BCA is a visual inspection of all major building elements conducted by technical experts. The purpose of the BCA is to assess the condition of building elements and estimate remaining useful life. The remaining life span of each component is then used to project future replacement costs and required cash flow. The Capital Reserve Fund (CRF) study compares the cash flow required for future replacements to the actual cash flow the housing provider's reserve fund will support.

BCA and CRF studies need to be updated periodically. The industry practice for condominium and rental housing is to conduct BCA and CRF studies every three to five years. BCA and CRF studies were completed for the social housing portfolio in 2001 in anticipation of the transfer of social housing from the Province to the Region.

In 2005, a Request for Proposal (RFP) to conduct BCA and CRF studies for the social housing portfolio was issued. The successful proponent, the Stonewell Group, performed visual inspections of the social housing stock and prepared detailed reports for each housing provider, as well as an aggregate report. The CRF studies indicate that housing providers will have insufficient reserves to adequately maintain their buildings over the life of their mortgages. The projected cumulative funding shortfall over the next 15 years is expected to total $65 million and likely grow to more than $200 million in 25 years.

3.1 Responsibility for Capital Funding Shortfalls

Under the *Social Housing Reform Act, 2000* (SHRA) housing providers are responsible for maintaining their properties. Current revenues of housing providers are unlikely to be sufficient to fund additional debt servicing costs. Housing providers may apply to the Region under section 111 of the SHRA for an additional subsidy. The Region has the sole discretion to make an additional subsidy payment to the housing provider. The Region has no legal obligation under the SHRA to fund capital shortfalls of housing providers.

However, given the projected capital requirements of housing providers in the Region, in the event that a significant number of housing providers were unable to sustain their buildings, there is a potential domino impact in that the Region, as Service Manager, would be unable to maintain its service level mandate targets for housing for rent-geared-to-income households, which it is required to meet under the SHRA. To meet these targets, the Region needs housing providers as program delivery agents. As such, the Region has an interest in ensuring the continued viability of housing providers.

3.2 Association of Municipalities of Ontario (AMO) Response

AMO has been working with the Service Managers' Housing Network (SMHN) to raise the profile of this issue with the Province. *Attachment 1* is a Capital Reserves Discussion Paper produced by the SMHN and endorsed by AMO reflecting Service Managers' concerns.

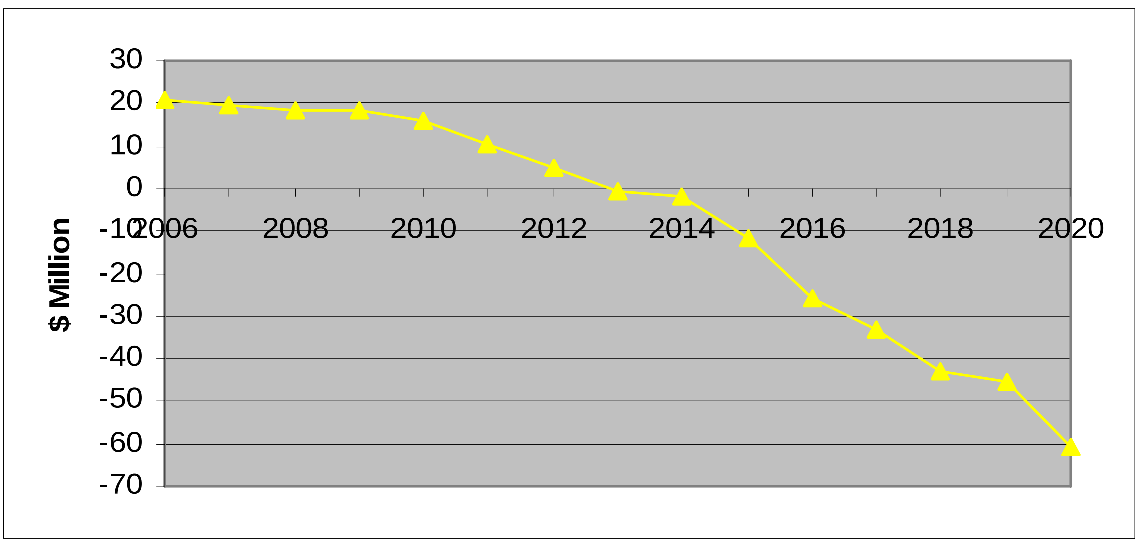
4. ANALYSIS AND OPTIONS

4.1 Social Housing Portfolio Overview

All non-profit and co-operative housing providers were required to establish capital reserve funds in their first fiscal year of operation and to make prescribed contributions every year thereafter. Reserve fund contribution levels were set by the Province as part of the housing provider's annual budget process. For several years, the Province imposed a moratorium on reserve fund contributions as a cost control measure. Current reserve fund contribution levels were mandated by the provincial benchmarking exercise, based on historical contributions. Generally speaking, housing providers in the Region developed under older federal housing programs have more appropriate reserve fund levels than those constructed under provincial programs. However, federal housing providers account for less than 15% of the total social housing stock.

Due to historical program funding practices, there is considerable variation in the reserve fund levels of non-profit and co-operative housing providers. However, an overview of the aggregate reserve funds across the portfolio gives a general indication of the magnitude of the issue as illustrated in Table 1.

Table 1
Housing Provider Reserve Balance Overview
2006–2020

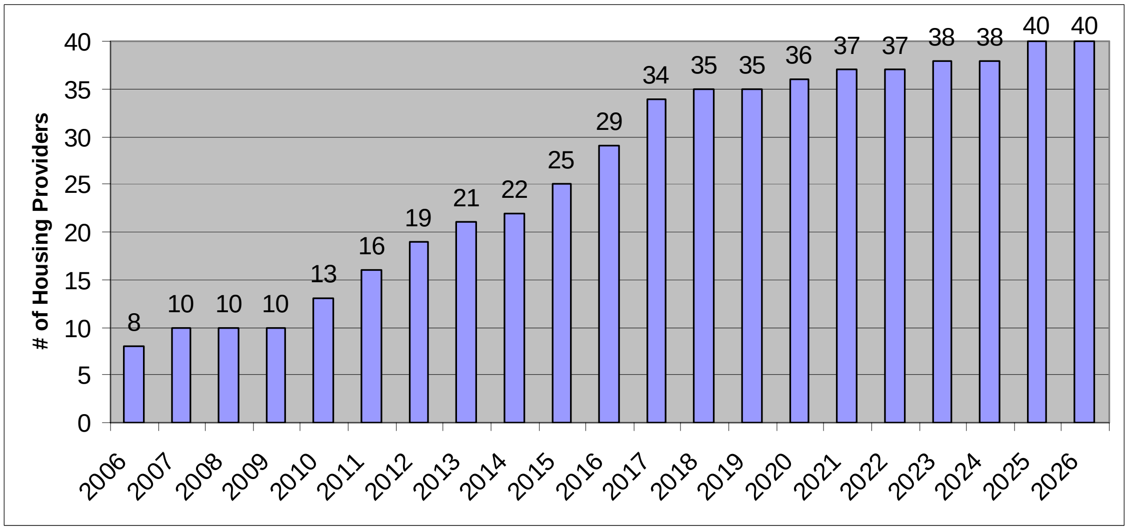


4.2 Social Housing Capital Funding Shortfalls

4.2.1 Projected Depletion of Housing Provider Reserves

Most of the Region's housing providers, including Housing York Inc. (HYI), will exhaust their reserves within the next fifteen years. All but one housing provider's reserve will be depleted within 20 years. Two housing providers already require additional funding to address capital repairs and others will follow in short order, beginning in 2006, as illustrated in Table 2.

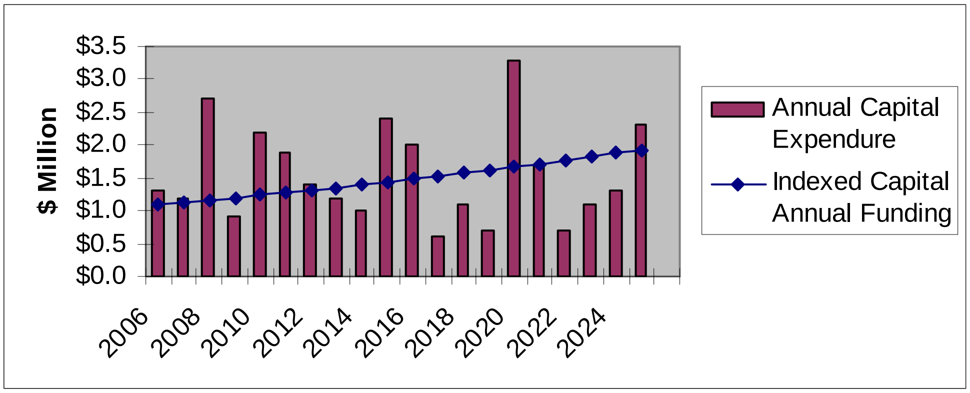
Table 2
Cumulative Housing Provider Reserve Depletion Projections



4.2.2 Public Housing Capital Requirements

The public housing portfolio, formerly a local housing corporation under the Ontario Housing Corporation and currently owned and operated by HYI, has never had a capital reserve. Instead, a capital budget was established and funded annually. In accordance with the SHRA, the Region continues to fund the capital requirements of the public housing component of HYI in this manner. The existing funding level, indexed over time, is reasonably reflective of the projected capital requirements. As capital requirements fluctuate from year to year in relation to the building life cycle, some years more funding will be required and in other years less funding will be required. However, it is management practice to manage work schedules and expenditures to even out the curve so that workload and expenditures remain reasonably consistent year over year. The projected annual funding requirements in relation to indexed current funding levels are depicted in Table 3.

Table 3
Comparison of Projected Public Housing
Annual Capital Funding and
Annual Capital Expenditure Requirements



4.3 Projected Annual Capital Funding Requirements

The combined annual capital funding requirements for social housing providers with depleted reserves and for public housing (requirements in excess of current indexed funding) are depicted in Tables 4 and 5.

Table 4
Total Annual Capital Funding Requirement
(in excess of current indexed costs)
2006–2010

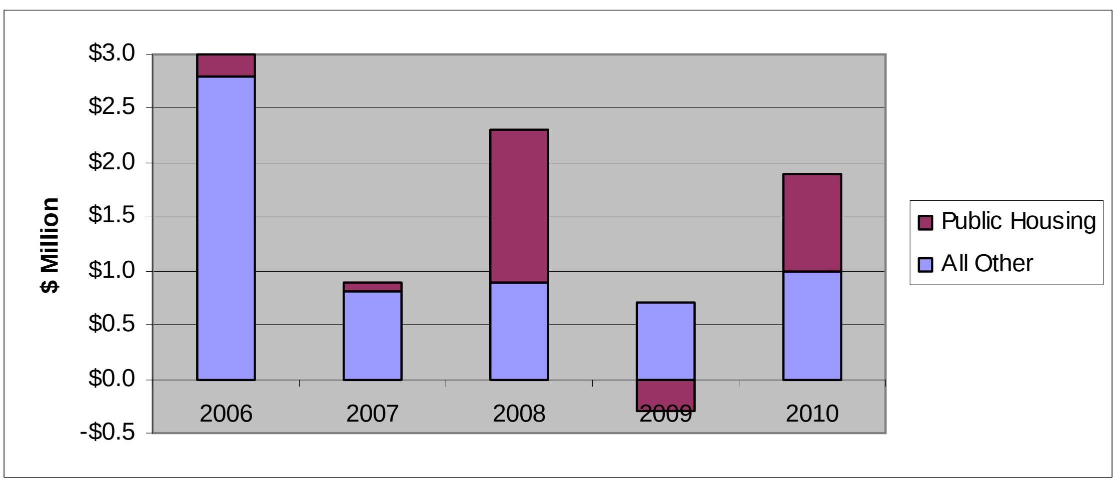
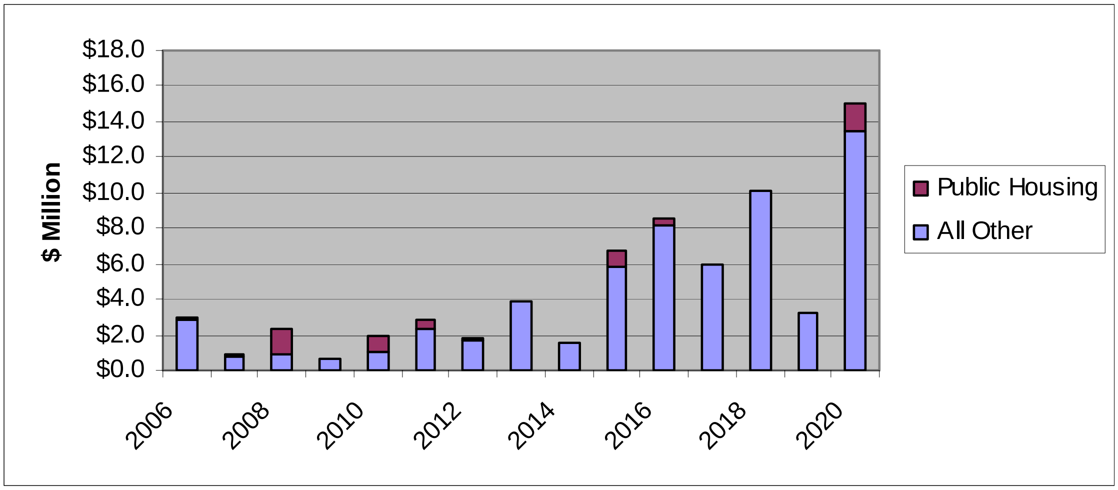


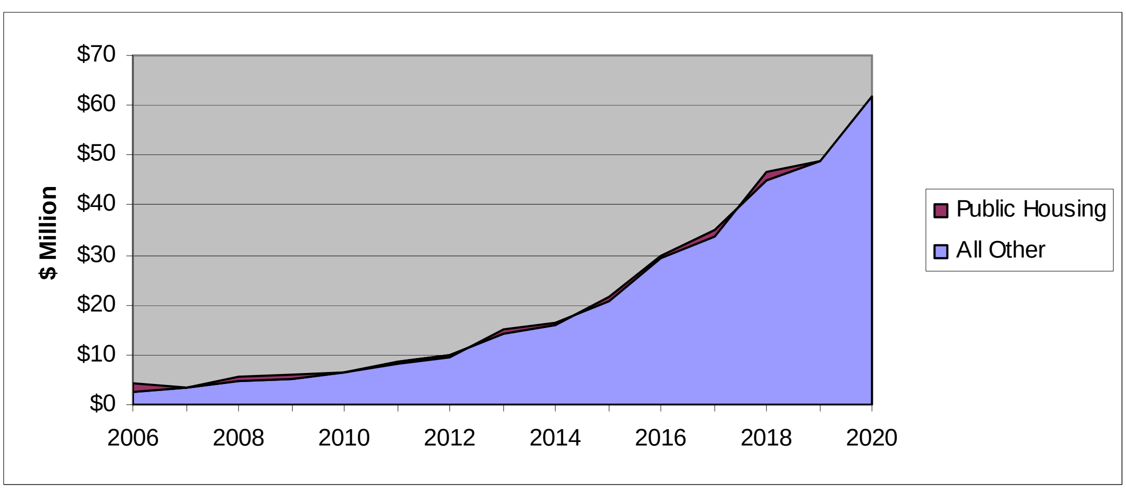
Table 5
Total Annual Capital Funding Requirement
2006–2020



4.4 Cumulative Impact of Capital Funding Shortfalls

Over time, more and more housing providers will deplete their reserve funds and require additional funds to maintain their buildings. At the same time, the cost of maintaining the public housing stock will increase slightly faster than inflation. The cumulative impact of these increased capital funding requirements is significant, with a projected total of $65 million in just 15 years as illustrated in Table 6.

Table 6
Cumulative Capital Funding Requirement
2006–2020



5. FINANCIAL IMPLICATIONS

At present, housing providers have little or no means to fund their capital reserve shortfalls without recourse to the Region. Very few providers are currently in a positive equity position. In many cases, a provider with sufficient equity to warrant debt financing of capital repairs would require additional operating subsidy to support the debt servicing costs. In any event, even if a provider can financially sustain additional debt financing, consent from the Region and the Province is required before a housing provider can further encumber their property in any manner. The Province's current practice is to seek indemnity from the Service Manager before permitting additional encumbrances.

The Social Housing Reserve Fund has a balance of $52 million. Currently the reserve is being used to fund both repairs and to provide necessary equity contributions for new housing initiatives, and as currently established and funded, will be inadequate to meet future needs.

The Province could consider a number of options to stabilize housing providers for the long term, including:

- Providing additional funding to the Region or individual housing providers.
- Providing access to debt financing:
  - Allowing first mortgages to be renegotiated and extended.
  - Subsidizing debt servicing costs or deferring repayment until retirement of first mortgages.
  - Guaranteeing second mortgages and including them in the social housing mortgage pool to achieve optimum interest rates.

Whatever the solution to be implemented, given the immanence of housing provider reserve depletion, it is incumbent upon the Province to move quickly to work with Service Managers to ensure the long term viability of the social housing portfolio.

The Region could also implement mitigation strategies to defer or reduce housing providers' capital reserve costs. A report outlining potential strategies will be presented for consideration by Committee and Council in the fall 2006. Strategies could include:

- Providing technical support to housing providers to improve tender and contract management processes.
- Requiring housing providers to submit annual capital plans.
- Providing preventative maintenance and capital planning training for housing providers.
- Enhancing resources to enable the Region to conduct annual inspections of capital requirements and preventative maintenance practices.

6. LOCAL MUNICIPAL IMPACT

Social housing provides a vital service to residents in every municipality of the Region. The inadequacy of the capital reserves poses a serious threat to the sustainability of this community resource. Without a substantial cash infusion, social housing providers will eventually be unable to adequately maintain their buildings. Unless additional resources are provided, many housing providers will cease to be viable and will likely be lost to the social housing system, significantly compromising the service levels for local residents.

7. CONCLUSION

The Local Service Realignment exercise reflected the operating cost of the social housing program but did not capture the issue of historical under-funding of housing providers' capital reserves. Depletion of the reserves, under the current system, is both foreseeable and unavoidable. Service Managers do not have the revenues necessary to unilaterally fund these deficits. It is imperative that the Province move quickly to work with Service Managers to develop and implement strategies to sustain the social housing portfolio.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the June 7, 2006 Committee meeting.)