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INTERIM STRATEGY TO FUND HOUSING PROVIDER BUILDING REPAIR REQUIREMENTS

The Community Services and Housing Committee recommends that:

1. Recommendation No. 1 contained in the following report, September 6, 2007 from the Commissioner of Community Services, Housing and Health Services be amended as follows:

> **1. The Commissioner of Community Services, Housing and Health Services be authorized to approve, as an Interim Strategy, 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 2007 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.**

1. Recommendation No. 2 be deferred, pending receipt of the results of the Provincial Municipal Fiscal and Service Delivery Review.

3. Recommendation Nos. 3 and 4 be adopted.

4. The following Recommendations be added:

> **5. The Interim Strategy be reviewed within one year.**
>
> **6. Staff report back to Committee on a quarterly basis regarding funding expenditures and project details.**

1. RECOMMENDATIONS

It is recommended that:

1. The Commissioner of Community Services, Housing 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 Services, Housing 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. The Region permit housing providers to contribute the Region's share of any annual operating surplus to their capital reserve funds provided that the housing provider submits annual capital reserve plans to the Region for approval and spends only in accordance with approved plans.

4. Finance Department and Community Services and Housing Department staff review the results of the Provincial Municipal Fiscal and Service Delivery Review and report back to Council as to the implications for long-term funding for housing provider building repairs.

2. PURPOSE

This report outlines measures taken to mitigate non-profit and co-operative housing provider capital reserve fund shortfalls and proposes strategies to fund housing provider building repairs on an interim basis pending completion of the Provincial Municipal Fiscal and Service Delivery Review. The report recommends advances of additional subsidy and loans secured by collateral mortgages as a means to distribute funds approved in the 2007 Budget as well as any funds Council may approve through to 2010.

3. BACKGROUND

3.1 Social housing is a valuable community asset

The Region currently owns or administers 72 social housing complexes with a total of about 6,000 social housing units. Social housing is home to thousands of York Region seniors and families. Some of these residents have disabilities, most have very limited incomes and all rely on the affordable housing provided to them.

In addition to the community benefits, the social housing portfolio is a significant property asset. The social housing portfolio has a 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 money for necessary capital repairs

Social housing providers have always been required to contribute a mandated portion of their annual revenues into reserve funds for capital repairs. However, no social housing program has ever provided enough annual funding to enable housing providers to set aside all the money required to maintain their buildings for the long-term. The Region identified this risk when the Province was preparing to transfer social housing programs to Service Managers. In 2001 the Region commissioned Building Condition Assessments and Reserve Fund studies to quantify the risk. Consistent with industry practice, the Building Condition Assessments and Reserve Fund studies were updated in 2005.

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. A few housing providers have already depleted their reserves and almost all housing providers are expected to fully deplete their reserves by 2020. As such, Council directed staff to prepare a report outlining options to mitigate housing providers' reserve fund shortfalls.

4. ANALYSIS AND OPTIONS

Without regional assistance, housing providers have no means of securing the additional funding they require to maintain their buildings. Since social housing administration is now a regional responsibility, the federal and provincial governments are not providing additional capital funding. Housing providers are also prohibited from renegotiating or extending their mortgages.

A comprehensive strategy is required to ensure that the Region's social housing portfolio continues to provide much needed affordable housing. The proposed approach includes measures to ensure the most effective use of housing providers' existing capital reserve funds and to optimize housing provider capacity to fund necessary work. The strategy also proposes interim advances of additional subsidy and loans secured with collateral mortgages to provide regional funding to enable social housing providers to undertake necessary repairs pending completion of the Provincial Municipal Fiscal and Service Delivery Review.

4.1 Maximizing effective use of housing provider reserve funds

The Region has already taken a number of steps to help housing providers stretch their capital reserve dollars and additional initiatives are underway.

- *Effective preventative maintenance extends the life of building components and defers replacement costs.* In December 2006, the Region provided each housing provider with a preventative maintenance plan customized to reflect their particular building's needs.

- *Well planned capital projects cost less than emergency work.* The Region has provided and updated Building Condition Assessments to ensure housing providers have the information they need to prepare and execute annual capital plans.

- *Housing providers rarely have in-house access to someone with the skills and experience required to manage complex capital projects.* Most housing providers are small organizations with only one or two staff and a volunteer Board of Directors. As such, the Region hired an Asset Management Engineer to provide technical support. The Engineer monitors capital work to ensure the most cost effective approaches are used and identifies potential sources of additional funding such as warranties or energy incentive programs.

  The business case developed to support the asset management position projected savings of $300,000 to $500,000. Since this position was implemented in June 2006, the Region has enabled housing providers to save approximately $665,000 through improved capital repair processes and by facilitating access to energy incentive programs. Additional cost avoidances are expected as opportunities such as bulk tendering of similar work are explored.

- *Best practice resources and training help housing providers effectively manage their buildings.* The Region is currently working with the Social Housing Services Corporation and other Service Managers to develop resources and best practice initiatives for housing providers. The Region also provides training for housing providers on topics such as preventative maintenance, capital planning and managing capital projects.

These strategies ensure that housing providers have the tools required to maximize the use of their capital reserve funds, thereby deferring requests to the Region for additional funds.

4.2 Optimizing housing providers' capacity to fund necessary work

Contributing Surpluses to Capital Reserves and Controlling Capital Spending
Under the *Social Housing Reform Act, 2000*, housing providers do not require the Region's consent to spend money from their capital reserves. While providers have typically been very appreciative of the Region's technical support resources, there have been instances where providers have proceeded with work that could have been deferred or completed in a more cost effective manner. As a means of ensuring that only appropriate capital projects are undertaken and to enhance reserve fund balances, it is recommended that the Region allow housing providers to contribute the Region's share of any annual operating surpluses to their capital reserves, subject to a requirement that the housing provider submit annual capital expenditure plans for regional approval and spend only in accordance with the approved plan.

By implementing this measure, the Region could forgo subsidy recoveries of approximately $400,000 per year. However, directing those recoveries to housing providers' capital reserves will reduce subsequent requests for capital funding and provide the Region with a means to ensure that housing providers spend their reserves in accordance with regional direction. Allowing housing providers to retain more of their operating surplus also creates an important incentive to good fiscal management, as they directly benefit from their own efficiencies.

4.3 Providing capital funding to preserve social housing and increase 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 advances on subsidy or secured loans and extending 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 and either delivering the existing units directly or redeveloping the housing site.

4.4 Providing funding through subsidy advances and loans secured by collateral mortgages

Recognizing that housing providers would need building repair funding in 2007, Council approved $757,000 in this year's operating budget for capital repairs. 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.

The increasing volume and magnitude of requests for funding necessitates a clear policy framework with appropriate authorities. To ensure timely and accountable processes, it is recommended that Council endorse the proposed conditions and authorities for advances of additional subsidy and loans secured by collateral mortgages.

Conditions and Authorities Governing Additional Subsidy Advances

For most housing providers, a loan secured by a collateral mortgage will ultimately be required to address their capital needs. However, collateral mortgages require prior written consent from the Minister of Municipal Affairs and Housing and registration on title. These processes are time consuming and not without cost. However, 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. However, where a subsidy advance will result in an aggregate greater than $500,000, Ministerial Consent will be sought and once obtained, as a pre-condition to any further funding the housing provider will be required to repay the advance by including any remaining funds payable in a secured loan.

Provided that funds are available within the approved budget, it is recommended that the Commissioner of Community Services, Housing and Health Services be authorized to approve and execute all required advance of additional subsidy documents subject to prior review by Legal Services.

Conditions and Authorities Governing 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.

Provided that funds are available within the approved budget, it is recommended that the Commissioner of Finance and the Commissioner of Community Services, Housing and Health Services be authorized to jointly approve and execute all required documents for the loans and collateral mortgages.

Appropriate Controls and Accountability
All housing providers who receive additional funds through either a subsidy advance or a secured loan will be required to submit annual capital plans for the Region's approval and will only be able to 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 will 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.

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.

4.5 Estimated annual funding requirements for 2008 - 2010

After evaluating the Building Condition Assessment reports and conducting site inspections, regional staff have identified seven housing providers who will have fully depleted reserves and will require financial assistance to complete necessary capital projects in 2008. The $1.8 million these housing providers are expected to require will be reflected in the 2008 budget request for Council consideration. Staff have also analyzed the capital requirements for 2009 and 2010. Projected annual funding requirements are listed in Table 1.

Table 1
Estimated Annual Housing Provider Capital Funding Requirements

Year	Projected Annual Requirement
2008	$1.8 million
2009	$1.5 million
2010	$1.1 million
TOTAL	**$4.4 million**

4.6 Housing providers have significant long-term funding needs

The Building Condition Assessments indicate that repair funding requirements will increase to an annual average of almost $2 million for 2011 and 2012. By 2013, almost half of the housing providers will have fully depleted their reserves. At the same time, most of the social housing buildings will be more than 20 years old and will experience higher annual capital repair costs. For the years 2013 to 2015, the average annual funding requirement will be about $4 million. By 2016, three quarters of the housing providers, including Housing York Inc. will have depleted reserves. From 2016 to 2020, the average funding requirement will be approximately $10 million per year. The aggregate additional funding will total approximately $65 million by 2020.

4.7 The federal and provincial governments should share responsibility

The federal and provincial governments should share responsibility for the capital funding deficits in downloaded programs. It remains to be seen whether the current Provincial Municipal Fiscal Service Delivery Review will address this issue. However, in the absence of senior government support, an interim strategy is required to ensure housing providers have access to the funding required to adequately maintain their buildings. Possible options include:

- *Budgeting annually for all or a portion of the capital requirements*
  The amount included in the budget would fluctuate each year based on housing provider needs for the year, and have a corresponding annual tax levy impact.

- *Providing funds from the existing Social Housing Reserve*
  The Social Housing Reserve is currently used for various housing initiatives, including funding development charge exemptions on affordable housing development proposals from housing providers, and funding new regionally owned housing developments. The 2007 approved budget includes allocations of $17.5 million from the Social Housing Reserve fund to support housing development initiatives and one housing provider capital repair loan. After the 2007 budget commitments, the Social Housing Reserve will have a balance of $35.4 million (excluding any investment returns). Using the reserve to fund housing provider shortfalls along with the proposed commitments would deplete the reserve by the 2013-2015 timeframe.

- *Federal and provincial governments must accept financial responsibility*
  Given that housing providers' additional funding needs will increase dramatically over-time, it is imperative that the federal and/or provincial governments accept responsibility for the capital funding deficits inherent in the social housing programs devolved to the Region. The Region provided the Province with social housing capital funding requirement projections to inform the work of the Provincial Municipal Fiscal Service Delivery Review and it is hoped that the Review will recognize and address this issue. As such, it is recommended that Finance Department and Community Services and Housing Department staff review the results of the Provincial Municipal Fiscal and Service Delivery Review and report back to Council as to the implications for long-term funding for housing provider building repairs.

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 Budget includes $757,000 to fund capital repairs for housing providers with insufficient reserves to address pressing repair requirements. The 2008 budget request will include $1.8 million for this purpose. In the absence of new federal or provincial funding, these budget allocations could have a tax levy impact.

The Region's current Social Housing Reserve will not be sufficient to provide all required funding. Once the impact of the Provincial Municipal Fiscal and Service Delivery Review is known, long-term funding options must be developed to ensure that funds are available when needed.

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.

The Region's social housing portfolio provides housing to residents in every local municipality. The social housing providers who operate the buildings have never received sufficient funding to enable them to adequately maintain their buildings for the long-term. Some housing providers have already depleted their reserves. In 2008, seven housing providers will need capital funding and that number will grow over time. Housing providers' additional capital funding requirements will total approximately $65 million by 2020.

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 on an interim basis pending completion of the Provincial Municipal Fiscal and Service Delivery Review.

For more information on this report, contact Sylvia Patterson, Director, Housing Services Branch in the Community Services and Housing Department.

The Senior Management Group has reviewed this report.