5
SOCIAL HOUSING BENCHMARKS AND NEW FUNDING FORMULA

The Community Services and Housing Committee recommends that:

1. **The presentation from Kerry Hobbs, Manager of Housing Programs, regarding 'Social Housing Benchmarks and New Funding Formula' be received;**

2. **The recommendations contained in the following report, September 30, 2004, from the Commissioner of Community Services and Housing be adopted with the addition of Recommendation 3 as follows:**

    3. **That staff be directed to prepare a report on alternative methods to address the reserve funding shortfall under the new funding model.**

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council authorize the Regional Chair to write to the Province requesting they consult with the Association of Municipalities of Ontario (AMO) and other stakeholders in developing benchmarks.

2. Staff be directed to report back to Committee and Council with recommendations on how the Province should deal with the funding formula and on specific benchmarks for implementation in York Region.

2. PURPOSE

The purpose of this report is to provide Committee and Council with an overview of the Province's benchmarking exercise for social housing and the role of benchmarks in the new funding model prescribed for housing providers governed by the *Social Housing Reform Act, 2000* (SHRA).

3. BACKGROUND

When the Province administered social housing, housing providers' funding was set each year based on provincial calculations of increases in operating costs in relation to expected increases in rent revenue.

Under the SHRA, service managers are required to provide funding based on a complicated formula that relies on a set of funding benchmarks. However, benchmarks were not in place at the point of transfer. In the absence of the final benchmarks, the

Province has annually prescribed interim benchmarks. The interim benchmarks essentially recast the formulae used by the Province under the old system into the structure of the new funding model. Unfortunately, the old formulae are in need of significant updating. As a result, over time the interim benchmarks have not kept pace with housing provider's market conditions and cost experience.

3.1 SHRA Funding Formula

The SHRA funding formula is designed to allow housing providers to operate more like private sector businesses. Benchmarks are set, initially, to determine how much revenue the housing provider could reasonably be expected to generate if all units were rented at a market based rent and how much should be required for operating expenses excluding mortgage and property tax costs.

Property taxes and the mortgage payments are subsidized by the service manager as social housing providers' revenues are typically too low to fully support these costs. Any benchmark revenue not required for operating expenses becomes the provider's contribution to the mortgage. The service manager also provides a subsidy to make up the difference between the market rent and the reduced rents paid by social housing tenants.

3.2 Benchmarks in the SHRA Funding Formula

In order to calculate subsidy entitlements under the SHRA formula, service managers need a comprehensive set of benchmarks. However, service managers do not have the legal authority to establish benchmarks. Legislative responsibility rests with the Province.

The Province will set benchmarks for each housing provider addressing all of the major operating cost components: maintenance, administration, utilities, insurance, bad debt, and capital reserve fund contributions. The Province will also determine the market rents for each type of rental unit.

3.3 Provincial Process to Establish Benchmarks

The Province began developing benchmarks before social housing administration was transferred to service managers. A consultant was engaged to perform the requisite statistical analysis and an advisory group was formed, with representation from service managers and the social housing providers' sector associations.

The Province released their benchmark working papers in July 2004, affording service managers their first opportunity to assess the approach to benchmarks and the potential impact on program costs. The Province asked service managers to comment on the proposed methodology. Service managers were also asked to assess the accuracy of the housing provider information used for benchmarking purposes. The Province required comments by September 30, 2004.

The Province has not yet definitively set out their next steps. However, the expectation is that they will take several months to review service managers' comments and make appropriate revisions to their methodology before producing draft benchmarks for further consultation. It is unlikely that benchmarks will be implemented before 2006.

4. ANALYSIS AND OPTIONS

4.1 Importance of Accurate Benchmarks

Achievable benchmarks are critical to housing providers' long-term viability. Benchmarked costs effectively become a new base year budget. In all subsequent years, housing providers' increased spending on operating costs is limited by their capacity to generate increased rent revenue. Housing providers will no longer be entitled to cost based subsidy increases. Housing provider's with incorrect benchmarked costs will either benefit from a windfall or be unable to meet their financial obligations. It is therefore imperative that the benchmarks correctly balance costs and revenues.

4.2 Comments to the Province

Regional staff have reviewed the provincial working papers and submitted technical comments to the Province. The Region also has an on-going opportunity to comment as a member of the provincial advisory group.

4.2.1 Updating Provincial Information

The benchmark working documents rely on information the Province collected from housing providers from 1997 through 1999, before the program was transferred to service managers. Regional staff have collected updated financial information from housing providers.

4.2.2 Methodology Issues

Conceptually, benchmarks are based on comparing the performance of similar organizations. Unfortunately, social housing buildings are more disparate than they are similar. For example, the cost experience of a housing provider with a 30 unit seniors building in a remote northern community cannot readily be compared to that of an 800 unit family housing provider in a large urban centre.

Consequently, the Province is proposing a hybrid approach, with maintenance and administration benchmarks based on comparative data, and all other benchmarks based on each individual provider's cost and revenue experience. In many cases, the Province's projected individual numbers vary considerably from housing provider's current costs. Throughout the consultation, service managers recommended strategies to produce more reliable benchmarks.

5. FINANCIAL IMPLICATIONS

The information provided by the Province is preliminary in nature. The financial impact of benchmarks and the new funding model cannot be accurately projected until the Province finalizes their benchmarking methodology.

However, the funding increases prescribed by the Province in recent years have not kept pace with inflationary pressures. Housing providers have had considerable difficulty absorbing the increases in insurance and utility costs. The benchmarking exercises should reflect true utility and insurance costs. As such, the cost to the Region will likely increase above current funding levels, when benchmarks are approved.

Social housing subsidy payments are mandatory Regional expenses prescribed under the SHRA and related regulations.

6. LOCAL MUNICIPAL IMPACT

Any increases in social housing costs must be funded through the Regional tax levy which in turn impacts local municipalities.

7. CONCLUSION

Benchmarks are required to implement the new funding formula prescribed by the SHRA. Benchmarks that accurately reflect achievable costs and revenues are essential to the long term sustainability of the program.

The Province has been working on the benchmarks for several years and has recently sought comments from service managers on the work done to date. Although some progress has been made, considerable refinement is still required.

The Senior Management Group has reviewed this report.