THE DISTRICT OF THUNDER BAY
SOCIAL SERVICES ADMINISTRATION BOARD

BOARD REPORT

REPORT NO.: **2023-25**

MEETING DATE: **JUNE 15, 2023**

SUBJECT: **POST MORTGAGE COMMUNITY HOUSING FUNDING DIRECTION**

RECOMMENDATION

THAT with respect to Report No. 2023-25 (Integrated Social Services Division) we, The District of Thunder Bay Social Services Administration Board, approve the post mortgage community housing funding direction for non-profit housing providers as recommended;

AND THAT this new funding direction be incorporated into the Community Housing Initiated Agreement Template for post mortgage operating agreements with non-profit housing providers;

AND THAT Administration be authorized to negotiate the post mortgage community housing funding model with non-profit providers that have reached, or will soon reach, the expiry of mortgage terms.

REPORT SUMMARY

To provide The District of Thunder Bay Social Services Administration Board (TBDSSAB or the Board) with information regarding the ongoing support of community housing provided through non-profit housing providers and a proposed new funding direction post mortgage expiry.

BACKGROUND

Community housing provided by non-profits and housing co-operatives in projects that included provincial funding are distinct from federal projects. These provincial reform projects had their original operating agreements terminated when responsibilities were devolved to Service Managers. The rules and requirements governing operations, including rules for how projects are funded, were taken from the original agreements, and transferred into legislation (the *Social Housing Reform Act, 2000*, subsequently replaced by the *Housing Services Act, 2011 (HSA)*).

Provincial reform projects listed in O.Reg. 368/11 under the *Housing Services Act, 2011* (HSA), must provide affordable housing – including Rent-Geared-to-Income (RGI) housing - in accordance with the HSA. In exchange, they continue to receive a subsidy from their Service Manager, which is calculated according to the funding formula set out in O.Reg 369/11.

O.Reg. 369/11 prescribes the subsidy formula for current Part VII housing projects. For most projects, the subsidy formula is made up of three components:

- **Operating Subsidy** = Project Indexed Benchmark Operating Costs + Actual Mortgage Payments – Project Indexed Benchmark Revenues.

- **RGI Subsidy** = Lesser of *Indexed Benchmark* or *Actual* Market Rent for RGI units – Actual Rent paid from RGI units.

- **Property Tax Subsidy** = Actual Property Taxes for the project.

Urban Native Housing Projects, under initial agreement exclusively with the Federal government, have different requirements once the operating agreements expire. There is no requirement to continue to provide housing beyond the expiry, however there are provisions established through the Canada Ontario Community Housing Initiative (COCHI) that allow for investment to continue these relationships and maintain the current housing. TBDSSAB funds two Urban Native Housing providers, each with several properties that have reached the end of Federal agreements. These properties have been retained under new funding agreements through COCHI.

The Federal Government provides block funding through the Provincial Government. The allocation of this block funding was determined based on the estimated Federal share of operating costs, including debt servicing, for each individual Social Housing project transferred to the Service Manager at the time of devolution. The allocation is adjusted each year to remove funding for projects that have had mortgages/debentures mature, or operating agreements expire. The difference between the subsidy formula above and the Federal block funding is levied to municipalities and territories without municipal organization (TWOMO).

The HSA does not specify an end date for the obligations of projects that were either partially or entirely funded by the province (called "provincial reform" or Part VII projects). This means that provincial reform projects must continue to provide affordable housing – including RGI housing – after their original mortgage matures, until they are actively removed from the HSA (at the Minister's discretion).

On March 30, 2022, the Province of Ontario released regulations amending Ontario Regulation 367/11 under the HSA to create a Service Agreement framework designed to support the continuity of Community Housing post mortgage expiry. The new framework encourages housing providers to remain in the system by signing service agreements once they reach their end of mortgage/end of operating agreement. These service agreements would outline the expected performance outcomes and financial relationship between housing providers and Service Managers.

For housing providers whose mortgages have already expired, and no new Service Agreement is yet established, the province requires that the funding arrangements that were in place prior to mortgage expiry be maintained (less the mortgage subsidy), until either a new Service Agreement is established or an exit agreement is negotiated. For TBDSSAB, there are currently six non-profit housing provider projects whose mortgages have expired. All have been advised of the new regulatory requirements and TBDSSAB's plan to establish new Service Agreements.

COMMENTS

TBDSSAB currently supports 19 provincial reform designated non-profit housing providers (725 RGI units), listed in Attachment #1, in accordance with the HSA. The 2023 Budget includes $5.9 million subsidy to housing providers, of which $1.3 million is financed through Federal block funding. The remaining $4.6 million is financed from the levy to municipalities and TWOMO.

The Service Agreement framework established through updates to Ontario Regulation 367/11 will enable Service Managers and housing providers to negotiate more flexible funding approaches, incentivize housing providers to stay in the system once their current obligations expire and allow new housing providers to enter the system.

The Service Agreement framework establishes minimum requirements, including:

- Baseline provisions to continue funding RGI units
- Setting a minimum term length of 10 years
- Selection rules for units where households will be receiving RGI assistance, to align with existing selection and waitlist rules under the HSA
- The inclusion of a process to manage issues of non-compliance and dispute resolution, and
- Participation in regulated Housing Services Corporation (HSC) programs with current exemptions continuing.

The current funding model for provincial reform non-profit housing providers under the HSA considers market rent and benchmarked costs established by the province. These rates are increased each year based on government issued indices. Property tax and debt servicing costs are settled on actuals.

Once provincial reform non-profit housing provider mortgages mature, there is no debt servicing costs, however the remaining operating expenses continue and will grow over time. This will require a new funding arrangement to ensure the ongoing viability of these community housing units.

Under the HSA, for the purposes of designated RGI units, the regulations require that:

- Service Managers must provide a subsidy that bridges the gap between RGI rent and market rent (para. 11 of s. 105.1 (2)); and
- Funding to bridge the gap between RGI rent and market rent would apply to all existing RGI households, at minimum (para. 7 and 8 of s. 105.1(2)).

Any rent increases for existing market rent tenants must also comply with any other applicable legislation (e.g., *Residential Tenancies Act, 2006*).

For units specified in new Service Agreements, where households will be receiving RGI assistance, the Service Agreement will outline that the housing provider will select households to occupy these units and receive RGI assistance using the Service Manager's selection system required under the HSA for Part VII housing projects (centralized waitlist).

If a Service Manager and a housing provider are unable to reach an understanding to enter into a Service Agreement and join the new community housing framework, they must enter into an Exit Agreement to ensure that existing tenants are not displaced and longstanding public investments in community housing buildings are preserved. Depending on how a housing provider chooses to deliver housing outside of a relationship with the Service Manager, there may be Canada Revenue Agency concerns related to the protection of the non-profit status and HST rebates. Where negotiations between the Service Manager and the housing provider are unable to arrive at an agreement, the default funding mechanism outlined in the HSA will continue.

There is also the potential to cease the funding support for a non-profit provider, however this would then eliminate the availability of the housing units for eligible housing applicants and create an unmet gap in the service level standard requirements. This would also negate the previous investment in that housing provider and their property.

As part of the annual budgeting process, each housing provider will provide an updated 5-year financial plan based on the established new Service Agreement parameters. This plan would estimate the operating revenues and expenses as well as the planned capital expenditures. Operating expenses must also include allowance for an annual contribution to the capital reserve fund. The minimum annual contribution will be determined through a review of the Building Condition Assessment, identified needs and new building and safety regulations and requirements.

Housing providers will be required to develop a long-term capital plan that indicates the timing of when capital expenditures are expected, the level of capital reserve funds and any potential shortfalls. There is potential for providers who enter into an operating agreement to access capital investment funds through the Non-Profit Housing Provider Capital Loan Program, approved by the Board at the April 20, 2023 meeting (Report No.: 2023-19).

Through annual negotiations, targets may be established for a mix of RGI and market rent units, taking into consideration the current and historical mix levels, demands in the community, financial circumstances of existing tenants and impacts on the financial viability of the housing project. Targets for establishing of market rents will form part of these negotiations.

The legislation provides local flexibility for Service Managers to negotiate with each non-profit housing provider to determine an appropriate market rent amount as well as the funding model(s) to be implemented, including RGI subsidy, alternate forms of rent assistance, and access to any other funding as determined by the Service Manager.

Whether units will be designated as RGI or market will be identified in the service agreement and will be dependent on the 5-year financial plans submitted by the housing provider and the long-term financial sustainability of the organization.

RGI Subsidy

For those units designated as RGI, the HSA regulations (Section 105.1 (2) paragraph 11) requires Service Mangers to provide a subsidy that bridges the gap between RGI rent and market rent. Through the service agreements and 5-year financial planning, Administration would negotiate the target number of RGI units for each housing provider. As existing tenants leave RGI units, a unit may become a market rent unit if identified in the targets.

Through the annual budgeting process, the RGI subsidy related to the targeted RGI units for the upcoming year would be calculated using the most current tenant/rent information available and would be reconciled once the audited financial statements are provided.

Any RGI Subsidy due to/from TBDSSAB resulting from the reconciliation would be determined at that time under Policy #ISS-02-130 (Non-Profit Housing Provider Surplus Sharing).

Alternate Forms of Rent Assistance

As an alternative to RGI subsidy, there are several other rental assistance programs available, including rent supplement, portable housing benefit (PHB), Canada-Ontario Housing Benefit (COHB), and Housing Allowance. Through negotiations with housing providers, Administration may determine that one or more of these rental assistance programs would be appropriate for certain units.

These units would be designated as market, and the housing provider would consider this rental source in its annual budget accordingly. The level of subsidy would be paid to the housing provider on behalf of the tenant and would be dependent on the type of program and the tenant’s specific circumstances.

Determining the mix of market units, RGI units, and any alternative rent assistance will be identified through the service agreement and will consider the unique circumstances of each housing provider and the 5-year financial plans that are submitted.

Property Tax Relief

In addition to RGI Subsidy and other forms of rental assistance, Administration recommends the establishment of a Property Tax Relief grant. Access to this subsidy would be at the discretion of the Service Manager with consideration of the 5-year financial plans that are submitted. This funding would be based on the estimated property tax payable and settled on actual once the audited financial statements were reviewed. This subsidy component would be subject to recovery in accordance with TBDSSAB.

The housing provider's expenses, combined with the rental revenue and TBDSSAB subsidy as discussed above, would be included in the 5-year financial forecast when the service agreement is developed. If Administration is not satisfied with the financial situation presented and is unable to negotiate a compromise, an exit agreement could be developed to remove the housing provider from further community housing commitments, upon Ministry approval.

Attachment #1 identifies the current provincial reform non-profit housing provider projects and the mortgage expiry date for each.

Based on a review of the available funding components the benefits related to the community housing system, it is recommended that TBDSSAB continue relationships with the provincial reform non-profit housing providers once the mortgages for each expire, using a direction which sets allowable rents, calculates RGI amounts for tenants and determines an annual budget to support the difference between these amounts.

STRATEGIC PLAN IMPACT

This Report relates to the Board's strategic direction of Financial Stewardship, with a focus on ensuring accountability of TBDSSAB resources, and the long-term sustainability of the housing service system.

FINANCIAL IMPLICATIONS

The 2023 TBDSSAB Operating Budget for Provincial Reformed Housing Providers (100% RGI and with market component) was $5,627,800 offset by Federal Block funding of $1,255,800, with the remaining $4,372,000 financed through the levy to municipalities and TWOMO. If mortgage payments ($3,045,700) and the offsetting Federal Block funding are removed from the equation, the levy would be reduced to $1,326,300.

Conversely, if all current RGI units were provided an RGI subsidy, rather than the existing benchmark funding model, based on current tenant circumstances and market rents, the total levy related to housing providers would be approximately $3,133,100. RGI subsidy for RGI units is a requirement in the legislation. However, through negotiations with each provincial reform housing provider the number of RGI units could be reduced and replaced with alternate forms of assistance which could reduce the cost to TBDSSAB while still ensuring long-term financial sustainability of the housing providers. Alternatively, the financial situation could result in the establishment of an exit agreement with the housing provider.

In advance of mortgage expiry, Administration will enter into negotiations with each housing provider, and the financial impact on the negotiated service agreement will be included in the annual TBDSSAB operating budget to be approved by the Board.

CONCLUSION

It is concluded that this report provides the Board with information regarding the expiry of existing provincial reform non-profit housing provider mortgages, and a strategy to address retaining these expired units in the community housing portfolio. It is recommended that the Board approve this post mortgage community housing funding direction and authorize Administration to engage in negotiations with non-profit providers who have or will soon reach their mortgage expiry terms.

REFERENCE MATERIALS

Attachment #1 Non-Profit Housing Provider Projects and Mortgage Expiry Listing

PREPARED BY:	Crystal Simeoni, Manager, Housing Programs Keri Greaves, CPA, Manager, Finance
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APPROVED BY	Ken Ranta, Director, Integrated Social Services Division
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Attachment #1 - Provincial Reform Non-Profit Housing Provider Projects and Mortgage Expiry Listing

Housing Provider	Initiated	Year - Mortgage Expiry
Beendigen Inc. - Phase 1	December 1, 1988	2023
Beendigen Inc. - Phase 2	January 1, 1991	2026
Chateaulac Housing Inc.	May 1, 1990	2025
Fort William Branch No. 6 Housing Corp.	January 1, 1988	2023
Geraldton Municipal Housing - Phase 1	Apr 1, 1990	2025
Geraldton Municipal Housing - Phase 2	Jan 1, 1991	2026
Geraldton Municipal Housing - Phase 3	Jan 1, 1994	2029
Greek Orthodox Community of the Holy Trinity Non-Profit Housing Corp.	January 1, 1992	2027
Holy Cross Villa of Thunder Bay	July 1, 1987	2022
Holy Protection Millenium Home	September 1, 1994	2029
Kakabeka Legion Seniors Development Corp.	April 1, 1992	2027
Kay Bee Seniors Non-Profit Houisng Corp.- Phase 1	March 1, 1988	2023
Kay Bee Seniors Non-Profit Houisng Corp.- Phase 2	November 1, 1995	2030
Lakehead Christian Senior Citizens Apt Inc.- Phase 1	January 1, 1983	2018
Lakehead Christian Senior Citizens Apt Inc.- Phase 2	January 1, 1989	2024
Lutheran Community Housing Corp. of Thunder Bay - Luther	January 1, 1991	2026
Lutheran Community Housing Corp. of Thunder Bay - Kings	March 1, 1992	2027
Lutheran Community Housing Corp. of Thunder Bay - Bay	March 1, 1993	2028
Lutheran Community Housing Corp. of Thunder Bay - Pioneer	May 1, 1994	2029
Manitouwadge Municiapal Housing Corp. - Phase 1	May 1, 1987	2022
Manitouwadge Municiapal Housing Corp. - Phase 2	March 1, 1989	2024
Manitouwadge Municiapal Housing Corp. - Phase 3	April 1, 1990	2025
Manitouwadge Municiapal Housing Corp. - Phase 4	November 1, 1991	2026
Marathon Municipal Non-Profit Housing Corp.- Phase 1	July 1, 1989	2024
Marathon Municipal Non-Profit Housing Corp.- Phase 2	May 1, 1990	2025
Marathon Municipal Non-Profit Housing Corp.- Phase 3	July 1, 1991	2026
Matawa Non-Profit Housign Corporation	February 1, 1996	2031
Ontario Aboriginal Housing Service (former TBay Deaf Housing)	April 1, 1993	2028
Red Rock Municipal Non-Profit Housing Corporation	February 1, 1989	2024
St. Paul's United Church Non-Profit Housing Corporation	July 1, 1992	2027
Suomi Koti of Thunder Bay Inc.	April 1, 1988	2023
Thunder Bay Metro Lions Housing Corporation - Place	October 1, 1994	2029
Thunder Bay Metro Lions Housing Corporation - Centre	April 1, 1994	2029