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**Subject:** Housing Provider End of Mortgage Strategy – Service Agreements

**Report to:** Public Health and Social Services Committee

**Report date:** Tuesday, September 10, 2024

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## Recommendations

1. That the Niagara Region Housing Services' End of Mortgage Strategy for Housing Providers, attached as Appendix 1 to report COM 27-2024, be **APPROVED** and that the Commissioner of Community Services or designate be delegated the authority to modify the strategy so long as it supports the long-term sustainability of the social housing portfolio at End of Mortgage (EOM) and does not exceed approved budgets; and
2. That the Commissioner of Community Services or designate be **AUTHORIZED** to enter into service and exit agreements with housing providers, under the Housing Services Act (HSA). S.O. 2011, c. 6, Schedule 1, that have reached or are reaching EOM and execute agreements (including financial plans), in a form satisfactory to the Director of Legal Services.

## Key Facts

- The purpose of this report is to approve the Niagara Region Housing Services' End of Mortgage (EOM) Strategy for Housing Providers and provide the Commissioner of Community Services authority to enter into service agreements or exit agreements with non-profit and cooperative housing providers.
- As a Service Manager, the Regional Municipality of Niagara (NR) became responsible for the funding and administration of Community Housing transferred from the Province on April 1, 2002.
- There are currently 51 non-profit, co-operative and urban native housing providers listed in the Housing Services Act (HSA) that have been included in this funding model, that deliver 3,166 units of community housing in Niagara. The rent-geared-to-income (RGI) units in these projects are included in Niagara Region's Service Level Standards (SLS) that are reported to the province.
- As the mortgages of these designated housing providers end and are fully paid over the next six (6) years, the federal funding associated with these mortgages will end, and the original agreements under the HSA will come to an end, at which point Niagara Region Housing Services (NRHS) will engage in negotiations with the housing provider to enter into a new service agreement or an exit agreement.

- The new regulations issued by the Province on March 30, 2023 (Ont. Reg. 241/22) provides the baseline requirements of service and exit agreements, the Community Housing access system, and service level requirements.
- The new service agreement legislation specifies provision of a Rent Geared to Income (RGI) subsidy to housing providers as baseline funding, but also allows the Region to assess the financial viability of the housing provider and determine the operational and capital funding needs to ensure that the community housing units are maintained in the local community housing system.
- The net savings arising from the reduced operating subsidy requirements, as the provider mortgage payments end, are anticipated to result in funds that can be reinvested in the community housing system, to help support both the capital needs of the housing providers and the Niagara Region's Consolidated Housing Master Plan (CHMP) initiatives, which will support the development of new affordable housing units and rent supplement agreements within these developments.

## **Financial Considerations**

Niagara Region Housing Services' EOM Strategy, similar to efforts across the province, is a proactive and comprehensive local response to the EOM. The EOM Strategy aims to protect and stabilize the sector, retaining as many community housing units as possible. A sound funding model will support the financial viability of housing providers, encouraging their continued provision of community housing.

A financial analysis tool has been developed to support the negotiation process with the housing providers to enter into new service agreements that will define the funding for which they will be eligible. It will forecast the financial position of the provider to assess the viability of the operations and any funding shortfalls and needs over the next 20 years. As a part of this assessment, building condition assessments (BCA) are being completed for each provider to determine condition of the projects and capital requirements over the 20-year period, as aging infrastructure will have increased capital funding needs. Information from BCAs completed since 2018 show an estimated capital shortfall for the providers over the next 20 years of approximately \$65 million.

The total gross subsidy budget for housing providers in 2024 is \$25.9 million. This includes \$22.2 million allocated for operating subsidies; \$18.2 million (82 percent) from the levy, and \$4 million (18 percent) provided by federal funding. The remaining \$3.7 million is for capital-related subsidies, which is funded through the Canada-Ontario Community Housing Initiative (COCHI).

Housing providers are coming to EOM, and therefore to the end of the original agreements, between 2022 and 2030. As the mortgages come to an end, the associated federal funding that the Niagara Region is receiving as the service manager will also end.

Despite the upcoming decrease in federal funding, based on the projections of operating subsidy requirements for the housing providers, it is anticipated that the Region will see net overall savings accumulate starting in the 2027 budget year as the subsidy required to support the mortgage payments ends.

It is recommended that the annual savings realized as the mortgages end be re-invested to support the estimated \$65 million in capital needs of the housing providers, new development of community housing units, and rent supplement agreements within new developments. By re-investing these savings and combining them with existing base capital-related funding and proposed increases for the 2025 and 2026 operating budgets, in addition to OPHI and COCHI funding from the federal and provincial governments (based on the 2024-2025 fiscal year allocations and projected continuation), the Niagara Region is expected to have an estimated \$204 million in capital subsidy funding over the next 20 years (\$109.4 from OHPI/COCHI and \$94.4 levy funded). This funding will support both provider capital needs and new developments, aligning with the initiatives of the CHMP.

The decrease in the annual gross housing provider subsidy cost and reinvestment of the mortgage savings described above at EOM is shown in Appendix 2 to Report COM 28-2024. For 2025 and 2026, an increase in the levy is expected due to inflationary pressures on operating subsidies and a program change request of \$0.7 million is being proposed to support base capital-related funding in each year that will support provider capital needs and new development. From 2027 to 2030, as all providers reach EOM, the strategy is to maintain a consistent provider-related levy funding request of \$20.1 million annually.

As described in the EOM Strategy, the base provider repair and new development capital-related funding will be transferred to the Housing Services reserve. Each year, the providers' capital needs will be assessed and funded from this reserve. This approach ensures a consistent level of funding for provider capital subsidies, mitigating year-over-year fluctuations in the operating budget due to potential variability in capital spending.

## Analysis

The Niagara Region Housing Services EOM Strategy (EOM Strategy) aims to retain as many HSA-prescribed providers in the community housing portfolio as possible by:

- Providing appropriate funding levels to ensure financially viable, sustainable and resilient operations (e.g., stable tenancies, financial and asset management, and governance); and
- Respecting housing provider autonomy by recognizing and respecting the historical investments made to establish these assets and work together to protect, strengthen and grow the sector. The goal of the strategy is no net loss of community housing units in Niagara.

The current funding structure for the housing providers receiving operating-related subsidies from the Niagara Region is defined by the Housing Services Act (HSA), through agreements that were signed between the housing providers and the provincial government, which are coming to an end as the projects reach their EOM. Under this agreement, providers are eligible for a rent-geared-to-come (RGI) subsidy, a property tax subsidy, and an operating subsidy to fund any shortfall between operating expenses and revenues received, including applicable mortgage payments.

Under the new legislation, the RGI subsidy will become the required baseline funding for housing providers who enter into new service agreements with NRHS, which covers the difference between what the tenant is required to pay, based on their income, and what the provider would otherwise receive for negotiated market rent and is expected to fund any shortfalls in operating costs for the project.

Under the current funding model, housing providers who are coming to EOM will struggle to remain viable, as the calculation will result in an operating subsidy that will reduce the RGI subsidy that they are eligible for and will leave no available funding for capital requirements. The aging infrastructure of the housing projects is creating increased capital repair needs as structures come to the end of their life cycles. As such, it is important that the service agreements take into account these needs to ensure that there is sufficient funding available for the project to remain viable.

To conduct a comprehensive review and gain a greater understanding of strategies employed by other service managers, the following jurisdictions met with NRHS to discuss their approaches: Region of Waterloo, Haldimand-Norfolk Country, City of Hamilton, City of London, Oxford County, and Wellington County. Each municipality has

tailored its approach to ensure the long-term viability and sustainability of affordable housing while addressing specific local needs. The high-level themes and common strategies observed across these regions, as well as information gained through sector sharing tables, are described in Appendix 3 to this report, and were considered in the Niagara Region EOM Strategy.

The Housing Services Strategic Committee (HSSC), consisting of 47 service managers from across the province, established a Technical Table group with representatives from across the different service manager areas to develop guiding principles for EOM and a service agreement template. A staff person from NRHS was chosen as a representative to be part of the Technical Table group.

NRHS staff and Niagara Region's legal staff have taken the service agreement template developed by the HSSC and created a Niagara Region service agreement. As all housing providers are different, each service agreement will be tailored to be provider specific to address the needs of that provider.

NRHS held information and engagement sessions with housing providers and shared available resources. The sector support agencies, the Co-operative Housing Federation (CHF), the Golden Horseshoe Co-operative Housing Federation (GHCHF), and the Ontario Non-Profit Housing Association (ONPHA), have also been communicating with the providers and providing EOM materials. HSC continues to host Sharing Circles for service managers to share information and resources with regards to EOM.

It is important to recognize and respect the historical investments in these projects and establish provisions that support sustainability across community housing, while ensuring housing providers remain viable. NRHS and housing providers have a shared responsibility to protect existing tenancies, deliver affordable housing and support sustainability across community housing, ensuring viability in all facets of their business, developing partnerships that protect, preserve, and promote growth and development in housing provider communities.

The work done on the Niagara Region's Consolidated Housing Master Plan is on-going, with an identified need for development of an estimated 479 units in Niagara per year to meet the housing demands of Niagara's growing population. This will require extensive funding for the development of the units as well as for rent supplement agreements within these new developments. The reinvestment of savings related to the provider subsidies is in alignment with report COM-C 12-2021 Request from Niagara Regional Housing for Endorsement of 'An End of Mortgage' Position Paper, included as Appendix

4 to this report, that was endorsed by Council in 2021 and proposed to maintain community housing-related funding within community housing, and will help to support the funding needs for these initiatives.

It is important to note that the OPHI and COCHI funding, received (and forecasted) from the federal and provincial governments, have been factored into the financial projections, and continued partnership to provide community housing funding is imperative to the success of this model for the housing providers and continued development of new affordable housing units to address the housing crisis in Niagara.

Legislation allows service managers to enter into exit agreements with the housing providers for the following situations:

- The continued operation of the housing project by the housing provider or another housing provider;
- The redevelopment of the housing project by the housing provider or another housing provider; or
- The reinvestment of the proceeds of sale of the housing project into affordable housing.

The overall goal of the EOM Strategy is to enter into service agreements and maintain long-term partnerships with all providers.

### **Alternatives Reviewed**

There were a couple of different scenarios considered when preparing the strategy for negotiation and funding of new service agreements for housing providers reaching EOM.

The first scenario considered was to provide only the legislated RGI subsidy that is required to sustain the operations. In order to fund capital needs, the housing providers would use their available capital reserves, as expected in the proposed strategy, but potentially need to obtain new mortgages, which would bear additional interest costs. This would allow the Region to potentially direct additional funds to new development of affordable housing units, but it has the risk of impacting the viability of the existing housing projects, as they would have to be able to fund the mortgage costs, or would require additional operating subsidy, which would have a higher cost to the Region with the interest charges on the mortgages. An alternative for the housing provider to fund

their mortgage would be to increase their market rents significantly, which could in turn make them unaffordable.

### **Relationship to Council Strategic Priorities**

The proposed strategy for negotiation of service agreements for housing providers who have reached end of mortgage is aligned with the Council Strategic Priority of Equitable Region, in that it will improve access to affordable and attainable housing to meet the needs of the Niagara community by transforming service delivery in a way that is innovative, collaborative, and fiscally responsible.

### **Other Pertinent Reports**

[COM-C 12-2021 Request from Niagara Regional Housing for Endorsement of 'An End of Mortgage' Position Paper](https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=28dafc50-0613-4fe5-acd6-102f1ba0f335&Agenda=Merged&lang=English&Item=18&Tab=attachments)

(<https://pub-niagararegion.escribemeetings.com/Meeting.aspx?Id=28dafc50-0613-4fe5-acd6-102f1ba0f335&Agenda=Merged&lang=English&Item=18&Tab=attachments>)

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## **Appendices**

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| Appendix 1 | End of Mortgage Strategy for Housing Providers – Service Agreements  |
| Appendix 2 | Projected Provider Subsidy Costs and Associated Funding  |
| Appendix 3 | Service Manager Review of End of Mortgage Strategies   |
| Appendix 4 | COM-C 12-2021 Request from Niagara Regional Housing for Endorsement of 'An End of Mortgage' Position Paper |