End of Mortgage Strategy – Service Agreements

Introduction

The funding and governance of social housing as it pertains to housing providers under Part VII of the Housing Services Act (HSA) is undergoing major changes in Ontario. Funding arrangements and obligations to provide rent-geared-to-income (RGI) housing were contained in agreements that were tied to mortgages when social housing projects were built. These original agreements signed between housing providers and the provincial government are coming to an end as the projects are reaching their End of Mortgage (EOM). The funding formula to pay the housing providers listed in the Act was defined under the HSA. These providers must continue to provide RGI housing once their mortgage ends. The EOM for these providers is accompanied by significant changes in their funding which creates uncertainty for the ongoing viability of their operations and capital assets.

The EOM Strategy developed by Niagara Region Housing Services (NRHS) is defined by a key set of principles to guide negotiation of new agreements with housing providers. The principles defining the strategy have been developed in collaboration with service managers across the province, through technical tables, workshops, sharing circles, and service manager meetings. The strategy also outlines a process for working with housing providers to review viability of their projects from an operating and capital perspective to determine financial supports that may be required over the next 20 years.

The strategy for new service agreements is comprised of four components: A set of principles and guidelines, funding options, a process approach, and a financial model.

Strategy Principles

The principles explicitly acknowledge that NRHS will endeavor to retain all current social housing units. Through the establishment of principles and guidelines, the strategy aims to:

- Incentivize non-profit and cooperative housing providers to remain within the community housing portfolio, thereby protecting existing RGI tenancies and community housing.
- Maximize funding for capital repair needs to address the growing gap between provider capital reserve funds and capital repair work required.
- Support service and exit agreement negotiations.

- Support the development of a financial plan that addresses both operating and capital needs of housing providers.
- Foster a new relationship with housing providers that is equitable and transparent.

A full list of the principles and guidelines developed to support this strategy are detailed below. 'Subsidies' specifically refer to NRHS operating and capital subsidies, while 'funding' connotes multiple funding sources which could include but is not limited to NRHS.

General Principles

- Social housing is recognized as a valuable publicly-funded asset.
- Efforts will be made by NRHS to retain all current social housing units at EOM, and ideally increase the number of affordable housing units available.
- Collaboration with internal stakeholders/staff, including legal, finance and policy advisors, to ensure liability is proactively managed through agreements.
- 20-year funding agreements will enable social housing providers to remain financially viable, affordable and in good repair.
- Subsidies must be flexible to adapt to varying realities and changing contexts.
- Subsidies will be based on demonstrated need and applied through a transparent funding approach.
- Subsidies will be distributed with consideration to both operating and capital needs and will be responsive to municipal financial constraints.
- Subsidies will incentivize housing provider investment and accountability to reduce the impact to operating costs (i.e., to maximize revenue sources/efficiencies).
- Subsidies will support housing provider accountability and autonomy.
- Provider equity will be directed to current project operating and capital needs prior to leveraging new builds.
- A commitment of a continued relationship and partnership between the Region and housing providers will be prioritized as we move forward through the negotiation of new service agreements.

Funding Principles and Guidelines

- To address capital needs, multiple funding sources, including funding from upper levels of government, are required for the continuity of a social housing project.
- In general, financial viability refers to the ability to generate the required cash flow to fulfill ongoing operational costs and debt repayments. For NRHS, housing providers' financial viability is defined as generating sufficient cash flow to support the operational needs of the project, with funding provided through an RGI subsidy from

NRHS, as well as capital funding as needed to ensure that capital repair needs are met.

Based on the funding principles stated above, a comprehensive funding model was developed to analyze and support the long-term financial sustainability of community housing. Guidelines were created to develop a standardized approach for determining rent increases, housing provider capital reserve contributions, management and goals for operating surplus, funding mechanisms to increase housing provider revenue, and distribution of NRHS subsidies. This model and the underlying assumptions on which it is based is used to assess both operational and capital viability of a housing project.

Guidelines for Rent-Geared-to-Income (RGI) Rent

- Rent for RGI tenants will continue to be determined by either minimum rent, RGI scales or 30% of income (line 23600 of Notice of Assessment)

Guidelines for Operating Surplus

- The target accumulated operating surplus for housing providers is $1,000 per unit plus $25,000 insurance deductible contingency**.**
- Housing providers with a cumulative operating surplus of greater than $1,000 per unit and the $25,000 contingency will be directed to contribute the remaining amount to capital reserves.

Guidelines for Provider Capital Reserve Contribution

- The target minimum capital reserve fund is $2,000 per unit.
- Contributions to the capital reserve fund will be incorporated into the financial plan and reviewed every five years (or more often if deemed necessary) based on the Building Condition Assessments (BCA), reserve fund analysis and the provider's approved capital plans.
- Anticipated contributions to the reserve fund are based on the provider's annual surplus as defined above, plus any NRHS capital subsidy if required and within the NRHS budget to fund the shortfall of any current capital repair needs if required.
- If capital reserves are overfunded, NRHS capital subsidies may be recovered and returned to the NRHS reserve to be reinvested into community housing needs.

Funding Options

Depending on the housing provider's net operating income and capital reserves, the following funding options, further described in the guidelines below, may be explored and/or applied:

- RGI subsidy
- Market rent increases
- Other external funding options/grants
- NRHS operating subsidy
- NRHS capital subsidy
- Adjust RGI/market mix

The forms of subsidy and funding listed above will be considered based on the viability analyses conducted for each project. As a baseline, housing providers who sign new service agreements with NRHS will receive NRHS RGI subsidies as per legislative requirements. The combination of the options to be used will ultimately depend on the housing project's unique circumstances to ensure their on-going viability and keep them in a good state of repair.

Rent-Geared-to-Income Subsidy from NRHS

- An RGI subsidy or rent supplement that covers the difference between what the tenant is required to pay based on their income and what the housing provider would otherwise receive for the negotiated market rent for that unit in the project, will be paid automatically as baseline funding for housing providers who enter into new service agreements with NRHS.

Market Rent Increases

- Market rental units will be maintained at levels that are affordable to low and moderate-income households.
- Housing providers will be encouraged to raise rents in housing projects with mixed market and rent-geared-to-income buildings to a minimum of 80% of the Canadian Mortgage and Housing Corporation (CMHC) Average Market Rent (or higher as deemed necessary for viability and as is advisable based on anticipated tenant impact).

External Funding Grants

- All housing providers will be encouraged to apply for grants and external incentive programs (e.g. OPHI, COCHI, energy-efficiency incentive programs, etc.) to maximize multiple funding sources for viability.

NRHS Operating Subsidy

- An operating subsidy in addition to the RGI subsidy will be considered if deemed required, with the expectation that the housing provider will have a plan to become financially viable within a determined period of time to qualify.

NRHS Capital Funding

- NRHS may provide a capital subsidy based on the BCA and the provider's reserve fund study to ensure ongoing viability of the provider.
- An additional one-time capital injection from NRHS will be considered where needed, based on the project's proforma and the annual budgeted fund availability by NRHS.
- Capital needs far exceed funding sources for most providers based on BCA information. Subsidies are intended to help bridge the gap. The provider's capital reserve fund will be reconciled every 5 years (or sooner if required) and any unused subsidies will be returned to the NRHS to be reinvested into community housing needs.

Market/Rent-Geared-to-Income Mix

- Shifting current RGI and market mix is a last resort. The impact of changing RGI targets will be considered with respect to Niagara Region's Service Level Standard obligations.
- For projects that are currently operating below RGI targets, an individualized approach will be implemented. Where feasible, projects will be brought up to their targeted service level for RGI units.

Vacancy Loss and RGI Reconciliation

- NRHS will subsidize vacancy loss for an identified RGI unit up to a two (2)-month period to stay consistent with current policy.
- An annual reconciliation of vacancy loss and RGI subsidy will determine the amount to be recovered from or paid to the housing provider based on actual RGI units and rents collected compared to budget.

Approach

This section outlines the approach that will be used with each provider as they reach End of Mortgage (EOM). It is anticipated this process will be collaborative and supported by NRHS.

Phase 1: Preparing for End of Mortgage

a) Education and Stakeholder Engagement

Housing providers are expected to be knowledgeable and prepared for their upcoming EOM. For co-operative housing providers, they are also expected to make sure that their members are knowledgeable on what that means for their co-operative. The Board of Directors of housing providers are ultimately responsible to be prepared and well-versed on EOM impacts so they are able to make decisions for their organization.

To ensure that housing providers are knowledgeable of EOM legislative changes, opportunities and how to prepare, NRHS held an information and engagement session with providers, and shared available resources. These information and engagement sessions will continue to be held to encompass all providers in preparation of EOM. NRHS' Housing Administrators have also been engaged in ongoing outreach to housing providers to ensure that they, and their stakeholders, are aware of the EOM regulations and the EOM dates of their specific housing project. Their sector support agencies, 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.

b) Review of organization's post-EOM vision and review of governance framework.

NRHS staff have encouraged housing providers to consider their organization's post-EOM vision and to review their governance framework. Although the role of the Board remains the same post-EOM, the new community housing legislation allows for greater partnership between the Service Manager and housing provider. This new framework enables the Board to make fresh decisions regarding the operations of their housing project. EOM also provides the opportunity for Boards to evaluate their capacity to continue as is or to take on planning or oversight of new or expanded activities.

c) Identify and resolve issues listed in the Operational Review reports and determine how successful practices can continue.

In preparation for EOM, NRHS Housing Administrators are working with housing providers through their operational reviews to identify areas for improvement. As part of the Service Manager obligation to ensure that social housing providers are operating in compliance with the rules and regulations mandated by the Housing Services Act, Housing Administrators conduct operational reviews for each project, at minimum every four years. This comprehensive review examines operating procedures of the provider, including administration procedures, governance, financial management, resident relations, maintenance and capital asset management. Performance is measured against the requirements set out in the Housing Services Act and its associated regulations and local rules. Directions and recommendations based on the results from the operational review enable housing providers to ensure compliance with legislation and address how non-compliance issues can be resolved and how best practices can continue, especially as projects approach EOM.

d) Ensure projects have updated Building Condition Assessments (BCA)

In preparation for EOM, NRHS issued a Request-for-Tender (RFT) for BCAs and Reserve Fund Studies to be conducted on 20 housing providers (consisting of 29 buildings) that are at EOM or nearing EOM. This information has been included in the 20-year funding model. The remaining providers will have BCAs completed in the second issued RFT requested. A BCA report indicates short- and long-term capital repairs and replacements required for the housing project, along with an estimated cost of completing these capital expenditures. The BCA report is a valuable and necessary tool to help determine capital needs and required capital reserve fund contributions. All projects approaching EOM must have a BCA that was completed a minimum of three (3) years prior to the project reaching EOM. As part of the new Service Agreement, BCAs need to be completed again prior to the mandated five (5)-year financial review.

Phase 2: Negotiation

The following steps will be followed by NRHS staff at EOM as they undertake the negotiation of new agreements with housing providers.

a) Review of portfolio and project financial health

Prior to conducting a viability analysis, NRHS staff will review the financial statements of the project with the housing provider to determine sources of revenue and expenses. If the provider has external funding agreements for the project, the terms and conditions of these agreements will be reviewed and factored into the viability analysis.

b) Management of vacancies and rent

Staff will review vacancies with housing providers and identify any areas of concern to ensure that units remain marketable and filled within expected timeframes.

RGI and market rent units will be discussed, including the provider's existing rates and targets, along with plans for future rent revenue for these units.

c) Property development plans

Providers will be encouraged to identify their longer-term goals regarding project and/or portfolio development. Opportunities to address these goals will be discussed.

d) Viability analysis

Viability analysis will be conducted by NRHS staff in conjunction with housing providers to determine both operational and capital viability.

e) Five (5)-year financial plan

NRHS staff and the housing provider will jointly develop a 20-year financial plan. This plan will address how the housing provider's revenues will meet expenditures for the housing project, including projected capital expenditures. The plan will also address how rent for the units will be set and will detail the NRHS financial obligations towards the project. The RGI subsidies will be reconciled annually, and the financial plan must be reviewed every five (5) years (or sooner if required).

f) Service Agreement

A standard Service Agreement template has been developed by NRHS staff in conjunction with Niagara Region's Legal Services and the Housing Services Strategic Committee (consisting of 47 service managers across the province). The regulations state that the minimum duration for a service agreement is ten (10) years and that the financial plan must be reviewed at least every five (5) years. NRHS is recommending a 20-year service agreement and financial plan (to be reviewed every five years) so that ongoing commitment and viability are ensured, as well as a longer-term financial funding model for the Niagara Region.

Phase 3: Monitoring and Review

a) Housing Provider Review Process

In general, projects that have reached EOM will be reviewed in chronological order. Housing providers with multiple projects at EOM will have all projects reviewed at the same time, depending on the period between projects.