



CITY OF KINGSTON
REPORT TO HOUSING AND HOMELESSNESS
ADVISORY COMMITTEE

Report No.: HCC-12-002

TO: Chair and Members of Housing and Homelessness Advisory Committee

FROM: Lanie Hurdle, Commissioner, Community Services

RESOURCE STAFF: Lee Campbell, Acting Manager, Housing Department

DATE OF MEETING: December 8, 2011

SUBJECT: Assignment of Housing Provider Net Operating Surplus Repayable to Service Manager

EXECUTIVE SUMMARY:

The Province's successful Social Housing Renovation and Retrofit Program (SHRRP), which has operated since 2009, comes to an end in March 2012. Locally, SHRPP has provided \$4.87M in capital grants for repairs, upgrades and regeneration of the local social housing stock as well as opportunities for the installation of solar energy systems. City staff, in consultation with social housing providers, have identified significant benefits in continuing some type of local renovation and retrofit program. Renovations and retrofit not only improve conditions for people living in those units but also contribute to the reduction of operational costs for housing providers.

The Service Manager now seeks Council approval to continue the substance of SHRPP through redirection of social housing providers' identified net surplus repayable funds. It is requested that these annual surpluses be transferred to the Social Housing Capital Reserve Fund and, also, that eligible social housing providers be allowed to access repayable loans or, if appropriate, forgivable loans for capital repairs to maintain existing housing stock or to install renewable energy systems. Forgivable loans must be supported by financial data and sound business logic demonstrating the need for grant consideration. Any forgivable loan would be drawn directly from the Social Housing Capital Reserve Fund.

This is a change in policy as, in past years, surpluses from housing providers were pulled into the overall departmental surplus at year end. During the past four years, Council has approved the surplus to be transferred into the Affordable Housing Construction Reserve account to pay development charges and impost fees for affordable housing. In 2011, Council endorsed a plan, starting in 2012, with a \$1M contribution per year to cover construction related costs.

December 8, 2011**- Page 2 -**

In 2009, social housing providers accumulated an operating surplus in the amount of \$78,164. It is anticipated that this change in policy will not have an impact on the City's operational budget as the City does not cover housing provider deficits as they are funded from provider's own accumulated operating surplus.

RECOMMENDATION:

THAT By-Law 2003-88, being a By-Law to Authorize the Establishment of a Social Housing Capital Reserve Fund (Purpose – Create a Sustainable Source of Funding For Capital Projects For Local Not-For-Profit Housing Providers) be amended to reflect the following:

THAT Council approves the allocation of social housing providers' identified net surplus repayable funds to the Social Housing Capital Reserve Fund, and

THAT Council endorses expanded access to the Social Housing Capital Reserve Fund to include the installation of Renewable Energy Systems, and

THAT when and as deemed necessary and appropriate, housing providers which, due to size, economies of scale and varying ability to repay loans, may be approved to receive a forgivable loan rather than a repayable loan from the Social Housing Capital Reserve Fund.

December 8, 2011
- Page 4 -

OPTIONS/DISCUSSION:

In 2009, as part of a stimulus funding package, the Canada-Ontario Affordable Housing Initiative implemented the Social Housing Renovation and Retrofit Program (SHRRP). This is a capital grant program which provided the Service Manager (Kingston-Frontenac County) with a notional allocation of \$4.87 Million dollars for the repair and regeneration of units within eligible social housing projects. Through various initiatives the SHRRP improved the health and safety of residents living in social housing communities, provided enhanced accessibility for seniors and persons with disabilities, and contributed to the reduction of social housing project operating costs. Funding was made available to eligible housing providers on a priority basis rather than a pro-rated distribution method. To this end, the Service Manager was able to make the best use of each and every dollar. This program ends on March 31, 2012.

The SHRRP also included a Renewable Energy Initiative (REI) component where additional funding of \$0.54M was made available to encourage local social housing providers to install solar energy systems. Through the installation of four (4) Solar Thermal Hot Water systems which pre-heat domestic hot water, and five (5) Solar Photovoltaic Systems, which capture solar energy and convert it to electricity, participating housing providers anticipate a substantial increase in their net operating surpluses. Under the legislation, once social housing providers accumulate a one-time \$300 per unit surplus, any additional surplus can be shared up to 50% with the Service Manager. This is the default calculation in the Annual Information Return subsidy calculation completed by housing providers.

The Service Manager is seeking Council endorsement to direct its share of repayable social housing providers' identified net surplus to the Social Housing Capital Reserve Fund for future capital repair needs and reinvestment into additional renewable energy systems. Such enhancement of the Capital Reserve Fund is considered to be a win-win situation. If the surplus is transferred into a reserve fund that housing providers can access, they will receive future benefit and have more incentive to create a surplus. This is also a means by which the social housing program can support Kingston's 'green' initiative. The SHRRP – REI program provided 100% grant funding to 4 housing providers. Since that time three (3) more housing providers have used their own Capital Reserve Funds to install Photovoltaic Systems and with a recent announcement by the Province to utilize surplus SHRRP funds, one of these systems has now been partially funded under this program. These providers anticipate full repayment of the initial capital investment within six (6) years of installation and further anticipate substantial increased revenues for an additional 14 years through the MicroFIT Program. (For participating proponents who install Solar Voltaic Systems which are 10 KW or less in size and located in Ontario the MicroFIT program pays - \$0.80 / KWH for 20 years).

In 2003, a federally funded Social Housing Capital Reserve Fund (SHCRF) was created specifically to assist social housing providers, by providing loans on an as required basis, to conduct necessary capital repairs and enable them to maintain the integrity of their aging

December 8, 2011**- Page 5 -**

housing stock. All social housing providers are legislated to fund and maintain a capital reserve account however in some cases the capital reserve fund is not sufficient to make unanticipated or emergency repairs. All requests to access the SHCRF must be submitted to Council for approval. Approved loans are secured by a Special Advance Agreement which requires that repayment occurs through equal monthly payments with the loan being repaid in full within the term of their Operating Agreement.

If Council endorses expanding the use of the Capital Reserve Fund to include repayable loans and forgivable loans to install renewable energy systems, local providers can continue to become more involved in green initiatives and this will make them more financially viable on a long term basis.

Locally, the social housing program consists of 16 housing providers ranging in size from the smallest having 16 units within their portfolio to the largest provider which has 967 units. Varying funding levels and economies of scale pre-determine and limit the ability of some housing providers to self-fund necessary capital repairs or to repay a capital repair loan. For these reasons, service providers are also limited in their ability to participate in and reap the benefits of renewable energy solutions. To this end, it is proposed that housing providers, due to size and inability to repay loans, may submit a request to Council to receive a 'forgivable loan' rather than a 'repayable loan' from the Capital Reserve Fund. Such requests must be supported by financial data and sound business logic demonstrating the need for forgivable loan consideration. A Social Housing Provider should only request a repayable loan or forgivable loan if they do not have the ability to fund the capital project and/or repair out of their own reserves or operations.

If a repayable or forgivable loan is required, the housing provider must submit the request in the form of a business case submission to the Departmental Evaluation Committee (DEC). The Business Case should include at a minimum: description and purpose of the capital project/repair, capital reserve balance, current audited financial statements, estimated cost of the work to be done, loan amount being requested, 5-year capital plan projections, remaining term of Operating Agreement, and ramification / contingency plan if loan is not granted. If DEC supports the request for a loan, a report and recommendation will be submitted to Council for review and approval. DEC will recommend to Council whether loan should be repayable or forgivable.

Forgivable loans will be based on a 10 year period which would be reduced by 10% each year with the following condition:

If the operating agreement between the City of Kingston and the housing provider expires before 10 years, the balance of the loan becomes due and payable. However, to maintain rent-geared-to-income units in the City's portfolio, the loan repayment would not be required if the housing provider enters into a rent supplement agreement with the City upon the expiration of their operating agreement to cover at least the term of the forgivable loan.

December 8, 2011
- Page 6 -

Despite the fact that this is a 'forgivable loan', there will be an element of repayment through increased net operating surpluses which again are shared with the Service Manager and directed into the Social Housing Capital Reserve Fund.

External Contacts:

Susan Beckel, Deputy Clerk, County of Frontenac

EXISTING POLICY/BY LAW:

By-Law 2003-88 and amending By-Law 2006-219

NOTICE PROVISIONS:

N/A

ACCESSIBILITY CONSIDERATIONS:

N/A

FINANCIAL CONSIDERATIONS:

Implementation of this request to flow the Service Manager portion of the net operating surpluses to the Social Housing Capital Reserve Fund (SHCRF) should allow this fund to grow and continue to be self sustaining. Expanding the ability to access funding from the SHCRF to include the installation of renewable energy initiatives would further contribute to increasing net operating surpluses for the benefit of housing providers and the Service Manager. Any forgivable loans would be drawn directly from the Social Housing Capital Reserve Fund.

There is currently \$879,645 in the Social Housing Capital Reserve Fund. In 2009 housing providers had an operating surplus of \$78,164. It is anticipated that this change in policy will not have an impact on the operational budget as the City does not cover housing provider deficits as they are funded from provider's own accumulated operating surplus.

CONTACTS:

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OTHER CITY OF KINGSTON STAFF CONSULTED:

Lee Campbell, Acting Manager, Housing Department
Katie Clarke, Interim Financial Analyst, Housing Department
Rob Rowe, Housing Programs Administrator, Housing Department
Alan McLeod, Senior Legal Counsel, City of Kingston
Desiree Kennedy, Director of Financial Services & City Treasurer

EXHIBITS ATTACHED:

Exhibit A – By-Law No. 2012-XXX

BY-LAW NO. 2012-XXX

A BY-LAW TO AMEND BY-LAW NO. 2003-88 “A BY-LAW TO AUTHORIZE THE ESTABLISHMENT OF A SOCIAL HOUSING CAPITAL RESERVE FUND (PURPOSE – CREATE A SUSTAINABLE SOURCE OF FUNDING FOR CAPITAL PROJECTS FOR LOCAL NOT-FOR-PROFIT HOUSING PROVIDERS) ”

PASSED: April 15, 2003.

The Council of The Corporation of the City of Kingston hereby enacts as follows:

1. By-Law No. 2003-88 of The Corporation of the City of Kingston entitled, “**A BY-LAW TO AUTHORIZE THE ESTABLISHMENT OF A SOCIAL HOUSING CAPITAL RESERVE FUND (PURPOSE – CREATE A SUSTAINABLE SOURCE OF FUNDING FOR CAPITAL PROJECTS FOR LOCAL NOT-FOR-PROFIT HOUSING PROVIDERS)**” is hereby further amended as follows:

Section (2) is hereby deleted in its entirety and replaced with the following, so that Section 2 shall now read as follows,

“2. That the Fund be a revolving fund established to support capital requests, for the purpose of completing capital repairs or for the installation of renewable energy systems, by Housing Providers who do not have the necessary resources available to them.”

Section (3) is hereby deleted in its entirety and replaced with the following, so that Section 3 shall now read as follows,

“3. Housing provider identified net surplus repayable funds shall be deposited to this reserve fund.”

1.3 Section (4) is hereby deleted in its entirety and replaced with the following, so that Section 4 shall now read as follows,

“4. Withdrawals may be made from this reserve fund in the form of an interest free repayable loan or a forgivable loan for capital expenditures for social housing. Repayments to the Reserve Fund under the repayable no interest loan will be in equal monthly installments. The term of the no interest repayable loans can not extend beyond the termination date of the Housing Provider’s operating agreement. Forgivable loans will be based on a 10 year period and will be reduced by 10% each year with the following condition: If the operating agreement between the City of Kingston and the housing provider expires before 10 years, the balance of the loan becomes due and payable. However, to maintain rent-geared-to-income units in the City’s portfolio, the loan repayment would not be required if the housing provider enters into a rent supplement agreement with the City upon the expiration of their operating agreement to cover at least the term of the forgivable loan and for their former social housing units.

2. This By-Law shall come into force and take effect on the date of its passing

GIVEN FIRST AND SECOND READING

GIVEN THIRD READING AND PASSED

CITY CLERK

MAYOR