



CITY OF KINGSTON
INFORMATION REPORT TO COUNCIL

Report No.: 13-181

TO: Mayor and Members of Council

FROM: Lanie Hurdle, Commissioner, Community Services

RESOURCE STAFF: Sheldon Laidman, Director, Housing Department

DATE OF MEETING: May 7, 2013

SUBJECT: Step Down Funding and End of Operating Agreements

EXECUTIVE SUMMARY:

Effective January 1, 1998, the City of Kingston, as Service Manager for the City of Kingston and County of Frontenac, became responsible for social housing costs previously funded by the Province. On January 1, 2001 the Service Manager also became responsible for the administration and oversight of the Social Housing Program.

As a result of this download of responsibility the Service Manager signed "Operating Agreements" with the former provincial housing providers. These agreements will expire when the housing providers' mortgages are paid in full. The federal housing providers continue to have agreements with the federal government which will also expire over time. With the End of Operating Agreements (EOA), funding obligations and responsibilities will change for the housing providers and the Service Manager. The one exception is Kingston & Frontenac Housing Corporation which has signed a Shareholder's Agreement with the Service Manager.

The federal government has continued to provide some funding to the Service Manager for social housing costs. In 2008, the federal government began decreasing its share of the funding, referred to as "Step Down Funding", and the Service Manager has subsequently increased its portion to compensate for the loss. It is expected that all federal funding will end in 2036 with the EOA.

The purpose of this report is to provide information on Step Down Funding and the End Of Agreements and the implications for both the Service Manager and the Housing Providers. The development of a plan to address step down funding is included in the City's Strategic Plan.

RECOMMENDATION:

This report is for information only.

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AUTHORIZING SIGNATURES:

ORIGINAL SIGNED BY COMMISSIONER <u>Lanie Hurdle, Commissioner, Community Services</u>
ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER <u>Gerard Hunt, Chief Administrative Officer</u>

CONSULTATION WITH THE FOLLOWING COMMISSIONERS:

Cynthia Beach, <i>Sustainability and Growth</i>	NR
Denis Leger, <i>Transportation, Properties & Emergency Services</i>	N/R
Jim Keech, <i>President and CEO, Utilities Kingston</i>	N/R

(N/R indicates consultation not required)

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OPTIONS/DISCUSSION:

Background:

The provincial government first announced the devolution of social housing in January of 1997 as part of the Local Services Realignment. The province designated 47 Consolidated Municipal Service Managers. The City of Kingston is the Service Manager for the City of Kingston and the County of Frontenac. In late 1997, the Province passed *The Social Housing Funding Act*, which meant that effective January 1998; Service Managers began to pay the former provincial share of the costs of social housing in Ontario. The federal government continues to provide block funding to Service Managers.

On December 12, 2000, the *Social Housing Reform Act* (SHRA) was passed and effective January 1, 2001, Service Managers assumed responsibility for the funding and administration of social housing programs previously funded and administered by the Province and/or Canada Mortgage and Housing Corporation (CMHC).

Operating agreements with housing providers in the provincial programs were terminated and replaced with an “operating framework” legislated within the SHRA. Service Managers signed new operating agreements with these housing providers to delegate authority to them for the day to day administration of their properties. Federal agreements with federally funded housing providers (Dutch Heritage, Tipi Moza and Zion) remain intact. Ownership and administration of public housing was transferred from the Province to the Service Manager. Locally, the City of Kingston is the sole shareholder of Kingston & Frontenac Housing Corporation (KFHC) and has signed a shareholder agreement which sets out its operating framework.

Step Down Funding

To offset the costs of social housing programs, the federal government continues to provide the Service Manager with block funding for its Local Housing Corporation, Regular Rent Supplement Program, Social Housing Providers and Federal projects. The federal funding is administered through the Ministry of Municipal Affairs and Housing (MMAH) with the annual allocation for each Service Manager calculated in five year increments (i.e. 2008 to 2012; 2013 to 2017). The funding formula includes fixed per-project funding (targeted funding) based on the costs of individual social housing projects transferred to each Service Manager at the time of download. In years where there are additional resources in the ministry's Social Housing Agreement allocation, the remaining dollars (untargeted funding) are distributed to all Service Managers based on their proportionate share of targeted funding.

Federal funding has been steadily declining over the past several years and this trend will continue as mortgages/debentures expire and operating agreements end. By 2036, it is expected that Ontario will have lost approximately \$525M in federal subsidy. Even though mortgages will have been paid in full, rent revenues may not be sufficient to cover costs such as capital repairs or rent-geared-to-income subsidies on an ongoing basis. Consequently, the province and/or municipalities will need to cover the funding shortfall to uphold their legislated responsibilities.

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In 2008, the City of Kingston was allocated \$3.6M in annual federal funding and contributed an additional \$8.2M in municipal funds to support various social housing programs. In accordance with MMAH's annual apportionment schedule, it is anticipated that by 2017 the City's federal funding allocation will have decreased to \$3.1M. The decline in federal funding coupled with increased costs will result in a municipal contribution of approximately \$10.9M; an increase of \$2.8M in order to support its current social housing programs (Exhibit A – Annual Apportionment of Federal Funds).

It is anticipated that the majority of the funding decline will occur between 2021 and 2029 when the bulk of the operating agreements expire. The Ministry has not provided Service Managers with any indication of what the future allocations will be post 2017, thus making it a challenge to plan and estimate future funding provisions.

End of Operating Agreement (EOA)

All social housing providers, except the local housing corporation, have an Operating Agreement with either the Service Manager or the Federal government. The federal agreements have a defined term of 35 or 50 years while the Service Manager operating agreements have one or more expiry dates based on the date that their mortgages will be paid off. End of Operating Agreements (EOA) refers to the expiry of these agreements and the substantial changes in subsidy transfers that affect housing providers and Service Managers at that milestone (Exhibit B – End of Operating Agreements).

As already noted, federal funding has been declining since 2008. It is anticipated to end completely at EOA. The City of Kingston, as the Service Manager, will then become responsible to pay all costs associated with maintaining social housing in this community. In addition, the Housing Services Act (HSA) requires that the Service Manager maintain its legislated 2003 RGI units post EOA.

As the sole shareholder for Kingston & Frontenac Housing Corporation (KFHC), the City has a vested interest in ensuring that they remain financially viable and in fact, the HSA states the Service Manager must provide "sufficient funding" to the public housing provider. The shareholder agreement sets out KFHC's obligations including the requirement to maintain their rents at RGI levels. KFHC does not have traditional mortgages but there are debentures on the properties which are held and paid by the province. The debentures do have a maturity date but it does not affect the terms of the shareholder's agreement or the Service Manager's obligation to pay subsidy.

The former provincial housing providers, however, are not legally obligated to maintain their RGI units beyond EOA and may opt out of social housing programs altogether. Should that occur, the Service Manager would have no obligation to provide any further funding but would need to seek alternate RGI units to offset the loss. However, if housing providers agree to maintain their RGI units and continue with social housing programs, there is no clear or legislated amount of funding required. The Service Manager would need to work with each provider to identify their financial needs and establish an ongoing subsidy payment that is fair and reasonable.

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Housing providers that were funded solely by the federal government will not receive any funding post EOA. Service Managers do not have any legal obligation to provide funding to federal housing providers and their units are not included in the legislated RGI units. However, this does not address any moral and social obligations or the fact that the Service Manager may need their RGI units in order to meet legislative obligations.

There is no operating agreement or expiry date related to the Regular Rent Supplement Program however rent supplement agreements do have termination dates. Rent supplement units are significant in maintaining required service levels and it is anticipated will be even more important post EOA.

Rent Supplement Programs

The Rent Supplement Program provides a rent subsidy to landlords in an amount equal to the difference between the household's geared-to-income rent and the full market rent. The City of Kingston as Service Manager has signed a rent supplement agreement with each landlord which sets out the responsibilities of the landlord, the specific units allocated to the program and the terms for payment of the rent subsidy.

The Rent Supplement Program on the whole is a very complex program as it has several programs administered differently based on various funding programs and rules.

Regular Rent Supplement Program

The 457 units in this program are administered in accordance with the HSA and are included in the 2003 legislated RGI units. The Service Manager has signed an administration agreement with Kingston & Frontenac Housing Corporation (KFHC) to oversee the day to day activities of the program which includes offering the units to households on the Centralized Waiting List (CWL), calculating household rents and payment of the subsidy to the landlords. This program does receive some federal funding which will end although the Service Manager is not certain when that date will be. Since the Service Manager is required to maintain these legislated 2003 RGI units, there is little doubt that this program will need to be funded beyond the end of the federal funding.

Strong Communities Rent Supplement Program

This program, created in 2004, is administered in the same manner as the regular rent supplement program but the units are not included in the 2003 legislated units. The Service Manager receives an annual fixed provincial funding allocation of \$466,805 which is scheduled to end March 31, 2023. The funding is allocated on a "use it or lose it" basis so must be spent in full each year.

Originally, in 2004, there were 89 rent supplement units under this program; however, with the fixed funding formula and the increase in market rents resulting in increased subsidies per unit, the total number of units has decreased to 69 units in 2012. If the Service Manager continues to expend the full funding each year, it is expected that there will be approximately 45 units left in the program when funding ends in 2023. The current rent supplement agreement used in this program, similar to one used in the regular rent supplement program, requires the Service

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Manager to continue to pay the rent subsidy beyond the termination date of the agreement for each unit until the tenant vacates the unit.

The Service Manager is not legally obligated within the HSA or the original terms of this funding to continue this rent supplement program beyond the funding end date, however, unless the Service Manager begins reducing the numbers now as the units become vacant in hopes of getting to zero by March 31, 2023, there will be a number of households living in private market units with a rent subsidy. The downside to reducing the numbers now is that a portion of the federal funding will be returned each year and the Service Manager may need these units to maintain its legislated 2003 RGI units if social housing providers opt out at the end of their operating agreement. At this time, the Service Manager is intending to review and analyze this as part of a review of the whole rent supplement program and end of federal funding.

Investment in Affordable Housing (IAH) Rent Supplement Program

The Investment in Affordable Housing for Ontario (IAH) program launched in 2011 and is part of the Canada-Ontario Affordable Housing Program. The IAH Rent Supplement Program is one component of the IAH program.

The City of Kingston has allocated \$2.3M to the IAH Rent Supplement Program which will fund approximately 86 rent supplement units until March 31, 2021 when funding ends. This program is administered by the City's Housing Department and is not included in the 2003 legislated units. Unlike the two programs above, the landlord agreements have a specific end date of March 31, 2021 and the tenants are well aware that effective April 1, 2021 they will be required to pay the full market rent.

Given the above, this program could end on March 31, 2021 with no further financial obligations to the Service Manager. This does not address any moral or social obligations to these households who may have become dependent on this subsidy to afford their rent. The other item to note with this program is that typically these rent subsidies are much lower per unit than the two programs administered in accordance with the HSA. The reason for this is the HSA rental rates for households on assistance is much lower than the rental rate of maximum shelter allowance allowed in this program. As households are entitled to this maximum shelter allowance it does not affect their basic needs allowance and does not cause any additional financial burden to the household.

Kingston Rent Subsidy Program

This municipally funded rent supplement program was created in response to recommendation #33 of the Kingston Model for Affordable Housing. This program provides 71 rent subsidies to 2 non-profit housing providers in their new buildings constructed under the Canada-Ontario Affordable Housing Program. These subsidies are the least expensive since market rents must remain at 80% CMHC average market rent for 25 years and the RGI rent calculations are set at maximum shelter allowance for households on assistance. It should be noted that the providers' rent requirement ends in 2034 and 2036 so market rents could increase at that time.

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Items to Consider in a Review of the Rent Supplement Program:

The entire rent supplement program must be analyzed to look for cost savings. Some items to be considered are:

1. Reviewing costs related to administering the entire rent supplement program. Currently KFHC is paid \$161,303 to administer the Regular and Strong Communities Rent Supplement Programs while Housing Department staff administers the Kingston and IAH rent supplement programs. There may be potential cost savings and efficiencies to be realized with having the Housing Department administer the entire Rent Supplement Program. This may be especially true post EOA.
2. Reviewing apartment unit types and size to ensure greatest cost savings and a portfolio that reflects community needs such as replacing two bedroom units with one bedroom units.
3. Deleting units in higher priced buildings as they become vacant and replacing with units in lower priced buildings.
4. The Ministry has confirmed that the HSA allows Service Managers to include units where rents are calculated in a manner similar to the HSA to be included in the 2003 legislated units. This could provide some flexibility for future funding including moving the less expensive rent supplement programs into the 2003 units as more expensive regular rent supplement units are deleted.

Social Housing Providers

Typically, the total cost of providing social housing (i.e. operating costs + mortgage payments) is higher than the total revenue received from geared-to-income (RGI) rents payable by the households residing in the units. As such, to ensure the economic viability of social housing providers, the Service Manager provides a subsidy to bridge the gap between total costs and total revenues. At the time of download, the Ministry established a new funding model for the calculation of annual subsidies issued to social housing providers, based on standardized operating costs and revenue benchmarks. These subsidies are adjusted annually for cost of living increases and are municipally and federally funded.

In light of the end of operating agreements (EOA) and the decline in federal funding, a viability assessment must be conducted for each social housing provider to determine their ability to operate without a subsidy and mortgage post EOA. To assist with this determination various factors must be considered for each housing project such as: operating position today and at EOA, portfolio composition (RGI/Market mix), capital position (ability to meet anticipated capital needs over time), condition of portfolio and leveraging potential. Apart from financial stability and capital position, other points to consider at EOA include: unit affordability to residents and the willingness of providers to continue to offer RGI units.

Remedial measures to consider in these areas may include: cost reduction strategies, revenue generation strategies, modifying portfolio mix of RGI/Market units and merging providers to reduce operating costs.

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Analysis of Social Housing Program

It seems certain that federal funding is going to decrease every year and eventually end. Funding provided to federal social housing providers will end while funding for previous provincial housing providers will change and likely decrease to an unknown amount. Some housing providers may decide to leave social housing behind and focus on market rentals. Meanwhile, the Service Manager is legislated to continue to provide 2003 RGI units in this service area.

It is evident that an in depth analysis of the social housing providers and the rent supplement program is needed. The Service Manager must be aware of the housing providers that will remain in social housing and the associated costs for their RGI units, as well as the types of cost saving measures that can be implemented through changes to both the rent supplement program and the various social housing programs.

The Service Manager has reviewed various options for accomplishing this work including the hiring of a consulting team, assigning the project to City staff, or a combination of those options.

This project will require a significant amount of time and financial expertise to complete which is not available through the Housing Department. Therefore, the project is to be completed by a consulting team with support from Housing Department staff.

Given that funding has already started to decline and some operating agreements will expire as early as 2019, the Service Manager needs to be proactive in order to be as knowledgeable about the future as possible and to be able to begin taking steps to meet legislated and financial obligations now and post EOA. A thorough analysis of the current and future financial position of each housing provider, as well as a fulsome review of the rent supplement program to identify cost saving measures must be conducted. Without this information and sufficient time to implement changes that are identified in the study, the Service Manager could be left in a serious financial predicament that cannot easily be overcome.

Therefore, the Housing Department will begin the process immediately to identify the details of the project and hire a consultant. The scope of the project would include:

Detailed analysis of each Housing Provider's:

- Current financial situation
- Current condition of assets
- Current and future building and capital needs
- Funding requirements post EOA
- Plans for their future
- Options available to continue to be able to provide RGI units
- Other cost saving measures which may include the merger of housing providers

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Detailed analysis of the Rent Supplement Program:

- Analysis of administration costs, administration processes and efficiencies
- Review of each program for current costs and funding obligations
- Identify possible cost saving measures and solutions
- Investigate the possibility and implications of changing rent calculation formulas as allowed under the HSA
- Work with AHP proponents to maintain current market rent levels for units attached to rent supplement agreements beyond the term of their AHP agreement

Using the information gathered above to make recommendations as follows:

- Options for each Housing Provider ongoing and post EOA
- Changes to the rent supplement program
- Other cost saving options related to the social housing system in its entirety
- Timing of each recommendation and implementation process
- Detailed breakdown of cost savings and resulting Service Manager costs annually, based upon various options over the next 20 years to meet the continued reduction in federal funding and post EOA
- Aligning these with the objectives of the Municipal Housing Strategy and the 10 Year Housing and Homelessness Plan.

EXISTING POLICY/BY LAW:

Municipal Housing Strategy – Recommendation # 16:

That the City maximize available funding by:

- Utilizing current program offerings
- Continuing to actively seek out other funding opportunities
- Developing a contingency plan to manage anticipated step downs in future senior government funding

Municipal Housing Strategy – Recommendation #27:

That the City develop options for social housing stock reaching mortgage maturity which leverage equity while addressing on-going affordability and community opportunities.

City of Kingston Strategic Plan – Work Plan # 4.1:

Facilitate the creation of affordable, sustainable and social housing.

NOTICE PROVISIONS:

N/A

ACCESSIBILITY CONSIDERATIONS:

This report is available in alternative formats upon request.

FINANCIAL CONSIDERATIONS:

Ongoing financial considerations are necessary as federal and provincial funding for social housing is declining.

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CITY OF KINGSTON STAFF CONSULTED:

Melanie Bale, Financial Analyst, Community & Family Services Department
Mary McIntyre, Housing Programs Administrator, Housing Department

EXHIBITS ATTACHED:

Exhibit A Annual Apportionment of Federal Funds
Exhibit B End of Operating Agreements

Exhibit A
Annual Apportionment of Federal Funds - Years 2008 to 2012

Mandated 2003 Units	2008	2009	2010	2011	2012
LHC	1,609,560	1,609,560	1,609,560	1,609,560	1,411,986
Rent Supplements	1,005,692	1,001,354	1,001,354	991,728	962,884
Social Housing Providers	966,921	966,921	966,921	966,921	966,921
Federal Funding Allocation	3,582,173	3,577,835	3,577,835	3,568,209	3,341,791
LHC	4,813,091	4,830,191	4,895,050	5,240,742	5,267,489
Rent Supplements	2,671,065	2,777,501	2,822,416	3,003,208	3,053,122
Social Housing Providers	4,444,984	4,182,559	4,008,800	4,441,042	4,518,570
Subsidy Costs	11,929,140	11,790,251	11,726,266	12,684,992	12,839,181
Municipal Contribution	8,346,967	8,212,416	8,148,431	9,116,783	9,497,390
Non-Mandated Units					
Federal Funding Allocation	415,145	415,145	415,145	415,145	415,145
Subsidy Costs	229,488	229,488	209,784	239,923	224,423
Municipal Contribution	- 185,657	- 185,657	- 205,361	- 175,222	- 190,722
Total Municipal Contribution	8,161,310	8,026,759	7,943,070	8,941,561	9,306,668
% Municipal Contribution Increase		-2%	-1%	13%	4%
Note: Total Municipal Contribution includes the City of Kingston and the County of Frontenac					

Exhibit A – Annual Apportionment of Federal Funds

Mandated 2003 Units	2013	2014	2015	2016	2017
LHC	1,411,986	1,376,254	1,376,254	1,203,346	1,159,587
Rent Supplements	920,320	926,797	1,036,260	1,093,340	1,020,346
Social Housing Providers	966,921	966,921	966,921	966,921	966,921
Federal Funding Allocation	3,299,227	3,269,972	3,379,435	3,263,607	3,146,854
LHC	5,245,791	5,326,825	5,445,064	5,545,112	5,708,609
Rent Supplements	3,148,015	3,210,976	3,275,195	3,340,699	3,407,513
Social Housing Providers	4,472,542	4,617,299	4,775,987	4,919,267	5,066,845
Subsidy Costs	12,866,348	13,155,100	13,496,246	13,805,078	14,182,967
Municipal Contribution	9,567,121	9,885,128	10,116,811	10,541,471	11,036,113
Non-Mandated Units					
Federal Funding Allocation	415,145	403,804	347,099	347,099	347,099
Subsidy Costs	262,816	267,816	272,916	278,374	283,942
Municipal Contribution	152,329	135,988	- 74,183	- 68,725	- 63,157
Total Municipal Contribution	9,414,792	9,749,140	10,042,628	10,472,746	10,972,955
% Municipal Contribution Increase	1%	4%	3%	4%	5%
Note: Total Municipal Contribution includes the City of Kingston and the County of Frontenac					

Annual Apportionment of Federal Funds - Years 2013 to 2017

Assumptions:

1. City is under no obligation to continue the funding for non-mandated units as they are not part of the 2003 mandated units.
2. Rent Supplements exclude Made in Kingston Rent Supps, Strong Communities and IAH Rent Supps.
3. Actual subsidy costs used for 2008-2012; budgeted subsidy costs used for 2013-2017.
4. Increase of 2-4% in subsidy costs for 2016 & 2017.

Exhibit B - End of Operating Agreements

Mandated 2003 Units		# of Targeted RGI Units	Expiry Dates (mortgages/ debentures/ operating agreements)
LHC	Kingston & Frontenac Housing Corporation	967	2013 - 2027
Rent Supplements	Various	437	Various
	Zion United Church	15	2025
Housing Providers	Kingston Co-operative Homes	8	2026
	Kingston Home Base Non-Profit Housing	59	2022 - 2029
	Town Homes Kingston	261	2023 - 2028
	Lois Miller Co-operative Homes	21	2025
	Porto Village Non-Profit Homes	43	2023
	Royal Canadian Legion Villa	44	2027
	St. Andrew-Thomas Senior Citizen Residence	20	2023
	Kaye Healey Homes	35	2024
	Loughborough Housing Corporation	28	2019 - 2025
	North Frontenac Non-Profit Housing	18	2020 - 2027
	Weller Arms Non-Profit Homes	25	2026
	Marion Community Homes	22	2020
		2003	
Non-Mandated Units			
Federal	Dutch Heritage	13	2019
Urban Native	Tipi Moza	17	2024