
DATE: October 11, 2011

REPORT TITLE: **SOCIAL HOUSING CAPITAL MAINTENANCE STRATEGY UPDATE**

FROM: Janet Menard, Commissioner of Human Services
Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

RECOMMENDATION

That the proposed Accessing Capital/Infrastructure Funding policy, in the form attached as Appendix I to the report of the Commissioner of Human Services and the Chief Financial Officer and Commissioner of Corporate Services, dated October 11, 2011, titled "Social Housing Capital Maintenance Strategy Update" be approved.

REPORT HIGHLIGHTS

- In 2006, Council approved a Social Housing Maintenance Reserves Strategy, which demonstrated that most housing providers in the Region of Peel will not be able to finance future capital and maintenance needs and outlined a framework for distributing funds and services to meet this need.
- A recent analysis of housing providers' forecasted capital/maintenance funding requirements demonstrated that future capital and maintenance will still exceed their funding capabilities, despite the influx of one-time capital funding from senior levels of government.
- Regional staff developed a recommended policy (Accessing Capital/Infrastructure Funding) to distribute funding to housing providers based on their actual capital/maintenance needs and with conditions to ensure they continue to remain a partner in the social housing program.

DISCUSSION

1. Background

As the Service System Manager, the Region of Peel manages the partnerships with 46 housing providers, which includes; 15 co-operative housing providers and 32 non-profit housing providers (including Peel Living which is the largest housing provider).

Under the *Social Housing Reform Act, 2000* (SHRA), it is mandatory for the Region of Peel, as a Service Manager, to provide funding to housing providers for capital and maintenance funding shortfalls. The Region of Peel is the only level of government from whom Peel housing providers can ask for additional funding. Unlike private sector organizations, housing providers cannot renegotiate or extend their mortgages as a means to attain additional funding for these shortfalls.

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In 2003, the Region of Peel established an internal Contingent Liability Reserve Fund to address any potential capital or maintenance funding requests from housing providers. In 2006, Council approved a Social Housing Capital Maintenance Reserves Strategy, which included:

- An analysis that indicated that most housing providers in the Region of Peel will not have enough funding to deal with future capital and maintenance needs.
- A recommendation to create two staff positions through a Technical Advisory Services Pilot project as a dedicated resource to assist housing providers in an advisory capacity on maintenance and capital issues.
- A framework on how funding from the Region’s Contingency Liability Reserve could be used to assist housing providers that need financial help dealing with capital and maintenance issues.

Since that report, staff undertook:

- An analysis confirming housing providers’ expected capital and maintenance costs will continue to be higher than their financial capacity to meet these needs, despite the influx of one-time capital funding from senior levels of government.
- An evaluation of the Technical Advisory Services Pilot project which demonstrates the service is a significant benefit to both the Region of Peel and housing providers. The Pilot resulted in developing Three Year Capital Plans for all housing providers to help them better manage their assets, and to help the Region of Peel to better manage and mitigate its liabilities associated with the upkeep of social housing stock in Peel.
- A process to develop a recommended policy that fairly deals with requests that come in from housing providers for assistance for capital/maintenance funding shortfalls.

The purpose of this report is to provide Council with an update on housing providers’ capital and maintenance shortfalls and to recommend the establishment of a policy that will help housing providers access funding to meet these shortfalls.

2. Most Housing Providers will continue to have Capital/Maintenance Funding Shortfalls

A recent analysis of housing providers’ expected capital and maintenance funding needs over the next ten years shows that by 2021, the aggregate capital/maintenance funding shortfall for all housing providers is expected to be \$97 million.

Table 1: Expected Capital/Maintenance funding needs of all housing providers 2012 – 2021 / by program – including Peel Living)

Program	SHRA	Former Federal*	Public Housing	Total
# Units	7,714	3,384	1,008	12,106
Amount (millions)	\$75.3	\$17.2	\$4.5	\$97
% of Total Need	78%	18%	4%	100%

*The former federal portfolio is included in this analysis as a recent legal opinion provided to Regional staff found that the Region of Peel, as a Service Manager, has an obligation to fund these housing providers to offset any unexpected operational needs (Peel Living has 22 buildings under the former federal portfolio consisting of 2405 units.)

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SOCIAL HOUSING CAPITAL MAINTENANCE STRATEGY UPDATE**a) How the Region of Peel has Helped Housing Providers to Date**

Each year through the budget process, Council approves an allocation to an internal Contingent Liability Reserve Fund, for the purpose of helping housing providers deal with capital or maintenance funding shortfalls.

In 2006, Regional staff estimated that the Contingent Liability Reserve Fund would be depleted by 2013; however, disbursements from the Contingent Liability Reserve Fund have not been as high as expected due to the following:

- The 2006 estimate of Contingent Liability Reserve Fund disbursements were based on the best available information about the future capital and maintenance funding needs of housing providers at the time. Since then Regional staff have updated this estimate using more current data from housing providers' Building Condition Assessments completed after the 2006 report.
- There was no established policy concerning the release of these funds to housing providers.
- Two capital funding programs from senior levels of government provided one-time influxes of capital funding for housing providers:
 - In 2008, the provincial government provided the Region of Peel with \$5.5 million, which was distributed to three housing providers; and
 - In 2009, the federal and provincial governments released the Social Housing Renovation and Retrofit (SHRRP) program, which provided \$35,189,385 to housing providers in the Region of Peel.

A complete update on the distribution and use of these funds is provided in the Council Report titled "Social Housing Capital Repair Initiative: Social Housing Renovation and Retrofit Program and Renewable Energy Initiative – Update", dated September 21, 2011.

- Through the Technical Advisory Services Pilot Project, housing providers received enhanced assistance in the areas of capital planning and building maintenance, which has helped them better plan for regular maintenance and capital repairs. A recent evaluation of this service found the following:
 - Housing providers noted high satisfaction with the enhanced services received through the Pilot project.
 - By working with Peel Living staff to review and prioritize the capital plans for 72 buildings, the Technical Advisory Services team helped Peel Living to reduce its forecasted capital budget for 2011 from \$19 million to \$11 million.
 - The Technical Advisory Services Team worked proactively with non-Peel Living housing providers to help them plan for large-scale repairs. These reviews allowed housing providers to make better informed decisions about how to proceed and resulted in an overall savings of \$623,100 in capital and maintenance repairs.
 - The Region's ability to provide technical advice and assistance to housing providers has been solidified through this Pilot. By helping housing providers better manage their assets, the Region is also ensuring that its own liability regarding the maintenance and upkeep of the social housing stock in Peel is better managed.

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3. Recommended Policy for Distributing Needed Funds to Housing Providers

Regional staff developed a proposed policy (Appendix I) to address requests from housing providers for financial assistance for capital and maintenance issues. Development of this policy was based on stakeholder feedback; lessons learned through the administration of SHRRP; and best practices found in similar policies used by other Service Managers. Positive feedback was received about the direction of the policy at a recent meeting of external housing providers and sector organizations.

Under the proposed policy:

- Funds are provided to housing providers through an advance of additional subsidy for repairs under \$500,000 and through a secured loan for repairs over \$500,000 (including aggregate amounts);
- Housing providers must meet certain conditions; and
- Mechanisms are in place to facilitate repayment of funds to the Region of Peel.

Maintaining the viability of the working fund through repayment mechanisms will allow for the continued availability of funds to housing providers in need. Depending on the financial circumstances of the housing provider, the Region may, at its discretion, provide the funding through a forgivable loan. In cases where funding is provided to Peel Living, the requirement to secure a loan on title is not necessary as it is a regionally owned asset.

The Region of Peel, as Service Manager, invests millions of dollars annually in the social housing portfolio through mandated subsidy payments. In order to preserve these assets, it is important that housing providers be able to access additional funding when needed. The Region's interest is protected under this policy by ensuring housing providers continue to participate in the social housing program after their operating agreements expire and by invoking conditions whereby if the housing provider does not pay back the debt, the Region can act on its security on the mortgage and either deliver the units directly or redevelop the site.

A visual of the relationships between the Region of Peel, as the Service System Manager, and its regional and community based stakeholders within the housing continuum is presented in Appendix II. This chart illustrates what stakeholders will be affected by this policy.

FINANCIAL IMPLICATIONS

While it is mandatory that the Region of Peel provide funding to housing providers for their capital and maintenance funding shortfalls, the Region also needs to use its discretion to carry out the process in an efficient and effective manner. Each year, as a part of the budget process, staff will identify housing providers likely to require additional subsidy to complete necessary capital work in the upcoming year for inclusion in the budgetary process. Each year, staff will also report to Council on the loan/subsidy advance activity as part of an annual report on the Role of the Service System Manager in the Region of Peel.

The Technical Advisory Services Pilot Project was established to assist housing providers to deal with capital and maintenance issues, and consisted of two dedicated staff paid for by the interest gained on the Region's Contingent Liability Reserve Fund. In 2011, this service was evaluated and it was found that that housing providers and the Region of Peel have benefited greatly from this specialized assistance. The pilot has been of great value in supporting the Region's ability and obligation to help housing providers sustain their assets.

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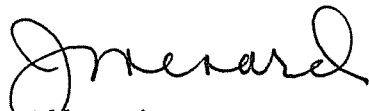
Based on this evaluation, staff proposed to formalize the technical advisory service and associated staffing and will bring this forward as a new initiative during the 2012 budget process.

CONCLUSION

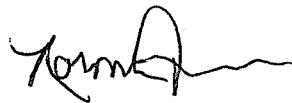
Social housing buildings are a valuable infrastructure and community asset. Community-based housing providers are an important partner in the delivery of housing programs across the Region of Peel. Helping housing providers to appropriately maintain their assets ensures that communities in Peel Region remain viable.

Despite one-time capital investments from the provincial and federal governments, it is still expected that housing providers' capital reserves will not be sufficient to meet expected capital needs going forward. Providing necessary funding through the attached recommended policy and by offering permanent technical advisory services to help housing providers better manage their assets are important factors to preserve the housing stock for current and future residents.

All Service Managers, including the Region of Peel, have regularly communicated the need for adequate capital funding to senior levels of government with some success. The assistance provided through one-time capital funding programs funded by the provincial and federal governments was a welcomed and well needed investment in social housing. It is hoped that this is a signal of an ongoing role for the other levels of government in meeting the underfunded capital needs of the devolved housing stock. There is still an ongoing need for the Region of Peel, through the Intergovernmental Relations Advisory Committee, to advocate to senior levels of government to assist municipalities in maintaining the downloaded social housing stock.



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Approved for Submission:



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APPENDIX I

Policies & Procedures



HIP

Housing In Peel

Subject: Accessing Capital/Infrastructure Subsidy

Purpose:

The purpose of this document is to provide housing providers in the Region of Peel with the policy for requesting capital/infrastructure subsidy from the Service Manager if the provider requires assistance with expenditures for their housing project(s).

Overview

Housing providers are expected to manage their operations and finances responsibly (fiscally and socially), which includes seeking out opportunities to maximize revenues and minimize costs.

Housing providers receive funding from the Service Manager and funding levels provided are expected to be adequate for providers to maintain their assets, but the Service Manager recognizes:

- unexpected expenses and circumstances can occur which can cause deficits;
- housing projects' annual reserve contribution rates (included in overall funding levels) and current reserve balances are insufficient to meet long-term capital requirements;
- capital grants provided through the Social Housing Renovation and Retrofit Program (SHRRP) and the provincial Social Housing Capital Initiative helped reduce deficits and the rate of reserve depletion but were not sufficient to eliminate long term financial shortfalls; and
- when these financial shortfalls are experienced housing providers will turn to the Service Manager for support.

To respond to the anticipated need by housing providers for financial support, the Service Manager may provide funding to assist housing providers that request additional funding for a specific capital use and will be issued on a case by case basis according to criteria set out in the policy below.

Policy: Requests for Additional Funding:

Housing providers in the Region of Peel can request additional funding for capital expenditures **if** the request can be ranked on the Capital Priority Scale (attached to policy).

Business Case

Requests for additional funding must be submitted to the Service Manager as a business case. Business cases must include details on the expected capital expenditures, rationale for why additional funding is required and why the sought work is the most effective solution to address the capital need.

Funding Capital Expenditures from existing reserves and surpluses:

Housing providers may request additional funding for capital expenditures before their reserve fund has been completely depleted **if** the provider has a long term plan that demonstrates an expected reserve fund depletion. This information will be confirmed in your Three-Year capital plan prepared by the Region of Peel in 2010 or 2011.

Housing providers that make a request for additional funding for capital expenditures may be expected to use some of their remaining reserves toward the required work.

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Housing providers may be expected to use funds from their accumulated surplus amounts. The Region of Peel recognizes the importance of having a healthy accumulated surplus to offset unexpected operating costs and may require that a provider retain a minimum of \$300 per unit in its accumulated surplus prior to any transfer from this fund to offset capital expenditures.

If using reserves and/or accumulated surplus amounts are determined to be necessary, conditions will be included in the Additional Subsidy Agreement or Loan Agreement.

Important! A depleted reserve fund **does not** guarantee that additional subsidy will be granted. The Service Manager will consider the housing provider's spending habits and patterns over the past few years to ensure there was effort to remain a fiscally responsible housing provider. If past spending is determined to have been frivolous the Service Manager can deny the request.

Additional Subsidy Agreement or Loan Agreement

If the Service Manager approves a housing provider's request the approval is subject to conditions set out in an Additional Subsidy Agreement or Loan Agreement between the housing provider and the Service Manager. Final approval on behalf of the Service Manager will be granted by the Director of Service System Management based on an evaluation of the business case.

Funds will be provided to a housing provider as a repayable additional subsidy up to an aggregate amount of \$500,000. At the sole discretion of the Service Manager and determined on a case by case basis, any aggregate amounts over \$500,000 may be registered on title as a secured loan, which will be repayable.

1. Additional Subsidy Advances:

The Service Manager can provide additional subsidy advances to housing providers under section 107 of the Municipal Act, 2001.

The Additional Subsidy does not bear interest and repayment is guaranteed through the nature of the funds as a subsidy payment whereby the Service Manager controls the providers' subsidy payments. Typically, the Service Manager would require a portion of the housing provider's annual surplus be directed to pay back the subsidy. The additional subsidy repayment plan will be negotiated and confirmed in the Additional Subsidy Agreement.

2. Loans secured by collateral mortgages

Funds that exceed an aggregate of \$500,000 may be secured on title, as determined by the Service Manager on a case by case basis according to criteria set out in this policy.

All loans will be repayable at the end of the housing provider's operating agreement and will be paid back over a 15 year period. During this time, the housing provider will have to remain in the Region's housing program.

The following conditions will be applied for providing capital funding in excess of \$500,000:

- Registration on title of an assignment of rents and collateral mortgage ranking behind the primary lender's first mortgage, subject to Ministerial Consent.
- Repayment beginning when the Service Manager determines the housing provider has the financial capacity to pay or at the latest upon retirement of the first mortgage.
- Interest rates on the amount of funds will be determined in consultation with the Region of Peel's Corporate Finance Department.
- Requirement for the housing provider to comply with housing program obligations until the loan and all accrued interest is paid in full with a prohibition against third party refinancing or sale without the Region's prior written consent.

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Conditions applicable for both Additional Subsidy Agreements and Loan Agreements are:

- All housing providers are required to submit annual capital plans for the Service Manager’s approval and may only spend their capital reserve funds on approved projects until such time as the funds and any applicable interest are repaid in full.
- Regional technical advisory staff will closely monitor all aspects of capital work undertaken under this program. The Service Manager can take appropriate steps if the housing provider is at risk of insolvency or otherwise unable to ensure work is completed.
- The Service Manager will only make payments to housing providers as required to pay project related invoices as the work is completed. The payment process used to distribute the Social Housing Renovation and Retrofit Program (SHRRP) payments will be used for this program.

Additional conditions may be applied that are specific to each request and determined by the Service Manager based on the circumstances identified in the housing provider’s request. Some of the Service Manager’s primary concerns (for which conditions will likely be based upon) are highlighted below:

- That the mandate to provide safe, affordable, well-maintained housing to residents in Peel is being met;
- That the waiting list is accessed when there are rent-g geared-to-income vacancies;
- Accountability for spending habits;
- Management and oversight of the building is upheld; and
- Participation in the provision of affordable housing continues once operating agreement expires.

Legislation

Social Housing Reform Act, 2000 S.O. 2000, Chap 27, section 111 (the “SHRA”)
Municipal Act, 2001, S.O. 2001, c.25, section 107.

Attachment Capital Priority Scale

The capital work required will be assessed against the following priority ranking scale (scale is from highest to lowest):

Priority Ranking	Definition
1. Health and Safety	<ul style="list-style-type: none"> • Conditions that <ul style="list-style-type: none"> • are hazardous • may lead to loss of life or critical injury, or • threaten health or well being of individuals using the building (eg. residents; staff) • must be corrected or removed as a first priority.
2. Building Deficiency Mitigation	<ul style="list-style-type: none"> • Current and ongoing conditions or deficiencies that lead to the deterioration of a building's structural elements must be investigated and corrected if necessary. • Building deficiencies and structural integrity must be maintained at all times. • Failure to mitigate deficiencies will lead to unsafe (and potentially life threatening) conditions which may eventually render a building: <ul style="list-style-type: none"> ○ structurally unsound ○ physically obsolescent, and ○ incapable of performing the task it was designed to do.
3. Legislative Requirement	<ul style="list-style-type: none"> • All buildings must be maintained or upgraded so that they comply with all applicable legislative requirements.
4. Building Functionality	<ul style="list-style-type: none"> • Building elements that have reached the end of their useful life must be replaced or upgraded in order to maintain the tenants' quality of life and to prevent the building from becoming physically or functionally obsolescent.
5. Cost-Effective Initiatives	<ul style="list-style-type: none"> • Upgrades with cost-effective initiatives which improve the operational efficiency of a building and have a reasonable payback.

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APPENDIX II

Region of Peel Stakeholders Affected by Proposed Policy (Circled)

