

Clause 20 in Report No. 11 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on June 25, 2015.

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Housing Provider Loan and Subsidy Program Update

Committee of the Whole recommends adoption of the following recommendation contained in the report dated May 22, 2015 from the Commissioner of Community and Health Services:

1. Recommendation

It is recommended that:

1. The current Housing Provider Loan and Subsidy Program process be amended to allow funding of secured loans for housing providers based on five-year capital repair plans in lieu of annually, subject to availability of funds in the approved budget.

2. Purpose

This report seeks approval to amend the current process for providing funds to Housing Providers under the current Housing Provider Loan and Subsidy Program. The adjustment is to extend the funding period from one year to five years of funds, based on long term capital plans.

3. Background

Social housing is a valuable community asset

York Region currently owns or administers 85 social and affordable housing complexes with over 6,500 housing units. Social housing is home to thousands of York Region seniors and families. Some of these residents have disabilities, most have very limited incomes and all rely on the housing provided to them.

Housing Provider Loan and Subsidy Program Update

In addition to the community benefits, the social housing portfolio is a significant property asset. The total replacement cost of the social housing portfolio is over \$1.4 billion.

Existing program does not provide sufficient funds for adequate repairs

Housing providers are required to contribute a mandated portion of their annual revenues into reserve funds for capital repairs. Typically, social housing programs do not provide enough annual funding to enable housing providers to set aside all the funds required to maintain their buildings for the long term. The Region identified this risk when the Province was preparing to transfer social housing programs to Service Managers. This risk is coming to fruition given the average age of the buildings.

Providing building repair funding preserves the assets and increases the Region's capacity to fulfill long-term program obligations

Under the *Housing Services Act, 2011*, housing providers will eventually be released from all program obligations, presumably as their mortgages retire. However, there is no corresponding provision that eliminates the Region's obligation to maintain the mandated number of rent-geared-to-income units. Providing funding through secured loans that extend housing providers' program obligations improves the Region's long-term capacity to meet service level standards.

The Region continues to invest millions of dollars in the social housing portfolio through mandated annual operating subsidy payments. Housing providers must have a means to access additional capital funding if these valuable assets are to be preserved. Securing the incremental capital investment by registering a collateral mortgage against title gives the Region greater control over the long-term disposition of the portfolio. Housing providers will be obliged to continue to participate in the social housing program until the collateral mortgages are discharged. In the event a housing provider is ultimately unable to repay the debt, the Region will have the option of acting on its security.

Housing Provider Loan and Subsidy Program Update

2008 Council approved Loan and Subsidy Program provides funding for capital repairs

In 2008, Council authorized a loan and additional subsidy program to assist housing providers with funding capital repairs. The program was based on providing building repair funds to housing providers up to \$500,000 in the form of additional subsidy. Where building repair funds exceed \$500,000 they are in the form of a secured loan. Both forms of agreements include repayment to the Region. These loans are non-performing until the primary mortgage is paid in full. Most housing providers have the ability to repay the Region once their mortgage expires.

To date, the Region has loaned \$7.4 million to five housing providers to carry out capital repairs.

Asset Planner and building condition assessment and site review program provide information for long term capital needs

Housing providers are at varying levels of skill and capacity to forecast long-term capital needs. In order to assist with capital planning the Region implemented Asset Planner software in 2012.

Asset Planner is a web-based asset management software used for capital planning. Asset Planner uses a facility condition index method to track condition performance of facilities. The Region uses Asset Planner for short-term and long-term capital planning and for reserve fund analysis for housing providers. Based on the current data all housing providers' capital reserves except one will be depleted by 2020.

Through ongoing engagement and education, housing providers are moving to 10-year capital plans in 2015 and 20-year plans in the next three years.

As part of continually improving asset management practices and data, building condition assessment updates will begin in 2015 with the objective to update every five years.

4. Analysis and Options

Adequate investment in the Region's housing stock is essential

The Region is ultimately responsible for the housing assets and for maintaining service levels for rent geared to income units. Under the *Housing Services Act, 2011*, The Region has the authority to act as the housing provider, in the event that the housing provider fails to operate their housing project properly. In its acting role, the Region would be responsible for all or part of the assets, liabilities and undertaking of the housing provider, including the housing project. As such, it is critical to address capital repairs in a timely manner to ensure the assets are well maintained.

Program and funding restrictions prevent housing providers from obtaining commercial debt to fund their repairs. The federal and provincial governments provided some capital repair funding as part of the recessionary economic stimulus program. In the absence of sustained investment from senior levels of government, though, housing providers' sole recourse is to seek assistance from the Region.

The Region can provide funding to housing providers

Under the *Housing Services Act, 2011* the Region has the ability to advance funding to the housing providers.

The Region has implemented a number of measures to ensure effective use of housing providers' existing capital reserve funds and to optimize housing provider capacity to fund necessary work. These measures have resulted in significant savings through expert advice, planning, surplus retention programs and training and education.

All housing providers who receive additional funds through either a subsidy advance or a secured loan are required to submit capital plans for the Region'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.

Current housing provider loan process is lengthy and does not allow for timely completion of work

The current loan process is annually based and has proven to be a lengthy process. In some cases, it has taken approximately 18 months to fully execute a loan agreement and register on title. This results in delays in addressing urgent capital work leading to further deterioration of the affected building elements. As such, the delays may lead to higher costs.

Housing Provider Loan and Subsidy Program Update

Part of the current loan process is to register on title an amount double the loan amount. This is based on housing providers needing more capital funds in the future.

Proposal for five year loan plan will expedite capital work

It is proposed to update the current secured loan process by basing funding on housing provider capital needs over a five-year period instead of annually. Under the proposed process, the Region and the housing provider will execute one loan agreement for five years. This allows for a more proactive planning approach given that many providers will require loans in more than one fiscal year to meet critical repair needs. This process will allow work to be completed in a timely manner which can reduce business and financial risk.

In addition, the lengthy loan registration process would only be required in the first of the five years rather than every year.

Although funding is based on five-year capital needs, funds are to be advanced based on the Regional approved annual budget. Detailed financial analysis will be conducted to ensure the provider has the ability to repay the Region.

Housing provider 30-year capital analysis

A 30-year capital needs analysis indicates that the majority of housing providers will be in a healthy financial position once their first mortgage is discharged. Financial analysis indicates that most housing providers have the ability to repay the loans over a period of 15 years.

The 30-year housing provider capital repair needs are approximately \$450 million.

Link to key Council-approved plans

Updating the Housing Provider Loan and Subsidy Program is a critical component of the Social Housing Asset Management strategy which aligns with the Region's Official Plan, Corporate Strategic Plan, and the department's Multi-Year Plan. The Program also supports the advancement of key priority areas such as sustaining critical infrastructure, effectively managing municipal resources, supporting community health and managing the Region's finances prudently.

5. Financial Implications

Building Condition Assessment and Reserve Fund studies conducted in 2015, and 30-year analysis conducted using Asset Planner indicate that housing provider capital needs over the next 30 years are approximately \$ 450 million. Providing necessary funding will preserve the social housing buildings for current and future residents while giving the Region greater long-term control over the social housing portfolio. The loans extend housing providers' social housing program obligations beyond the retirement of their first mortgages.

Funds for capital repairs will be advanced based on the fiscal year approved budget.

York Region had been aware of the capital underfunding for some time, and as a result initiated the Non-Profit Housing Capital Repairs Reserve in 2007. In 2009, the first budgeted contribution in the amount of \$1 million was made to this fund. Annual contributions to this reserve have increased each year, and as of December 31, 2014, the Non-Profit Housing Capital Repairs Reserve balance was \$24.7 million. The reserve now receives an annual contribution of \$9.3 million. Over 30 years the funds contributed to the reserve are enough to cover housing provider capital needs. The reserve balance at the end of 30 years should be approximately \$90 million. The capital funding available from the housing provider over a period of 30 years is approximately \$217 million. Table 1 outlines the details of the annual contributions and the year-end balances of the Non-Profit Housing Capital Repairs Reserve Fund.

Table 1
Non-Profit Housing Capital Repairs Reserve Fund

Year	Annual Contribution (\$M)	Projected Annual Draw (\$M)	Interest (\$M)	Funding Balance at Year End (\$M)
2015	7.3	5.1	0.9	27.8
2016	9.3	6.4	1.0	31.6
2017	9.3	7.1	1.1	35.0
2018	9.3	6.9	1.2	38.6
2019	9.3	7.7	1.4	41.6
2020	9.3	8.0	1.5	44.4
2021	9.3	7.8	1.6	47.5
2022	9.3	6.8	1.7	51.7
2023	9.3	6.5	1.8	56.3
2024	9.3	5.9	2.0	61.7

Repayment of loans commence upon discharge of the first mortgage. Any remaining interest will be capitalized and the total balance owing will be amortized over a 15-year period with blended payments of principle and interest.

Most housing providers have the ability to repay the Region once their first mortgage is discharged. Financial analysis will be conducted to ensure the housing provider has the ability to repay the loan.

Some housing providers may choose not to participate in loan program.

6. Local Municipal Impact

Social housing buildings are located in every municipality. Thousands of York Region's residents live in social housing communities and thousands more are on the waiting list. Well-maintained buildings in a healthy environment are an important community asset. It is critical that housing providers are able to access the funds needed to repair their buildings in a timely manner. This will ensure residents will live and thrive in healthy and safe communities.

7. Conclusion

Social housing is a valuable community asset. The total replacement cost of the social housing portfolio is over \$1.4 billion. In order to preserve these assets for long-term use, housing providers require additional funding for capital repairs in a timely and efficient manner.

Extending the secured loan funding period from one to five years will expedite the needed capital repairs for housing providers in line with the approved budget.

For more information on this report, please contact Rick Farrell, General Manager, Housing Services at ext. 72091.

The Senior Management Group has reviewed this report.

May 22, 2015

Accessible formats or communication supports are available upon request