

Implications for the state of capital reserves in the social housing sector in the Province of Ontario



Social Housing
Services Corporation

Mitigation Strategies and Political Policy

History

It is relatively certain that the historic under-funding of housing providers' Replacement Reserves existed prior to the social housing program being transferred to municipalities. Therefore, the first response is to urge the Province to revisit its support to social housing and provide the necessary funds to housing providers so that they can meet their future capital needs in a responsible manner.

SHSC does not have a mandate to politically lobby nor does it desire to be in the situation of stating a position on this issue. SHSC's interest (and the interest of its subsidiary, SHSC Financial Inc., which is responsible for the investment of the capital reserves) is from a business and social perspective. As a result, this tool kit and materials relating to the capital reserves situation is being referred to those organizations which have a stake in rectifying this situation and who have the voice and authority to speak for all potentially affected stakeholders.

Implications and Strategies

The Province of Ontario and the Federal Government should be notified of the projected financial requirement for the Capital Replacement Reserves held by the Non-Profit and Co-operative housing providers to meet its obligations and to ensure that sufficient funding will be available to undertake necessary capital repairs as the inadequacy of these funds are an imminent and predictable liability for municipalities. To date, there has been no action taken by the Ministry as a result of these studies nor has there been any indication of how the Ministry might deal with the known inadequacy of the capital reserves.

The Service Manager should communicate their concerns to the federal minister responsible for Canada Mortgage and Housing Corporation, the Association of Municipalities of Ontario, Ontario Municipal Social Services Association, Social Housing Services Corporation, Ontario Non-Profit Housing Association, Co-operative Housing Federation of Canada – Ontario Region, Members of Parliament and Member of Provincial Parliament.

Social Housing Services Corporation will work with the Service Managers to advocate the provincial and federal government to re-open the Capital Replacement Reserves issues.

New Provincial Funding Model

The Province's new funding model for establishing subsidies to housing providers has not been announced. Recommendations have been made to the Ministry of Municipal Affairs and Housing that the current replacement reserve fund model is inadequate and needs to be increased. The Social Housing Reform Act is silent on the level of replacement reserve funding required to deal with the shortfall situation. The Social Housing Reform Act currently states that the level of replacement reserve funding as stated in the current operating budget will be increased by inflation on an annual basis.

The data in this study found the average cost per unit per year for the non-profits to be about \$1,225 in present value dollars to avoid a negative balance in the reserves. Building type, age, and capital funding requirements per building and available capital reserves could further refine the \$1,225 per unit per year figure.

The level of replacement reserve funding could be benchmarked using the \$1,225 per unit per year. The difficulty with this strategy is that the increased contributions will have to be municipally funded. It is therefore incumbent that municipalities not be unduly burdened with a disproportionate share of a problem that was, for years, not within their direct control to manage or mitigate, and that senior government take an active role in helping to stabilize this situation.

Drawing on the parallel situation in the private condominium sector, condominium corporations were faced in the early to mid-1990s with severe capital reserve under-funding, due to a lack of legislated capital reserve requirements. However, due to changes in the Condominium Act (2003) annual allocations for condos are expected to increase by 125% over the next 15 years, according to a study commissioned by SHSC, which, projections show, will completely alleviate the capital reserves issue in the sector.

It is important to note that condominiums have access to a number of tools that are not available to providers of social housing, namely, to increase rental charges to accommodate increased capital reserves allocations and the ability to re-finance their properties using paid-up equity in the building.

This further underscores the need for the senior levels of government, and most significantly, the Province, to be involved in helping to address this situation, as the social housing sector is not equipped with the tools with which to easily solve this looming problem.