

The Social Housing Pyramid: Getting to the top by starting with the basics

Social Housing Services Corporation, April 2008

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THE BUSINESS OF HOUSING

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EXECUTIVE SUMMARY:
THE SOCIAL HOUSING PYRAMID

Ten years after the federal and Ontario governments down-loaded responsibility for social housing and other programs to municipalities, the dust has settled. Social Housing Services Corporation has helped clear the air about what should be done next through a series of discussion papers for the Provincial-Municipal Fiscal and Service Delivery Review. This paper, *The Social Housing Pyramid: Getting to the top by starting with the basics*, is the final in a series that examined how poverty, administrative inefficiency, building disrepair and sustainable finance issues can be solved in part by wise use of social infrastructure, like housing.

Healthy and safe communities are sustainable only when local energies and entrepreneurship are released, when the bricks and mortar are in good repair, and when the cost of physical and social well-being is affordable to all. These three elements form a pyramid of interconnected strategic objectives - ensuring the livelihoods of our communities by developing a sustainable financial framework and creating a basis for social businesses to deliver housing. At the pinnacle is the need to sustain and re-create the livelihood of our communities.

Challenges:

Work Disincentives

Ironically, working families often face severe disincentives as they move into full-time work. Families on social assistance net \$1.00 per hour due to the claw back by rent geared-to-income and welfare income policies (if they need child care, they may lose money). Transfer and re-entry prohibitions are further obstacles to finding employment. The aging of the labour force means worker shortages in many sectors - we cannot allow poverty traps to hinder workers from jobs.

A key issue for the provincial-municipal negotiations is the hidden welfare subsidies paid to Ontario by its municipalities. Rents paid on behalf of social assistance recipients in social housing start at \$85 monthly, far below that paid to tenants in the private sector. This inter-ministerial arrangement serves no one. The result is an inadvertent \$175 million annual subsidy to the province. Families on welfare gain no realistic experience of having to budget for rents, should they exit the welfare rolls. Low rents also mean that RGI start grabbing 30% of earnings at levels below full-time work, guaranteeing poverty and reduced work effort.

Poverty Concentration

Some of our communities are known as poverty pockets, where concentrated poverty leads to poorer private and public services and personal safety feels compromised. Improving the social mix in our communities may be a complicated and long-term project, but solutions are available in the near term to start re-building our community livelihoods.

The Business of Social Housing

Underpinning the pinnacle are the cornerstones of social business and financial sustainability. Much of Ontario's social housing sector show the characteristics of many small to medium size enterprises: fragmented, small in scale, below average wages, under-investment in staff training and development, limited ability to lever equity or access debt, low levels of managerial skills including financial sophistication, use of IT and external resources such as HR

The sector faces a complicated environment with a limited toolkit. Duncan MacLennan, from the University of Ottawa's Institute for Governance, concludes about Ontario's social housing that "[e]conomies of scale, strategic and operational management capabilities are difficult to mobilize under such conditions."

Solutions:

Solutions are at hand. Back room functions can be served by a central, non-profit agency. Business lines can be re-aligned, particularly income verification for rent-geared-to-income (RGI) can be integrated with child care and Ontario Works. But the core business, that of providing adequate, safe housing for lower income households, will endure only if legislative changes protect this stock from loss and conversion.

There are cracks in the financial sustainability of social housing. Capital shortfalls are widespread, with some buildings facing serious structural problems. At the same time, many providers are burdened with levels of debt (the contingent liability) that make it impossible to operate their buildings in a self-sustainable fashion. Municipalities have little control over the mortgages they are obligated to pay and social housing subsidies are escalating.

The two senior levels of government need to fill the void they created a decade ago. The federal government would send a powerful signal that by freezing the federal transfer to the province at its current level, it is committed to finding solutions. The province has responded to the sector by making available lower interest loans for repairs and energy conservation. As the sector completes its assessment of what is needed to keep the stock "in good repair", more may be required.

Greater financial flexibility is needed in order for the sector to operate with greater respect for its community basis. Restructuring the debt can reduce municipal risk of realizing the true contingent liability while allowing providers to operate in response to market conditions, not policy restrictions. Mortgage re-financing as part of capital renewal can allow the fiscal to align with the physical.

SHSC believes the province and federal governments need to support a Housing Commission to chart future directions for social housing. The Commission needs the advice of all stakeholders, particularly social housing residents who experience its limitations and its promise on a daily basis.

RECOMMENDATIONS:

How to Build the Social Housing Pyramid

Building the Pyramid requires actions on several fronts, including the recommendations from SHSC's earlier report, *Snakes and Ladders* (see Appendix C).

Community Livelihoods

1. To decrease concentrations of poverty, the Province should encourage pilot projects with interested Service Managers and housing providers to improve work incentives and social mix.
2. To establish future directions and focus on Federal responsibilities for housing, the Province should support a Housing Commission to provide advice from its partners, including social housing residents and sector groups.

Social Business

3. To improve business efficiency, the Province should permit Service Managers to require housing providers to participate in pooled services for back office functions, such as tenant records, bookkeeping and property management, similar to current authorities for administering RGI income testing.
4. To ensure that social housing remains non-profit in nature, the province should clarify provisions in the Corporations Act and the Co-operative Corporations Act.
5. To increase municipal accountability, the province should transfer mortgage administration responsibilities to SHSC, subject to Service Manager approval.
6. To strengthen the sector in serving its partners, the Province should contract with SHSC for marketing and application processing of OSIFA loans.

Financial sustainability

7. To prevent current capital shortfalls from worsening, the Chair of SHSC should request the federal minister responsible for CMHC to maintain federal spending on social housing at current levels.
8. To reduce hidden municipal subsidies to provincial welfare programs, the province of Ontario should increase rents paid on behalf of social assistance recipients to the welfare shelter maximum over a four year period.
9. To improve access to built-up equity in social housing for capital renewal and new development, the provincial and federal governments should increase the flexibility for mortgage financing, including the ability to increase debt and extend amortization periods.
10. To facilitate the autonomy of housing providers and reduce contingent liability risks for Service Managers, the Ontario and federal governments need to remove the obstacles preventing Service Managers from separating sustainable mortgages from the true contingent liability.

The Social Housing Pyramid: Getting to the top by starting with the basics

1. Positioning Social Housing for the Future

Canada, and Ontario, once among the world leaders in providing affordable housing for low to moderate income households, have fallen behind European and other countries. Many OECD countries, which 20 years ago slashed public expenditures for housing, are now re-shaping and modernizing their housing investments to respond to new concerns about climate change, community health, poverty and crime.¹

In contrast, the federal government of Canada seeks to calcify the constitution by disengaging its considerable powers in matters of provincial jurisdiction, such as housing. Recent provincial announcements about new capital repair grants and loans (about which more later), demonstrate that the Province is becoming more attentive to sector needs. Nonetheless, the Province of Ontario operates inside the box of the “command and control” dictates of legislation written by a previous administration whose byline was “to get out of the housing business”.

The Social Housing Services Corporation (SHSC) is focused on the housing business. SHSC helps municipalities and housing providers manage the business of housing through the provision of business services, including research into issues affecting the sector.

The Social Housing Pyramid, the last in a series examining the problems within the social housing sector for the Provincial-Municipal Fiscal and Service Delivery Review, advances business-like solutions to ensure that the \$40 billion investment in social infrastructure can act as a lever to meet future needs of Ontario residents through innovative and responsive housing programs.

This paper, like the pyramid itself, has three points of emphasis:

- 1) The livelihoods of our communities requires the elimination of work disincentives and the promotion of mixed income, inclusive communities;
- 2) More business-like approaches to housing are achievable through the scaling up of providers and administration, shifts to income testing for housing benefits, and increased certainty that housing will remain affordable; and,
- 3) Financial sustainability is in everybody’s interest: innovative financing can assist provider autonomy, protect capital assets and Service Manager risk, moreover hidden subsidies to the Province should be removed from the municipal tax base.

¹ See “Beyond Bricks and Mortar: Important Considerations in the Future of Social Housing in Ontario”, Association of Municipalities of Ontario, August 2007

It is in everyone's interest to have a system that works for and is trusted by all stakeholders and finds a balance between service manager authority and provider responsibility and autonomy. The community-based housing model assumes that providers are independent of government and responsible for their performance -- within a framework of accountability for the public investment. We need to ensure that each has the proper tools to do the right job.

2. Principles and Importance of Housing

SHSC has contributed four papers, including this one, to inform the Provincial-Municipal Review process and subsequent policy discussions. SHSC's first paper, *Sustaining the New Partnership*², established five principles for social housing to help to frame the discussion of the issues and act as cornerstones for the development of the future strategy:

- 1) Well-funded, well-managed social housing is integral to stable, healthy communities.
- 2) Income redistribution programs should not be financed by property taxes. Municipalities should have access to revenue streams that are appropriate to, and that adequately support the level of funding needed for social housing.
- 3) Housing is a capital investment and requires flexibility in the tools available to ensure benefits for future generations.
- 4) Local governments are best placed to respond to and deliver social housing programs.
- 5) Municipalities need clear authority in critical areas where they bear the financial risk. Providers, who are also funders and owners, must be part of the decision-making process.

The challenges facing the social housing stock need to be understood through the roles it plays as an asset in our social infrastructure. Social housing is home for 275,000 families and individuals, representing some 600,000 residents. Its capital value is substantial, with a replacement cost of some \$40 billion. It contributes to the economy by using Ontario labour and materials and providing low cost housing for workers fueling the economy.

Good quality housing helps to equalize opportunity by removing barriers to education and employment caused by over-crowding and unsafe conditions. In doing so, it is a key strategy for reducing the health impacts of housing poverty upon some of the most disadvantaged in society. Social housing performs a leadership role in demonstrating the benefits of energy conservation in the multi-family residential sector. It creates leverage for community renewal through locations offered near downtowns or employment areas, many of which are suitable for more intensive development in mixed-income communities.

² For this and all other SHSC papers, go to the "research" section at www.shscorp.ca

Social housing is an asset, not a liability, in moving ahead on other public policy challenges facing Ontario and Canada. Shifting labour markets, high energy prices, global warming, increased poverty, aging, unaffordable ownership; all can be addressed, in part, by a resurgent social housing sector.

In our global economy, catching up with the international competition requires a new approach to ensure the livelihoods of our social housing communities. The need for improved social mix, work incentives and other employment-friendly practices was discussed in *Snakes and Ladders: Ending Poverty Traps by Rebuilding Livelihoods in Social Housing*. The third paper, *Capital Ideas: How to Extend the Health and Safety of Social Housing* catalogues existing and potential means to pay for the capital shortfalls in social housing.

Healthy and safe communities are sustainable only when local energies and entrepreneurship are unleashed, when the bricks and mortar are in good repair, and when the cost of physical and social well-being is affordable to all. These three elements form a pyramid of interconnected strategic objectives - ensuring the livelihoods of our communities by developing a sustainable financial framework and creating a basis for social businesses to deliver housing. At the pinnacle is the need to sustain and re-create the livelihood of our communities.

Pyramid building, inevitably, requires great effort to overcome large obstacles. Some of these problems result from the treatment of social housing as an after-thought when devolving provincial programs to municipalities. Other concerns reflect the inevitable aging process of buildings, Boards and staff who are reaching a turning point in their lives. A third set of issues result from the absence of a comprehensive policy framework to address how housing can meet challenges not imagined even fifteen years ago.

Times have changed since the first public housing was built 60 years ago. Today, social housing transformation requires collaboration among the federal and provincial governments, the 47 Service Managers, the 1600 housing providers, and the 275,000 families and individuals who call social housing home.

3. Community Livelihoods at the Pinnacle

The over-riding purpose of providing social housing is to help equalize opportunity for the disadvantaged by dealing with housing poverty. Improving how social housing is managed as a business and establishing financial sustainability are supporting mechanisms to achieve that over-riding purpose.

It is ironic that social housing, intended to provide safe, affordable housing for our lowest income families, has instead become a poverty trap for some, ensnaring residents with work disincentives, inflexible transfer and re-entry rules, and weak integration with employment programs. In particular, social assistance clients, face very negative provincial policies that punish them for trying to get ahead.

In addition, some of our communities confront the worst of social problems – concentrations of poverty, high unemployment, drugs, crime, and gangs. Solutions are hampered by rules preventing better social mix, by a dysfunctional fiscal relationship between the province and Service Managers and by a lack of engagement between housing and employment policy-making and program delivery.

SHSC's paper, *Snakes and Ladders: Ending Poverty Traps by Rebuilding Livelihoods in Social Housing*, presents the evidence for solutions to decrease the concentration and depth of poverty by improving work incentives and social mix.³

a) Improving Social Mix and Work Incentives

- While globalization has affected the manufacturing sector in particular, labour shortages at all skill levels are reducing wealth generation needed for social distribution
- Current labour shortages will worsen as the boomer group starts to retire
- U.S. innovations in public housing income policies have resulted in significant increases in earnings for the working poor
- English studies demonstrate that improving the mix in social housing increases the quality of both public and private services and personal safety
- The United Way of Greater Toronto's "Poverty by Postal Code" identified poverty pockets, too many of which are social housing with high RGI levels
- These concentrations are encouraged by federal and provincial policies which target social housing to the worse off
- Perversely, provincial RGI policies work against moving from part time to full time work – particularly for social assistance recipients
- Transfer and re-entry policies discourage those seeking employment
- Changing the social mix will take time; one of the first steps would be to allow individuals to keep more of their earnings

For individuals and families, work is an important means of realizing accomplishments, and gaining the self-confidence required for social mobility and self-reliance. When a family moves into social housing due to low income, it is bad policy to burden them with disincentives to increase that income.

Municipalities would also benefit from higher employment among social housing residents. As tenant incomes increase, so do rents, which reduces municipal subsidies. The reality is that, under current policies, most municipalities report increased social housing costs. Paradoxically, social housing residents are getting poorer at a time when the economy increasingly needs their labour.

³ To download or read the full version of *Snakes and Ladders*, go to <http://www.shscorp.ca/content.aspx?file=research/index.htm#A13>

It is not just about work incentives and access to employment programs, although these are of obvious importance. Access to support services by persons with mental health issues and victims of family violence have not received the attention and level of funding required to help these vulnerable groups re-integrate into broader community life.

b) Eliminating the Hidden Subsidy to Provincial Programs

A little-understood provincial regulation results in municipalities subsidizing provincial welfare programs by \$175 million annually. The hidden subsidies are built into the social housing rents charged to recipients of Ontario Works (OW) and the Ontario Disability Support Program (ODSP). About one-quarter to one-third of tenants in social housing receive social assistance and pay rents based on a schedule originally designed to shift provincial welfare costs to the federal government. When social housing was devolved, the rent schedule was left unchanged, and now municipalities carry the load.

This unfairness results from the different cost-sharing arrangements for welfare and social housing. Provincial social assistance programs are cost-shared 80:20 -- that is the province pays roughly 80% of the cost of providing benefits, with the municipality picking up the rest. In social housing, the province contributes nothing, while the municipalities cover 100% of the costs, after revenues from residents and the federal transfer.

RGI rents for social assistance recipients are very low (\$85 for a single person, \$226 for a family of three), compared to the maximum rents paid to tenants in private sector housing. In comparison, a single person living in private sector housing receives up to \$427 monthly, while a family of three receives up to \$571. Two examples demonstrate how municipalities subsidize social assistance recipients in social housing more heavily than those living in private rental.

Example 1, single person on ODSP, market rent of \$600

Source of revenue	Private Sector	Social Housing
Provincial (80%)	\$342	\$87
Municipal (20%)	\$85	\$22
Maximum Shelter Allowance	\$427	\$109
Tenant Payment	\$173	0
Extra Municipal Contribution	0	\$491
Total Rent	\$600	\$600
Total Municipal Contribution	\$85	\$513
Municipalities pay an extra \$428 per month (\$513-\$85), or \$5,136 per year if the ODSP client lives in social housing		

Example 2, family of 3 on OW, market rent of \$900

Source of revenue	Private Sector	Social Housing
Provincial (80%)	\$457	\$181
Municipal (20%)	\$114	\$45
Maximum Shelter Allowance	\$571	\$226
Tenant Payment	\$329	0
Extra Municipal Contribution	0	\$674
Total Rent	\$900	\$900
Total Municipal Contribution	\$114	\$719
Municipalities pay an extra \$605 per month (\$719-\$114), or \$7,260 per year if the OW client lives in social housing		

SHSC has previously recommended that the rent scale for social assistance recipients living in social housing be increased to the maximum shelter payable to tenants in private sector accommodation. Not only would this eliminate the hidden \$175 million annual cost for welfare that municipalities pay the province, it would create the fiscal flexibility required to deal with financial pressures resulting from increased operating costs, capital shortfalls, etc.

Fairly flat revenue projections for the Province suggest that this unintended subsidy cannot be fixed all at once. Realistically, moving rents to the shelter maximums should be phased in over time; however, the province needs to announce its intention to do so, as part of the provincial-municipal review.

c) Who Speaks for Residents?

Apart from the co-op housing sector, the voice of those living in social housing communities is rarely heard in the corridors of Queen’s Park and Parliament Hill. While some providers and sector groups have advisory committees to hear from their residents, senior governments miss out on this source of advice. Unfortunately, the lack of direct contacts can lead to miscommunication and misunderstanding.

Perhaps residents care more that things get done than how they get done. For them, the “what” trumps the “how”. It is true that many reports such as this one are “inside baseball”, that is they deal with the creaky mechanisms that keep things moving. Ontario needs to catch up with measures taken in the U.S. and U.K. that have created safer and more attractive communities. But, we need to understand the views of our residents better in order to provide better service. Whether this is accomplished through surveys to get feedback, focus groups to elicit views, or representation on committees to provide input, matters less than that the sector listens more intently. The fullest picture of what it means to achieve community livelihoods is possible only when hearing the residents’ voice.

4. Social Housing as a Social Business

Just as the livelihoods of our social housing communities demand fresh approaches, so does improving the business side of social housing delivery. The sector faces a complicated environment with a somewhat limited toolkit. Duncan Maclennan, from the University of Ottawa's Institute for Governance, concludes of the Ontario situation that "[e]conomies of scale, strategic and operational management capabilities are difficult to mobilize under such conditions."⁴

Much of Ontario's social housing sector show the characteristics of a small to medium size enterprise: fragmented, small in scale, low wages, under-investment in staff training and development, limited ability to lever equity or access debt, low levels of managerial skills including financial sophistication, use of IT and external resources such as HR and management consultants.

The capital stock used by the sector is non-standardized. Housing types range from converted large single family dwellings, older small-rise buildings, townhouse projects and apartment towers. Social housing is sprinkled throughout all regions of Ontario, from large and small urban areas, through the rural parts and up into remote northern zones.

Nor is the administrative environment standardized. SHSC's paper "Sustaining the New Partnership" notes that housing "may be a long-term capital investment, but its initial development often reflected the immediate pressures, economic and political, of the time in which it was built. Each program had its own eligibility conditions, different targets for low income, unique financing and reporting requirements. Depending on how you count them, there are between 8 and 44 programs to administer. What this means in practice is that two identical buildings, built under separate programs, face very different operating environments. This needless complexity is a real headache for the housing provider as well as the service manager."

Topping off this list is the growing need for renewal as original Board members and housing staff move into the retirement phase of their lives. The ability to attract new community-minded volunteers and paid staff is limited by the narrow scope of maintaining housing and administering rent supplements.

It is not as if the provincial government gains much advantage from this predicament. True, the Province's financial exposure, or contingent liability, creates a provincial interest that needs protection through detailed regulations that direct the operations of Service Managers and housing providers. Another layer of protection lies with ministerial approvals, always time-consuming, required for new debt arrangements, sales, amalgamations and mergers. Moreover, the Province can recover any losses from the host municipality. Inevitably, however, the province finds itself having to mediate between the

⁴ "Success in Social Housing?", Duncan Maclennan, for SHSC

competing interests of Service Managers and housing providers and it becomes an easy target for those wishing to scapegoat others for problems sometimes of their own making. At the same time, there are housing issues and opportunities that could and should be addressed, if the sector were organized differently.

This chapter deals with some of the obstacles preventing social housing from becoming more business-like. By business-like, that does not mean charging what the market will bear. Social housing, by design, is intended to provide lower than market rents to house lower-income families and individuals. That is the social mission.

The Affordable Housing Program, while not perfect, offers a more simplified model governing the relationship between housing providers and Service Managers. Projects utilize a capital subsidy intended to reduce total operating costs down to a level supported by low end of market rents. Tenants needing assistance to afford market rents may be eligible to receive a rent supplement. Recognizing the low risk of mortgage default, municipalities need no onerous reviews of operating costs on an annual basis. The result is that the relationship between the affordable housing provider and the Service Manager is streamlined to a contract for rent supplements for tenants unable to afford the market rents.⁵ This is not to say that everybody is an enthusiastic proponent of the AHP program, but its simplified approach merits further study and is more likely to encourage innovation than does the current approach to existing social housing.

But beyond that, the sector needs to look at how to encourage use of shared or pooled services, such as bookkeeping, management of capital projects, use of energy programs, etc. In some cases, mergers may make sense. Who provides certain lines of business should be looked at. The role of social enterprises is growing and the sector needs to anticipate future opportunities.

a) Mortgage Administration

SHSC's first paper, *Sustaining the New Partnership*, identified mortgage administration as a twisted version of "say for pay", one where the province retains management responsibility for the \$8.7 billion in mortgages, while saddling municipalities with potential claims in the event of mortgage default.

The Province claims that, because it has indemnified the mortgages with CMHC, it consequently bears the ultimate responsibility in case of default. The twist comes with the SHRA which gives the Province the right to claw back any costs associated with a mortgage default from the Service Manager.

⁵ There are concerns with the Affordable Housing Program: whether market rents can sustain increased operating costs in the future, the availability of and time limits on rent supplements for needy households, and the potential leakage from the affordable rental sector at the end of the contractual period.

Thus, the Province protects its contingent liability with both the belt of municipal liability and the suspenders of provincial control.

Given municipal responsibilities to cover operating losses of non-profit housing providers and potential defaults, their accountability should be matched by increased responsibility for mortgage administration. It is their dime at risk – as such, they would play closer attention to debt strategies. Instead of a provincial one-size-fits-all approach, mortgage strategies could be tailored to local needs, risk tolerances and portfolio requirements.

Indeed, one could go one step further along the path of municipal control over mortgages, and that would be to let municipalities re-structure those mortgages to reduce the financial dependency of housing providers.

b) Cutting Strings, Not Corners

The *Social Housing Reform Act* forces housing providers and Service Managers into an unwelcome state of co-dependency in which the province joins in through the unpopular role of mediator and arbitrator. Housing providers must submit detailed annual reports on their operating costs to ensure that cost benchmarks are met, subsidy levels calculated and the risk of mortgage default minimized. This current top-down structure of provincially-imposed benchmarks burdens municipalities with a “see-trouble” view in managing community housing. In most cases, mortgage default is an unlikely risk and these annual reviews are unnecessary intrusions into the internal operations of housing providers.

Service Managers can use the review process as an opportunity to support providers lacking the sophistication for budgeting, property management, financing and capital strategies. However, the layering on of a “good cop” role on top of a “bad cop” financial review is, at the very least, conflicted. Worse, it means that administrative resources are wasted on good performers, at the expense of projects-in-difficulty (PIDs) who require intense, specialized support.

Transforming social housing into something more entrepreneurial is feasible. The Netherlands faced a similar dilemma in its 1993 restructuring of the social housing sector designed to realize greater independence. In a huge financial swap or “brutering” (which in Dutch means balancing out) the subsidy commitments from the federal state were exchanged for the loans owed by the housing providers. The housing providers gained additional independence from the state, but assumed all risks for inflation and interest rates. In response, housing providers developed greater entrepreneurial skills in managing their portfolios, building new properties, selling old ones, acquiring the portfolios of other providers, etc.

There is no direct Canadian brutering in sight. Neither the federal nor the provincial government are about to step in with the massive capital subsidies to

disentangle municipalities from housing providers. Municipalities are not willing nor are they able to take on the massive capital subsidies required. Yet a “made-in-Ontario” financial restructuring can put in place a more autonomous social housing sector ready to take on new challenges.

The mechanism to do so is presented in the next chapter, Financial Sustainability. The proposal would allow social housing providers the same autonomy in their internal operations as in the Affordable Housing program, while protecting the province’s contingent liability.

Financial independence does not necessarily bring out organizational maturity. Indeed, only the providers who demonstrate the capacity should get the greater independence. Some observers might argue that larger providers would benefit most from this arrangement, as they have the skills and resources to move forward with their new found independence. But what about the small guys?

c) What You Lose on Price, You Gain on Volume

If there is a constant theme running throughout this report, it is that we must deal with our history in order to capitalize on future opportunities. The private sector shows the economies of scale possible in property management for rental housing. In 2004 CapReit swallowed up ResReit’s 11,000 units for \$510 million, to achieve greater economies of scale required to be successful in a low-margin industry. By and large, amalgamation is not a preferred route among the social housing sector, reflecting the reticence of many small providers to lose control.

A recent paper completed for SHSC⁶ reveals that of the 1085 housing providers operating one project, over 80% are fewer than 100 units in size. This small scale affects both efficiency of operations and effectiveness in taking advantage of opportunities. Given Ontario’s unique circumstances, this research suggests a minimum size of about 125 units while international research suggests that an optimum size is, at a minimum, 1,000 units.

Helping small providers grow in scale and outlook is critical and a variety of approaches are required. SHSC’s own experience with its Green Light Initiative is that despite a strong marketing program, most of the funds were picked up by larger providers who had the staff and technical expertise required for project management.

Some might argue that what is needed is to force mergers and amalgamations on the sector. But to be clear, not all small housing providers would or should disappear. The private non-profit in one community will continue to serve the needs of its local community. It would make little sense for it to be combined with another non-profit without a compelling reason to do so.

⁶ “Is There an Optimum Size for a Social Housing Provider?”, go to: www.shscorp.ca/content/research

Offering small providers “backroom” administrative services (i.e. bookkeeping, tenant records, project management) on a shared basis by an agency that understands their mission and values would have positive effects. The Georgia Centre for Nonprofits estimates that non-profits spend 8 percent on supplies and equipment, compared to 4 percent in a for-profit.⁷ Outsourcing and shared services can reduce procurement costs by up to 30 percent and associated administrative costs by about 50 percent.

At minimum, the Province needs to give direct authority to Service Managers to require providers to open up bids for a variety of functions for common or pooled services for property management, just as it now does for capital reserve investments. Preference could be given to non-profit providers of these services.

Going somewhat further, a more integrated approach to administration could compel housing providers to participate in a pooled regional or provincial delivery of administrative and managerial functions. Transition costs, particularly for severance, could be covered by one-time provincial funding. Some type of incentive, allowing providers to retain a portion of the savings, might sweeten the collaboration among themselves or with their Service Manager.

d) Accountability: “What” is the New “How”

Social businesses work most effectively when their energies are channeled into achieving outcomes rather than looking over their shoulder in preparation for another operational review. An organization that is mindful of its market, customers and suppliers is more resilient than one mired in complicated reporting processes.

As housing providers transform to a new way of doing business, the old accountability frameworks contained in the *Social Housing Reform Act* need no longer apply. In this sense, the SHRA controls the wrong things.

Service Managers should have little interest in what wage rate a non-profit (except for PIDs), pays its property management staff, just as it has no interest in the operating costs of an Affordable Housing project. But it continues to have an interest that a specified number of units are made available for low income households. It will still be interested that buildings meet energy, fire, building and property standards, but should be less interested in how the provider meets those standards.

These objectives remain constant. But public policy needs to replace current reporting requirements where a more outcome-oriented approach is feasible. To do that the provincial government and CMHC, together with the social housing

⁷ “Charities take their cue from business”, Sarah Murray, Financial Times, March 1, 2008

sector, should consult with each other about new ways to measure how well a provider is doing. Collaboration needs to replace command-and-control.

e) Shifting Lines of Business

Historically, rent geared-to-income renewals in social housing are carried out by housing providers. Even when the Province delegated responsibility for this function to Service Managers, most SMs allowed providers to carry on this function. Many housing providers prefer to retain this function as it offers convenience and more flexibility than a more centralized approach.

In the Affordable Housing Program, many housing providers do not perform income reviews. This is carried out by the Service Manager, as part of administering the rent supplement program. As social housing matures, Service Managers should question why the key process driving their subsidy amounts remains with the housing provider. There are good reasons why the Service Manager should perform income verification for housing benefits, just as it does for social assistance and child care subsidies.

There is a conflict between effort and incentive. For a housing provider, RGI administration is yet another draw upon a limited budget. Keeping staff up-to-date through training, verifying income, helping tenants pursue all lines of income, keeping tabs on various part-time jobs, tracking new household members - all take time to do properly. However, if done properly, all benefits flow to the Service Manager through reduced or properly directed subsidies.

Much of the processes required for the Service Manager to confirm income already exist for determining welfare benefits and child care subsidies. Families in receipt of social assistance do not need to be tested again. Seniors' incomes change in fairly predictable ways and may not require annual reviews. The biggest challenge for Service Managers is tracking income changes for working poor families. As new, pro-work rent policies are introduced the Service Manager would want to ensure they are implemented correctly.

For customer service, the provider should retain some role, such as reminding tenants of renewal deadlines or passing on tenant information to the Service Manager. However, a higher level of process accountability is expected when income testing is a municipal function. Rent determination, a complex process requiring significant training, is likely better performed in a specialized unit whose sole function is to do just that. Consistent access to more formal appeals about RGI decisions better balances the size of the stake in the outcome, up to and including loss of all RGI benefits and their home. It will impose an additional cost on Service Managers. Those costs are small in comparison to the size of the financial re-balancing expressed in the remainder of this paper.

The co-op housing sector views RGI administration as a vital component of their community building. If the co-op sector was uploaded to the provincial level, then this would sidestep the need to transfer the responsibility away from the co-op sector.

At SHSC's Ideas *into* Action conference in May, 2008, many participants supported the notion that RGI subsidies need to be taken out of the housing system and transformed into an income security program. Shifting income testing from providers to Service Managers can be seen as one necessary step down this path.

f) Strengthening the Core Business

One business line remains fundamental to the purpose of social housing. The provision of housing for low and moderate households must remain the core function. Unfortunately, the provisions to ensure that it does so are not as strong as they should be.

There have been occasional attempts by some residents of non-profit housing co-operatives to benefit by converting their projects into private ownership, either by selling the property or converting it to a business corporation. While operating agreements have constrained such actions, many providers are reaching the end of their mortgages and the associated operating agreements.

SHSC has submitted a brief to the Minister of Government and Consumer Services on suggested changes to the Ontario *Corporations Act* that would keep non-profit housing as non-profit housing once the operating agreements expire. Similarly, the Co-operative Housing Federation of Canada (Ontario Region) has also proposed strengthening of similar provisions in the Co-operative Corporations Act. By doing so, the public funds invested in mortgage and operating subsidies over the years would continue to assure affordable housing for future generations.⁸

In summary, the provision of affordable housing needs to remain a core element of a new social housing provider/business. However, Service Managers may want to re-assess the roles and standards for income verification and rent determination. As the social housing sector undergoes an assessment of which roles to keep and which to shift, it may also want to consider the example of social enterprises both here and abroad.

g) From Social Business to Social Enterprise

In other parts of the world, including the U.S., Europe, Hong Kong, Ireland and Australia, a new breed of social entrepreneur has emerged to achieve social

⁸ See "Ensuring that Social Housing Remains Social", the response by SHSC to Proposals for Corporations Act Reform, December 18, 2007, News Archive, www.shscorp.ca

outcomes inside housing markets. Typically large scale in operation, and often at arm's length from government, these social businesses operate multiple business lines to realize social benefits.

As the state reduces its direct involvement in a variety of policy fields, such as housing, the community and private sector step in to achieve social benefits based on business models that create financial sustainability. The examples that follow list some of the housing-related activities provided by social enterprises.

Examples of Social Enterprise in Housing

- Developing “advanced green” affordable rental and ownership housing
- Acquisition and/or rehabilitation of older buildings
- Property management across the non-profit sector
- Property and liability insurance
- Counseling in financial literacy and homeownership options
- Financing and mortgage services, including negative equity mortgages
- Community services such as computer literacy, internet access points, drop-in centres, leadership training, retail leasing
- Specialized supportive housing
- Development services

Outside Canada, governments have realized the strategic importance of affordable housing to their economic, environmental, social and health objectives. They are relying on a reshaped and rejuvenated community housing sector to meet a broad range of new needs. See Appendix A for examples. Ontario shares many of the same housing problems, but has yet to create the conditions for a robust community enterprise response.

Market Issues / Opportunities in Ontario

- Insufficient supply of affordable, “green” ownership housing
- Insufficient affordable rental housing in identified growth areas
- Deteriorating / aging rental housing stock provides acquisition/rehabilitation opportunities
- Inadequate access to community supports in high-needs areas, including social housing projects
- Redevelopment opportunities to meet current density/energy standards
- Unfair lending practices, e.g. fees for negative equity mortgages
- Inefficient property management services
- Financial illiteracy about home ownership options
- Unequal access to training, internet, employment programs
- Episodic policy responses rather than sustainable housing programs
- Technical expertise for assessment and remediation of building condition issues

Some local stories show that despite obstacles, social enterprise has gained a toehold. Centertown Citizens of Ottawa (CCOC), one of the largest private non-profit providers in Canada, is using its own development arm to develop Beaver Barracks. CCOC also completed a feasibility study that resulted in a unique partnership between the pension arm of the Public Service Alliance of Canada which represents federal civil servants, Alterna Savings Credit Union, and the Ottawa Community Loan Fund to create a \$2 million investment fund for affordable housing. Toronto Community Housing Corporation is redeveloping the Regent Park and Lawrence Heights public housing sites into mixed-income communities, as well as training and employing residents in its redevelopment projects.

Indeed, the various sector agencies operate as social businesses. The Ontario Non-Profit Housing Association (ONPHA) is the voice of private and municipal non-profit housing providers. As a membership-based organization, it provides specialized education and training, management help, and “best buy” programs. It builds provider networks within the 47 service areas and across the province. As well, it reaches out to tenants to ensure their voice is heard.

The Co-operative Housing Federation of Canada – Ontario Region (CHFC-Ont.) provides similar services to co-ops in Ontario. Working through a regional federation, CHFC-Ont. provides education and training, advice and support, bulk purchasing, etc. As co-ops are member-run organizations, the voice of residents is embedded into the very fabric of the co-operative movement.

Social Housing Services Corporation is another example of social business in housing, providing financial and technical services, property and liability insurance, long-term utility contracts, conservation initiatives, training and research for social housing providers and Service Managers.

Outside of the social housing sector, there are several social businesses developing affordable housing. Options for Homes has developed several affordable condominium housing projects using a shared-equity approach in the GTA. Habitat for Humanity (HFH), using charitable donations of labour, materials and land, develops affordable ownership through a province-wide network of local groups. HFH also operates outlets to sell used and surplus building materials at discounted prices. Operation Beaver, run by Frontiers Foundation provides housing and educational services to aboriginal peoples through a combination of government grants, charitable donations and volunteer labour.

There are others, but the point is that they are few in number. The question is: how do we transform the social housing sector from poorly endowed agents with weak powers to dynamic bodies able to raise the resources required to meet new and unanticipated social demands?

h) Growing Innovation

We need to celebrate the innovative providers and social entrepreneurs who make a go of it against sometimes daunting odds. Their stories and experiences will cause others to think differently about housing and related issues. In a province as diverse as Ontario, those issues and the best response will vary widely.

SHSC is well-positioned as the pivotal agent for this transformation into social enterprise. In addition to its current variety of products and services to the non-profit sector, it is expanding with the creation of the Social Housing Asset Management Centre. This Centre could provide technical expertise, management consulting and project management to providers willing to look at new ways of doing business.

Many ideas will spring from many different sources. In order for these buds to mature, they need a little space, some sun and water, and of course, fertilizer. Once housing providers get out from the shadow of a “command and control” regulatory regime, they are freer to bloom. How many blooms will depend on the judicious use of fertilizer, examined in the next chapter.

i) Housing as a Business: Points to Remember

- The stream-lined administration of the rental portion of the Affordable Housing program offers a useful alternative to complex and burdensome reporting requirements required to protect provincial contingent liability in social housing
- Common and pooled services for property management, tenant records, procurement can not only reduce operating costs significantly, but can also improve access to sophisticated financial and project management skills
- Mergers and amalgamations are not yet preferred means of achieving scale, but bigger organizations are stronger and more viable
- The focus on how things get done needs to be replaced by outcome measures agreed to through collaboration with all stakeholders in social housing, including tenants
- Service Managers need to consider where RGI processes are located as social housing becomes more like current Affordable Housing Programs
- The core business of social housing, providing low-cost housing to lower income households, needs to be strengthened through explicit restrictions on converting to other uses
- The emergence of social enterprise in housing-related services offers new opportunities for providers to grow into new lines of business providing social benefits to Ontarians

5. Financial Sustainability

The Egyptian pyramids have lasted over 4,500 years and building Ontario's pyramid for housing likewise requires the financial basis to endure over the long-term.

Sustainability means that the funds are available, when needed, to look after expected contingencies⁹ and that the cost is affordable to all – tenants, housing providers, service managers and senior levels of government.

Financial strategies need to meet a triad of objectives in creating livelihoods and enterprise in our communities:

- i. The physical stock is in a state of good repair and meets all health, safety and energy/environmental requirements
- ii. Social housing providers operate with greater financial autonomy while meeting core housing outcomes
- iii. Hidden provincial welfare subsidies are removed from the municipal tax base

a) Eliminating hidden subsidies to provincial welfare

In both "Sustaining the New Partnership" and "Snakes and Ladders", SHSC states that current rent scales for OW and ODSP clients living in social housing serve no useful purpose, other than to reduce provincial welfare expenditures by about \$175 million per year. Very low rents ill-prepare social assistance recipients to value their accommodation or to budget for a time when they might leave social assistance.

Righting that wrong is simple enough as the rent scale is established through a provincial regulation. However, simplicity and fairness are likely trumped by considerations of financial balance. Expressed in these terms, the province would ask municipalities, if this unfair burden were to be removed from social housing costs, what could be reasonably substituted in its place?

There are a number of areas in social housing in which Service Managers could face cost pressures:

- Utility costs and allowances, particularly for those receiving social assistance
- Potential increases to earnings exemptions for RGI calculations
- Other RGI changes to increase work incentives

⁹ For the unexpected contingencies, SHSC provides property insurance and long-term utility contracts

- Transitional capital financing prior to mortgage renegotiations
- Funding portable housing subsidies for victims of family violence

Eliminating hidden subsidies to provincial welfare costs increases the financial flexibility of Service Managers to deal with other pressures in the system. A critical question will be to what extent savings can remain in the social housing envelope or float out to general municipal revenues?

b) Increasing Autonomy while Reducing Risk

The financial issue most complicating relationships among the provincial government, Service Managers and housing providers is the level of debt. Development costs of rental housing are far greater than the capacity of rent revenues to support them. That is why the private sector builds so little and why social housing carries a substantial debt load.

The cost of carrying those mortgages was down-loaded to municipalities and represents up to 70% of the subsidies paid by Service Managers to non-profit housing providers. The remaining subsidies are for RGI and any operating losses. While the province carries this debt on its books, having guaranteed the loans, the *Social Housing Reform Act* permits the province to recoup any loss from the municipality in the event of a mortgage default. This is called “the belt and suspenders” approach to risk management. So far, no providers have gone into default, and some might say, the system is working.

The province may have eliminated its exposure to mortgage defaults but at the cost of provider autonomy and increased Service Manager risk and inefficiency. Providers operate under a mountain of debt, which creates passivity in managing their projects. No matter how efficiently or effectively they run their projects, the looming debt shadows their every move, encouraging a feeling of helplessness. Service Managers, on the other hand, must manage a complicated, detailed and intrusive system of oversight on the internal operations of housing providers for what must be considered a remote risk. Service Managers, of course, have to staff up and resource this monitoring of provider operations to avoid the province sending them one rather large bill.

There are alternatives that better respect provider autonomy and create lower risks for Service Managers. For example, rental projects in the Affordable Housing program are expected to break even with market rents. Proponents are expected to raise enough capital from a variety of sources such that in combination with AHP capital grants, any project is financially viable with revenues at the low end of market. Households needing a hand to meet low end of market rents may receive rent supplements from the Service Manager. There is no annual intrusive audit/review of operating expenses as with social housing,

as there is no Service Manager exposure to mortgage default.¹⁰ The relationship between the Affordable Housing provider and the Service Manager is streamlined to focus only on market rents charged, and the number of households receiving rent supplement.

A similar arrangement can evolve in the social housing stock by restructuring how debt is managed and using rent supplements. The current mortgage would be separated into two components, a sustainable mortgage, supported by market rents, and the true contingent liability, held separately by the Service Manager.¹¹

The amount of the sustainable mortgage would be determined by converting the difference between operating costs and revenues (market rents and other income) into a cash flow dedicated to servicing the debt. For example, if monthly income was \$10,000 greater than costs, it could sustain a mortgage of \$1.4 million (at 7.0% interest, 25 year amortization). A longer amortization period or lowered operating costs would mean that a higher mortgage could be supported.

Residents now receiving RGI would be no better or worse off as they would receive a rent supplement set to the difference between 30% of their income and market rents. Providers would face no operating loss and would be free to adjust the cost of their operations to best meet future circumstances. Service Managers would face no financial risk for the project, as the mortgage debt would be supported by project revenues.

The true contingent liability would be held separately by the Service Manager and serviced through debentures or other financial instruments. As Service Managers already pay for this debt, the creation of a separate debt instrument, by itself, would impose no new net costs. However, it would create benefits.

By hiving off the true contingent liability, the housing provider faces a new financial environment where they need to operate the project at market rents. Essentially, their operating conditions become more dependent on the housing market than on provincial or Service Manager cost guidelines. Their relationship with the Service Manager shifts from being a dependent transfer payment agency to an independent supplier of rental housing, contracting for rent supplements to help those who cannot afford market rents.

This greater autonomy should be used to create some tension in the system – many providers would want the autonomy, but only some would get it (at least at first). Providers must be viable, i.e. the Board must be fully functioning, staff would need to be accredited and a capital plan must be underway (i.e. the project

¹⁰ Nonetheless, Service Managers report that some AHP projects require a degree of hand-holding due to administrative or financial risks.

¹¹ The term “contingent liability” is defined as the debt not supported by the value (i.e. revenues) of a project. Others use the term less precisely, to include the total debt associated with a project.

is in good repair and/or the capital reserves adequate for future requirements). In addition, the provider needs to agree to a long term contract for accepting rent supplement clients or other forms of housing benefits. In other words, the increased autonomy should be available only to those providers who demonstrate the capacity to handle it.

So far, so good, for housing providers. But how would Service Managers benefit?

Service managers gain in four distinct ways:

- Their administrative and oversight costs decrease significantly and they can focus financial reviews on PIDs, rather than good operators
- The exposure by the Service Manager for contingent liability is eliminated, as the mortgage debt has been reduced to a sustainable level
- Municipalities gain new flexibility to manage the contingent liability to meet their local needs; e.g. by lengthening the repayment period, they can free up resources to develop new housing or re-develop the existing stock
- They gain a more independent and competent collaborator in seeking housing solutions, rather than a transfer payment agency dependent on additional municipal infusions

Service Managers and housing providers cannot do this by themselves. It requires a new legislative approach from the Province to delegate greater financial authority to Service Managers and housing providers. In some cases, federal approvals may be required. CMHC mortgage insurance, for example, reduces interest rate costs, and therefore the size of the bridge debt under municipal management. Municipal housing corporations would require special treatment.¹²

There is one important detail from a municipal finance perspective. The creation of the new contingent liability pool needs to be structured carefully in order not to shift the risk burden from the Province to municipalities, as this would impact municipal borrowing costs. The Province would need to indemnify this new debt pool, just as it now guarantees the mortgages the new debt pool would replace. Of course, the Province would insist on some mechanism to protect itself in the unlikely event that a municipality stops payments.

¹² Public housing, which constitutes the vast majority of municipal housing corporation units, also receives subsidies to cover operating deficits. Because the capital costs are held in debentures and paid by the federal transfer, there is no bridge subsidy to be hived off and the RGI costs are less than that required to sustain market rents. In short, applying this market rent model to the former public housing stock would increase municipal subsidy costs to its local housing corporation, which, in turn, would now realize a profit to be returned to its controlling shareholder, the municipality. All in all, a wash.

The Province would find itself in a more advantageous situation as well. It would no longer need to administer a legislative framework that creates rigidities between Service Managers and providers. The current system of elaborate benchmarks and laborious ministerial consents could be greatly simplified, if not eventually eliminated. By getting out of the “how” business, it could focus on the “what” – as in, what positive outcomes does it want to see in the housing market in the 21st century.

c) Fixing the Capital Shortfall

The most immediate problem confronting the social housing stock is the lack of funding adequate to maintain buildings in a good state of repair. Most of the former public housing was built during the 1950s and 1960s when building and energy codes were much lower than today. Non-profit housing, while more recent, has many structures dating from the mid-1970s. Their structural elements, i.e. roofs, underground parking, elevators, and the building envelope, are reaching the end of their useful lifetimes.

This would not be a problem if the previous funders and owners, i.e. the provincial and federal governments, had set aside sufficient funds to maintain the stock in good repair. Despite having the sufficient funds, they didn't set them aside. SHSC had a closer look.

The SHSC report, *Capital Ideas: How to Extend the Health and Safety of Social Housing*¹³, concludes that neither the provincial nor federal government had sufficiently funded social housing before transferring funding responsibilities to municipalities. The capital reserves for non-profit housing were subject to budget constraints and lack the resources to face future demands. The former public housing uses a different approach, where a portion of the federal transfer administered by the province is transferred to the municipalities. The problem is that the province distributes the federal transfer in an opaque manner among Service Managers. Worse, the CMHC transfer is declining as the federal government continues to wind down its involvement, leaving the older public housing stock at risk of failing to provide the very health and safety standards they were intended to represent.

Capital Ideas described a broad range of funding arrangements, borrowing choices, cost containment measures, and repayment options¹⁴. In order of preference, the range of options includes:

1. Reinvestment by the senior levels of government who passed on their obligations,
2. Cost containment initiatives to reduce operating expenses and pressure on capital budgets,

¹³ To see the full report, go to Research at www.shscorp.ca

¹⁴ See Appendix B: Summary of Options for Capital Shortfall

3. Financial re-structuring that does not layer additional pressure on municipal budgets, and
4. Lastly, new borrowing, tax and revenue measures.

i. Reinvestment by Senior Levels of Government

For obvious reasons, Service Managers and housing providers prefer that the senior levels of government whose policies and budgetary constraints created capital shortfalls, should deal with that shortfall. Moreover, the provincial and federal governments have a far broader tax base to deal with the inadequate level of capital maintenance they passed down to municipalities. With support by the senior governments, the sector can plan future revenues and costs and anticipate priorities on an optimal basis.

This is why SHSC and other sector organizations have recommended that the Ontario government fund a capital financing facility, which, together with resources available within the sector, can provide the funding and credit guarantees required to keep the cost of capital manageable. As well, SHSC requested that OSIFA loans be made available for non-profit housing not directly owned/managed by municipalities and that the DSSABs also be eligible for such funding.

The Province is stepping up to the plate. The recent announcement by the Province, to provide a share of provincial year-end surpluses to help upgrades in social housing, is a significant recognition of the role of social housing in municipal infrastructure.¹⁵ This was topped by the subsequent announcement that municipalities would receive \$100 million for housing in greatest need of repair, access to a further \$500 million in loans from the Ministry of Public Infrastructure Renewal (MPIR) for social housing upgrades for energy conservation, and \$1.0 million to SHSC to set up the Social Housing Asset Management Centre.¹⁶

The Asset Management Centre would act as the technical centre for the assessment and remediation of capital repairs. By opening the door to \$500 million in OSIFA funds, the province is allowing service managers, especially smaller ones, to borrow at preferred rates. OSIFA funds offer great flexibility in

¹⁵ See the March 12, 2008 announcement, *Investing in Ontario Municipalities: Government Targeting Surpluses for Roads, Transit and Social Housing*, <http://www.fin.gov.on.ca/english/media/2008/nr03-iioa.html>

¹⁶ See “Three Priority Programs to Kick start Poverty Reduction Strategy” <http://www.premier.gov.on.ca/news/Product.asp?ProductID=2034>

terms, at rates lower than that which many Service Managers can obtain by themselves.

These provincial announcements are clearly welcomed by the sector. But where is the federal government? Ottawa needs to join in by stabilizing the current federal transfer, currently over \$510 million.

The former public housing has no mortgages to re-negotiate. Instead, its debentures are paid down by the Ontario Housing Corporation using proceeds from the federal transfer. The decrease in the federal transfer comes at the same time that these projects, many now 60 years old, need major rehabilitation, if not re-development.

The federal transfer should be stabilized and ear-marked for reinvestment. The federal government's ponderings about staying out of matters of exclusive provincial jurisdiction, such as housing, does not seem a promising start to needed discussions. The province has reminded the federal government that fixing the federal transfer at its current level is not a new pressure on the federal budget – and SHSC, AMO and all sector stakeholders need to reinforce this critical message.

ii. Cost avoidance / containment initiatives

Capital Ideas identified four means through which Service Managers and housing providers could reduce overall subsidy requirements, thereby creating financial room to tackle repairs and capital shortfalls.

Upload co-operative housing: The Co-operative Housing Federation of Canada's Ontario Region has proposed that the Province upload the cost and program control for Ontario's devolved housing co-operatives to the provincial level. There are about 21,300 units of co-operative housing under municipal administration, representing \$100 million in municipal costs. Co-operatives operate under different corporate and member requirements, so the proposal, if accepted, would also reduce administrative complexity for Service Managers.

Reduce Property Taxes to AHP level: *Capital Ideas* also suggested that social housing could be exempted from property taxes. Currently, much social housing pays property taxes at the multiple family rate, which can be as high as four times the single family rate. Co-operative housing and new rental housing built under the Affordable Housing program pay the single family rate. On further reflection, it makes great sense to put social housing in the same tax assessment class as Affordable Housing. By doing so, it not only reduces operating costs, it increases the mortgage that can be supported by market rents, thereby reducing the size of the contingent liability pool proposed under the "increasing autonomy while reducing risk" section. Two-tier municipalities would need to come to an

arrangement to recognize the reduced costs of the upper-tier and reduced revenues of the lower.

Energy Conservation: Similarly, using special programs such as energy conservation can be very attractive as the returns from reduced energy costs can easily pay back the capital investment required. ESCOs (energy services companies) already provide integrated technical and financial services and guarantee that energy savings will cover all costs of implementation. OSIFA's new loan program, targeted to energy conservation, will help the sector achieve energy and cost savings.

Use Portion of Capital Reserve Contribution: Non-profits typically invest \$300 to \$500/unit annually in their capital reserves. Re-directing a portion of that capital reserve contribution to service the debt associated with capital repairs avoids immediate pressure on subsidy costs. At a 7 percent interest rate, each \$1,000 in capital repairs would cost \$6.59 per month over a 30 year amortization period. Future capital needs suggest that this is a short-term measure, rather than a long-term strategy.

iii. The physical equals the fiscal.

The second line of defense is increased flexibility to restructure mortgages to meet capital requirements while minimizing impacts on municipal subsidies. In a nutshell, providers increase their mortgage to meet any capital shortfall, while extending the amortization or repayment period to keep costs more or less within current budgets. By doing so, the cost of extending the useful lifetime of the building is more closely matched to the mortgage repayment period. This is like the approach (see box) to capital shortfalls taken by CMHC for federal housing co-operatives where amortization periods can be extended to 40 years in league with increased borrowing.¹⁷

Potential Workout Framework

- Technical assistance for the assessment and remediation process
- Reset amortization period for up to 40 years from the date of the workout
- Permit an increase to the amount of borrowing
- Where re-development is a more cost-effective approach, provide development assistance

Many mortgages have a fixed term which means that the principal cannot be increased or decreased substantially until the end of term without payment of a financial penalty. It may be advantageous, as an interim device, to use the

¹⁷ Federal co-operatives, unlike other federally-funded social housing, were excluded from the devolution of social housing to the provinces. Ontario was the only province to further download to municipalities.

OSIFA loans as an interest-only arrangement, until the primary mortgage comes open, and then transfer the OSIFA loan onto the new mortgage and extend the amortization period accordingly.

This combination of OSIFA funding in transition to longer term refinancing is a feasible low cost means of dealing with capital shortfalls in the existing stock.

iv. Cash Flow Trade

The “cash flow trade” is particularly useful for larger housing organizations with the financial sophistication to deal with the capital markets. The basis of this approach is that a corporate entity, such as a Service Manager (SM) or municipal housing corporation, can borrow against the strength of its cash flow without impinging on the real estate asset itself. If housing providers extend the period of time over which RGI units are supplied, Service Managers would extend the period of time in which subsidies could be used to support the cash flow supporting the loan.

The SM could “bundle” these loans and obtain the funds from a financial institution, either at the point in time the capital work is undertaken, or in advance in the form of a “line of credit” to be drawn down when the work is completed. The financial institution’s repayment would be structured as an interest-only payment or delayed until the mortgage is paid down. This option would be enhanced if CMHC provided loan insurance.

The operating agreement would also be extended until the non-profit repays the capital loan to the SM from its revenues, which would mean an extended period of the subsidy from the SM. This keeps the provider’s RGI units within the SM’s control for a further period of time thus meeting its service level obligations under the SHRA.

This approach sidesteps the provincial prohibition against mortgaging non-profit assets. It also assists municipal housing corporations who have no mortgages to renegotiate. It helps address the service level requirement in the longer term, even after mortgages are paid down. In most cases, it is cheaper than using rent supplements in the private market.

v. New borrowing, tax and revenue measures

Last and least on any municipality’s list are new borrowings or the introduction of new tax and revenue measures. However, the reality is that without some of the more preferred measures, only the harder choices are available.

General municipal borrowing is least preferred, as it takes away borrowing room from other municipal purposes and may impact a municipality’s debt rating and interest rate costs. The OSIFA announcement is to be welcomed as it allows

smaller municipalities to borrow at rates better than what they can achieve by themselves.

Re-development and intensification responds to increased land values and greater public acceptance of higher densities than 25 to 50 years ago when social housing was first developed. In some cases, it is cheaper to redevelop “seriously-distressed” than it is to rehabilitate. In most cases however, redevelopment can reduce the borrowing costs for new construction, rather than creating a surplus to rehabilitate stock elsewhere in the portfolio. Selling surplus land offers more cash potential, but few providers have available land in high demand areas.

Tax Increment Financing (TIFs) allows the municipality to create an incentive in the form of a reduced property tax rate during the period of rehabilitation and development. Once a parcel of land is redeveloped, it is more valuable and is reassessed at its higher market value. Currently social housing is ineligible for TIF purposes, unless it forms part of a broader neighbourhood renewal initiative. Given that TIFs can increase taxes on the surrounding area, it is best received where the community supports the redevelopment.

Sale and Lease-Backs are often undertaken where the original owner decides that property management is not a core business. The property is sold to a new owner who does the necessary capital work and leases back the property to the original owner. There is no magic to this solution – the costs of rehabilitation and a profit margin are paid for over time through increased lease costs. The key question is whether it would be cheaper to simply borrow the capital funds needed and retain ownership of the asset.

Land Transfer Tax (LTT) increases have proven to be a controversial measure in the City of Toronto, the only Ontario municipality empowered to charge one. Some of the resistance to this new tax was that the funds were directed to general municipal revenues, unlike other fees or taxes identified for specific outcomes. Using a tax revenue from real estate transactions to ensure a related real estate public purpose may be more readily accepted however. Increased polarization of wealth and income has resulted in house prices well beyond that afforded by most working families. Using such a tax to improve social housing conditions is a fair mechanism for those disadvantaged by rising income inequalities. The province would need to change the Municipal Act to allow municipalities to impose their own LTT.

6. Conclusion: Building the Social Housing Pyramid

Pyramids are very stable structures, lasting thousands of years. Social housing needs the stability of pyramids as the provision of affordable housing and safe communities is a long-term component in our social infrastructure. Community

livelihoods are at the pinnacle of the social housing pyramid, as healthy communities are the fundamental purpose. Creating links to employment, improving work incentives, and re-establishing social mix have been achieved elsewhere with great success. These accomplishments must be imported to Ontario.

Underpinning community livelihoods is the need to operate the social housing system as a business, if not a social enterprise. Increased efficiencies can release resources, both staff and financial, to better meet the challenges of housing poverty, global warming, and economic restructuring. Financial sustainability is the other half of the base. Hidden, accidental subsidies distort our efforts and need to be eliminated. Physical structures must meet current requirements, be it good repair or redevelopment. Financial structures need to reward provider autonomy while assuring Service Managers control over the risks they must manage.

The Provincial-Municipal Fiscal and Service Delivery Review can lay the groundwork even now, despite fiscal conditions. Some undertakings can be implemented at low cost. Others will take more time and resources and would benefit from re-engagement with the federal government. The creation of a Housing Commission would focus on these next steps and bring to public awareness the hopes and aspirations of our social housing communities. What better public purpose can be served?

APPENDIX A: International Examples of Housing as Social Business

United Kingdom

BCHA (Bournemouth Churches Housing Association) was founded in 1968 by a number of churches in Bournemouth in order to make a contribution towards local housing problems. BCHA is now a major provider of a diverse range of housing, support and learning services for socially excluded people. Go to www.bcha.org.uk.

Martlet Homes is a not for profit organization that is committed to improving the existing social housing in the Chichester District as well as building new houses for the community. Formed in 2001, they employ over 200 staff and serve over 10,000 customers. See www.martlet-homes.org.uk.

Moat is one of the largest and most successful Housing Associations operating across London and the South East. They provide high quality homes and services, including support services to people who need assistance to live independently. Alongside managing general needs and supported housing, Moat lead the sector in delivering housing solutions for key workers in the South East. Moat own and manage nearly 15,000 homes whilst developing around 900 new homes each year through one of the largest housing corporation development programmes in the country. Go to www.moat.co.uk.

Northern Counties Housing Association was founded in 1966 to provide Co-ownership Housing Schemes, an early form of low cost housing and has now grown to be one of the largest Housing Associations in England and Wales houses located throughout a large geographical area of the country, from Carlisle to North Wales, Shrewsbury to Nottingham and Grimsby to Harrogate with their Head Office being based near Oldham, managing over 20,000 homes. See www.ncha.co.uk.

Hong Kong

The Hong Kong Housing Society, established in 1950, predates the state Housing Authority. The devastation of WWII and massive migration that followed created housing shortages unknown in Canada, save for the Halifax harbour explosion in 1918. The Society provides affordable housing and related services, including property management, development of “sandwich class” housing for the middle class, administers government loan schemes, urban renewal, seniors housing and services for the private sector. See www.hkhs.com/eng.

United States

Housing Partnership Fund: From its inception in 2000, the Housing Partnership Fund has provided early capital to Network members to preserve or develop affordable rental homes. Other services include counseling lower-income families to buy or retain homes, foreclosure prevention, property and liability insurance, partnering with others to rebuild communities impacted by Katrina, and, most recently, providing financing for charter schools. See <http://www.housingpartnership.net>.

ACTION-Housing, Inc., established in 1957 has developed or improved more than 25,000 affordable housing units in the Pittsburgh area. It plans and develops specialized supportive housing and permanent affordable housing, as well as providing a range of services for homeless families and individuals and others facing crisis. For more information, see www.actionhousing.org.

Century Housing Corporation has financed more than 12,000 units of affordable rental and ownership housing since 1979, working in partnership with non-profit and for-profit developers. Century Housing is also active in a full range of housing and human service areas, including transitional housing and services for homeless veterans, homeownership, counseling, construction job training and placement, child development, seniors' services and education. See www.centuryhousing.org.

Mercy Housing, established in 1981 by the Sisters of Mercy, has developed almost \$2.0 billion in affordable real estate. With headquarters in Denver, Colorado it has developed business centres across the U.S. to develop affordable housing opportunities, oversee existing properties and resident programs. Other business lines include the provision of loan capital to non-profit developers and development consulting. For more information, see www.mercyhousing.org.

Mid-Peninsula Housing Coalition, founded in 1970, is one of the largest developers of affordable housing in the San Francisco and Monterey Bay regions. In addition to housing development and property management services, its services affiliate offers a broad range of activities including computer education, summer youth programs, and childcare. See www.midpen-housing.org.

Rural Community Assistance Corporation offers a wide range of community development services for rural and native American communities, agricultural workers and community-based organizations in 13 western states, including Alaska and Hawaii. With headquarters in West Sacramento, RCAC's core services include training, technical assistance, access to resources, advocacy and capacity building, affordable housing development, environmental infrastructure development and community development finance. See www.rcac.org.

APPENDIX B: Summary of Options for Capital Shortfall

Option	Cost of Funds	Ease of Access	Comments
REINVESTMENT BY SENIOR LEVELS OF GOVERNMENT			
Invest new capital; stop decline in federal transfer	Depends on how new funds were distributed	Depends on criteria agreed to by SMs	Difficulty will be in getting full funds from senior levels
BORROWING CHOICES			
General Municipal Borrowing	Municipalities can borrow at Government of Canada bonds + 50-55bps ¹⁸	Fairly easy as long as within spending limits	Municipal willingness will depend on other pressures for capital
Cash-Flow Trade	Cost would depend on number of factors including time between borrowing and repayment and whether insured	Difficult for all but the most sophisticated of SMs. May be easier if SHSC has role Not all providers will have the cash flow to repay principal	New financing vehicle would have to be marketed to private lenders. May reduce need for provincial approval as cash flow, not real estate, provides security
Infrastructure Ontario	Current rate is 4.85% which is attractive to smaller municipalities	Available only to municipally-owned social housing; DSSABs also not eligible	No take-up yet, by Service Managers. Province is considering SHSC request to extend to non-profits and coops
Refinance Non-Profit Mortgages	Current MAH/OFA rates on provincial mortgage renewals are about 25-30bps above comparable GoC bond rates	Requires provincial approval; Financial institutions will compete	Increased debt can be offset by longer amortization period – not available to LHCs
REPAYMENT OPTIONS			
Operating efficiencies	n/a	Larger non-profits and local housing corporations can achieve economies of scale	Operating savings can be used to support debt repayment
Redirect portion of capital reserve contributions	Zero current cost as funds part of subsidy flow	Requires provincial approval	Not available to LHCs
Financial room at mortgage pay down	n/a	Not all non-profits will gain flexibility	n/a for LHCs

¹⁸ Government of Canada 30 year bond rates were 4.258% at time of writing; accounting for the 50bps (basis points) results in an effective municipal borrowing rate of 4.758%.

Option	Cost of Funds	Ease of Access	Comments
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COST CONTAINMENT MEASURES			
Upload co-op housing	\$100 million municipal cost uploaded to province	Requires provincial approval	Not all Service Managers would benefit (if no co-ops)
Reduce social housing property taxes to single family rate	Little/no net cost to Service Managers, as tax revenue decrease are offset by subsidy savings; province loses education portion	Requires provincial change to legislation	Social housing on same tax footing as co-operatives, Affordable Housing program, and condominiums
Use of Special Programs (e.g. energy conservation)	Grants and loan interest loans make this an attractive option	Fairly easy for SMs since SHSC facilitates.	Limited to items covered by programs; provider take-up has been low

OTHER TAX AND REVENUE MEASURES			
Re-Development / Intensification	No borrowing required if sale of land covers cost	Could be relatively difficult since many SMs not familiar with financial issues in development	Most effective for sites with surplus land. Demolition and rebuilding would entail a cost
Tax Increment Funding	Cost of TIF depends on tax cut and increase in value	Fairly easy since municipalities will set own criteria for borrowing	TIFs available for neighbourhood improvement, not project capital
Sale and Leaseback	No borrowing cost since it would be captured in cost of lease but effective rate would depend on lease rate	Moderately easy to arrange since model already developed by private sector. SM could require assistance to negotiate lease.	Increased lease costs may be greater than cost of borrowing equivalent capital
Land Transfer Tax	LTT loads cost on real estate transactions, a related economic activity	LTT is established and easy to access, however resistance to tax increase is strong	Only the City of Toronto can use LTT. Requires change to Municipal Act

APPENDIX C: Recommendations from *Snakes and Ladders*:

The Province through the Provincial-Municipal Fiscal and Service Review needs social housing policies to support healthy communities and livelihoods by:

1. Improving the policy environment in which Service Managers operate, including:
 - a) Eliminate all provincial social assistance subsidies hidden in RGI rents, in particular, by increasing rents of OW and ODSP clients to the shelter maximum paid to private sector landlords
 - b) Provide financial guarantees for municipalities to cover any additional costs resulting from new mandatory programs and policies
 - c) Create the flexibility for Service Managers to innovate with rent structures that encourage employment
 - d) Increase the choices for victims of family violence to find safe housing by providing portable provincially-funded housing allowances equivalent to RGI subsidies
 - e) As part of renegotiating the Social Housing Agreement with the federal government, increase the flexibility to improve social mix within the former public housing stock
 - f) Improve the service integration of employment support programs to social housing residents

2. Improving the policy environment in which Service Managers operate, and increase labour mobility, and improve social mix, the Ministry of Municipal Affairs and Housing should:
 - g) Open the window of time in which RGI and other households can make use of the ROOF program so that they can move closer to employment opportunities
 - h) Increase the priority of working households by shortening their length of stay on waiting lists through the development of provincial rent supplements to assist victims of family violence
 - i) Adjust the length of time that a former RGI household retains immediate re-entry into RGI upon job loss from one year to two years

3. To increase work incentives provided to social housing residents, the Ministry of Municipal Affairs and Housing in league with the Ministry of Community and Social Services should:
 - j) Adjust the RGI income thresholds for OW and ODSP clients so they can earn at least the equivalent of full-time work at minimum wages before facing the RGI claw back
 - k) Double the RGI income deduction to \$100 for single persons and \$300 for larger households

4. To better integrate services, the Province should:
 - l) establish an inter-ministerial committee comprised of MTCU, SHSC, OMSSA, and housing providers to review how better to integrate housing with employment programs.
 - m) Service Managers in co-operation with housing providers should mount an outreach campaign to inform residents about available employment services and new work incentives