Oxford County
Growing stronger together

Report HS 2024-05
HUMAN SERVICES
Council Date: May 8, 2024

REPORT TO COUNTY COUNCIL

Housing Provider Strategy for End of Mortgage/Agreement

To: **Warden and Members of County Council**

From: **Director of Human Services**

RECOMMENDATIONS

1. **That the Strategy for End of Mortgage / Agreement, provided as Attachment 1 of Report HS 2024-05, be approved, subject to minor modifications authorized by the Director of Human Services, provided they support the long-term sustainability of the community housing portfolio and do not commit to financial obligations that will impact the County's annual budget;**

2. **And further, that the Director of Human Services, be authorized to enter into new service agreements with housing providers for projects under the *Housing Services Act*, 2011, that reach End of Mortgage / Agreement (EOM/EOA) and execute any ancillary agreements to support the ongoing affordability and long-term sustainability of such projects, in accordance with annual budget commitments.**

REPORT HIGHLIGHTS

- In 2022, the Province amended the *Housing Services Act*, 2011 (*HSA*) to include an updated regulatory framework and funding approach for community housing projects that were previously funded under federal/provincial programs.

- Overall, the new regulations provide a set of baseline funding and operational requirements to support the continued delivery of community housing, while creating a framework for new service agreements that are flexible to meet the needs of individual Housing Providers.

- While the former provincial funding formula assumed that a designated housing project would be financially viable once a provider's mortgage was paid off, and a subsidy was no longer provided, this is not the current reality for all.

- Given the new regulations and complexities around new service agreements, Staff are proposing a local strategy to provide a consistent funding approach for all Housing Providers, with a focus on retaining deeply affordable units in our community, while ensuring Housing Providers remain sustainable for the long-term.

IMPLEMENTATION POINTS

Following Council's consideration of this report, Staff will initiate the process of developing new service agreements with designated Housing Providers that have approached End of Mortgage / Agreement (EOM/EOA), in order of need. The development of new agreements will follow the Strategy that is attached to this report.

Financial Impact

The County currently provides annual subsidies to a total of 14 community housing projects (12 Providers). While the annual subsidy for each project varies, a total of approximately $2.3 million was allocated in the 2024 Budget to support the continued operation of these housing projects.

As these projects reach EOM/EOA, the County is required to enter into new service agreements with each Housing Provider to support the ongoing financial commitment to each housing project. Although seven projects have already reached EOM/EOA, a subsidy continues to be provided to support the ongoing provision of deeply affordable units (RGI units), in accordance with the requirements of the *HSA*, until a new service agreement is negotiated.

It is not expected that new agreements will be established with all Providers at the same time, rather a staggered approach in line with EOM/EOA dates and the County's annual budget process.

While no further financial impacts are expected on the current year's budget, staff will report back to Council in the event that additional funding is necessary to support the ongoing viability of Providers, including the potential for additional funding through the annual budget process.

Communications

The County, as Service Manager, has been working with Housing Providers to understand long-term plans around EOM/EOA, including capital needs through the Building Condition Assessment (BCA) process. As individual Providers approach EOM/EOA, staff will begin to negotiate new service agreements in line with the proposed Strategy that is attached to this report. The attached Strategy will also be provided to all Providers following Council's consideration of this report.

2023-2026 STRATEGIC PLAN

Oxford County Council approved the 2023-2026 Strategic Plan on September 13, 2023. The Plan outlines 39 goals across three strategic pillars that advance Council's vision of "Working together for a healthy, vibrant, and sustainable future." These pillars are: *(1) Promoting community vitality, (2) Enhancing environmental sustainability, and (3) Fostering progressive government*.

The recommendations in this report supports the following strategic goals.

Strategic Plan Pillars and Goals

PILLAR 1	PILLAR 2	PILLAR 3
Promoting community vitality	**Enhancing environmental sustainability**	**Fostering progressive government**
Goal 1.1 – 100% Housed Goal 1.3 – Community health, safety, and well-being		Goal 3.2 – Collaborate with our partners and communities Goal 3.4 – Financial sustainability

See: Oxford County 2023-2026 Strategic Plan

DISCUSSION

Background

Community (social) housing refers to deeply affordable housing that was constructed between 1950 and 1996 under a series of programs administered by the Federal and Provincial governments. This housing is more commonly referred to as Rent-Geared-to-Income (RGI), to which ongoing funding (subsidy) is tied to the amortization period of a housing project's mortgage, where subsidies decline as a mortgage matures.

In December 2000, the Province enacted the *Social Housing Reform Act*, which outlined the download of former federal and provincial social housing programs to municipalities (Service Managers). As part of this transfer, a total of 1,228 social housing units (RGI) were downloaded to the County, to which 628 remain in County ownership and 600 in the ownership of designated Housing Providers (i.e. non-profit housing corporations, cooperatives, and associated Boards), across a total of 35 projects, under the County's administration.

It is important to note that community housing projects that have federal Operating Agreements do not carry an obligation to continue providing RGI housing once their mortgage ends, whereas provincial community housing projects continue to fall under the enacted *Housing Services Act,* 2011, with an obligation to continue providing RGI housing unless an exit agreement is negotiated.

Of the 14 community housing projects (600 units) that remain in the ownership of designated Housing Providers, two projects (52 units) have federal Operating Agreements. While the term of the Operating Agreement and obligation of these Providers has come to an end, they continue to maintain deeply affordable housing in line with the ongoing subsidy that is provided by the County. The remaining 12 projects (548 units) created under provincial social housing programs, continue to fall under the responsibility and oversight of the County as Service Manager, with ongoing funding in accordance with the existing funding formula under the *HSA.*

In 2022, the Province amended the *HSA* to include an updated regulatory framework and funding approach for community housing projects that were previously funded under federal/provincial programs. Overall, the new regulations provide a set of baseline funding and operational rules to support the continued delivery of community housing, while creating a framework for an operating agreement that is more flexible to meet the needs of the County and individual Housing Providers.

EOM/EOA presents municipalities with a new challenge around housing. Prior to the *HSA* amendments in 2022, the funding framework for Community Housing Providers remained largely unchanged. The provincially prescribed funding formula assumed that once the mortgage was paid off, the project would continue to operate with sufficient revenue to meet operating expenses and capital repairs. However, the reality is that without continued financial assistance, many Providers will operate in a deficit or will have inadequate reserves to fund critical capital repairs.

While all federal and provincial projects that have already reached EOM/EOA have been retained, staff are requesting Council's approval to enter into new service agreements with Providers to ensure funding is allocated appropriately, with a focus on retaining deeply affordable units in our community and ensuring Housing Providers remain sustainable for the long-term.

Comments

The County has significant interest to maintain deeply affordable units and ensure a continuum of affordable housing options are available throughout our community. In addition, the County continues to have legislative obligations under the *HSA*, to ensure a prescribed number of RGI units (1,020) are maintained and level of subsidy is provided to designated housing projects that continue to provide RGI housing.

In support of the above, the County is required to enter into new service agreements with each of the Housing Providers that continue to maintain RGI housing once their mortgage term has ended. In accordance with the *HSA*, new agreements must have a minimum term of ten years, and the SM must provide, at minimum, an RGI subsidy to sustain existing RGI units.

Given the complexity of developing new service agreements, staff are proposing the adoption of a Strategy to guide the negotiation process with each Provider. This will ensure a consistent funding approach across the system, with a focus on maintaining deeply affordable units and maximizing available funding. Overall, the Strategy is comprised of three main components, as summarized in Table 1.

Table 1: New Service Agreement Components

1. Guidelines for New Agreements	2. Funding Options	3. Process
• General Principles • Rent • Capital Reserve Contribution • Operating Surplus • Financial Plan	• RGI Subsidy/ Rent Supplement • County Operating Subsidy • County Capital Grant • Rent Increases • Loan/ Refinancing/Grants • Adjust Unit Mix	• Preparing for EOM/EOA • Negotiating a New Agreement • Ongoing Review

The guidelines and funding options, along with a process approach for working with Providers at EOM/EOA, creates an overall strategy designed to encourage Housing Providers to continue offering RGI housing, while addressing the long-term financial and capital sustainability of their portfolio. The combination of funding options will ultimately depend on each project's viability analysis, along with individual operating and capital needs.

The following sections of this report provide a summary of the three main components of the Strategy, with the fulsome Strategy provided as Attachment 1.

1. Guidelines for New Service Agreements

In the development of new agreements, the County will focus on retaining all social housing units and ensuring project sustainability over the long-term. In doing so, the County will focus on the following key guidelines in the negotiation of agreements with each Provider.

<u>General Principles</u>

- Community housing is recognized as a valuable publicly funded asset, and the County is committed to retaining all existing units at the EOM/EOA, in accordance with the principles of the Strategy.
- Funding options will be considered on the basis of ensuring community housing remains financially viable, affordable and in good repair.
- Funding will be allocated with consideration for both operating and capital needs, and in accordance with municipal financial constraints.
- Funding will incentivize Housing Provider investment and accountability to reduce operating costs (i.e., to maximize revenue sources/efficiencies).

<u>Rent</u>

- In the consideration of the RGI subsidy, the County will consider a bridge of up to the difference between RGI rent and what the Provider would otherwise receive for that unit at 80% of the Average Market Rent (i.e. $929 for a one bedroom), in accordance with the County Municipal Housing Facilities By-law.

- Providers may also be encouraged to increase market rent units to support long-term financial sustainability.

Capital Reserve Contribution

- Any contributions to a Housing Provider's capital reserve fund will be based on Building Condition Assessments (BCAs) and reserve fund analysis.
- Housing Provider capital reserves should not be greater than the amount required to fund major capital repairs and replacement over a ten-year horizon. Should capital reserves be sufficiently funded, Housing Providers may be encouraged to invest in new developments or additional units, subject to County Council approval.

Operating Surplus

The target operating surplus for Housing Providers is 5% of revenue, calculated without consideration of any County subsidy. A 5% operating surplus is necessary for Providers to respond to operating expenses that may not have been budgeted (i.e. insurance claims, lawsuits, and unanticipated maintenance).

Financial Plan

In accordance with the *HSA*, service agreements must include a financial plan that is developed jointly by the County (Service Manager) and Housing Provider, to address how revenue will meet expenditures. The financial plan must include a minimum five-year projection and will be reviewed at least every five years.

While an RGI subsidy is the only mandatory funding that the County is required to provide, to support the continued provision of RGI units and the financial viability of housing assets, the County may provide additional funding options, subject to annual budget approval. The terms and amount of additional funding (provided in Table 2) will be informed by the financial viability analysis that is completed for each housing project, and dependent on the stability of the project with the required RGI subsidy applied.

The financial viability analysis will be completed using the 'Financial Planning Tool' that was developed by the Housing Services Corporation (HSC) for designated Service Managers across the province. This tool ensures a consistent approach to evaluating the financial viability of Housing Providers across the province, as well as throughout the County.

Overall, the joint financial plan ensures the appropriate level of stable and predictable funding is provided to support the viability of the Housing Provider. This approach will assist to determine if additional funding options are necessary, above and beyond the required RGI subsidy.

2. Funding Options

Depending on the Housing Provider's net operating income and capital reserves (as determined in the development of the Financial Plan), a number of the following funding options may be explored and/or applied to ensure financial stability. As a baseline, Housing Providers who sign new operating agreements will receive County RGI Subsidy as per legislative requirements.

The combination of the following funding options will ultimately depend on the housing project's unique circumstances and completed financial plan, as well as the available funding under the County's current provider budget. Some options may be subject to County Council approval should there be any impact to annual approved budgets.

Table 2: Funding Options

Option	Details
RGI Subsidy/ Rent Supplement	This option is prescribed under the *HSA* and will become the baseline funding for Providers who enter into new operating agreements. An RGI subsidy of up to the difference between what the tenant pays (RGI) and what the Housing Provider would otherwise receive for that unit at 80% of the Average Market Rent according to the County Municipal Housing Facilities By-law.
County Operating Subsidy	An operating subsidy, above the RGI subsidy, will be considered if a Housing Provider has a plan in place to become financially viable within a determined period. This will only be considered if it has been determined that a Housing Provider is not financially viable over the next five-year period.
County Capital Grant	A one-time capital injection may be considered for critical repairs, in accordance with a completed BCA.
Rent Increases	Housing Providers may be encouraged to raise rents in projects with mixed market and RGI units, to 80% of Average Market Rent (or higher as deemed necessary for viability and as is advisable based on anticipated tenant impact), in accordance with the County Municipal Housing Facilities By-law.
Loan/ Refinancing/ Grants	All providers will be encouraged to apply for grants and encouraged to maximize multiple funding sources for viability. Where appropriate, mortgage refinancing may be recommended to support capital repairs and ongoing viability.
Adjust Unit Mix	Shifting the current RGI and market mix is a last resort, as it will impact the County's obligation to maintain a certain level of RGI units.

3. Process for EOM/EOA

The following process will be followed for each Housing Provider that reaches the EOM/EOA, with consideration for the guidelines and funding options in the previous section of this report. It is important to note that not all projects will be reviewed at the same time. Staff will work through each project in chronological order, and in accordance with financial need.

Table 3: EOM/EOA Process

Phase 1 - Preparing for End of Mortgage / Agreement (EOM / EOA)	
Process	**Details**
1. Education and Engagement	While Housing Providers are expected to be prepared for EOM/EOA, staff will continue to attend Provider Board meetings and educate board member on the process and next steps.
2. Identify and resolve issues listed in Operational Reviews	In preparation of EOM/EOA, County staff continue to work with Housing Providers through their operational reviews to identify areas for improvement (e.g. financial/capital management, governance). These discussions enable Housing Providers to address concerns as projects approach EOM/EOA.
3. Complete Updated Building Condition Assessments (BCA)	A BCA is required to determine capital repair needs and capital repair reserve contributions. To prepare for EOM/EOA, Housing Providers have been made aware that updated BCAs are required. To date, a total of six providers have received funding assistance form the County to complete updated assessments.
Phase 2 - Negotiating New Agreements (when Providers reach EOM/EOA)	
Process	**Details**
1. Review of housing portfolio and finances	County Staff will review financial statements of the project with the Housing Provider to better understand sources of revenue and expenses. If the Housing Provider has external funding agreements for the project in question, the terms and conditions of these agreements will be reviewed and factored into the viability analysis.
2. Management of vacancies and rent	County Staff will review vacancy rates with Housing Providers and identify needs to ensure that units remain available and occupied. RGI and market rent units will be discussed along with plans for future rent revenue for these units (e.g. rent increases).
3. Property development / capital needs	Providers will be encouraged to identify their longer-term goals regarding project and/or portfolio development. Opportunities to address these goals will be discussed.

4. Financial Viability Analysis	Viability analyses will be conducted by staff in conjunction with Housing Providers to determine both operational and capital viability. A more detailed overview of the viability analyses is included under the financial model section of this report.
5. Five-year Financial Plan	Staff and the Housing Provider will jointly develop a five-year financial plan. This plan will address how the Housing Provider's revenues will meet expenditures, including projected capital expenditures. The plan will also address how rent for units will be set and will detail the County's continued financial obligations for the project.
6. Operating Agreement	The County will enter into new service agreements with the Housing Provider including details regarding the obligations of both the provider and County. While the minimum duration of a new agreement is currently ten years, staff will encourage longer terms. A standard Agreement template has been developed by the Housing Service Corporation (HSC), with input from all Service Managers and legal counsel.
Phase 3 – Ongoing Review (following execution of new service agreement)	
Process	**Details**
1. Provider Review	To ensure that financial projections meet the needs of the County's obligations, Housing Provider's financial plans will be reviewed at year five of the new agreement, as per regulatory requirements. New Service Agreements will also contain the flexibility to re-visit the agreement earlier than obligated, should the County feel this is necessary.

CONCLUSIONS

The County and Housing Providers share a mutual interest in maintaining deeply affordable housing units and ensuring a continuum of affordable housing options are available in our community.

The new regulations under the *HSA* present a significant change to the community housing sector and signal an opportunity to develop more localized solutions that better support individual Housing Provider sustainability, while addressing broader housing needs across the service area. Overall, the proposed Strategy provides an opportunity to encourage greater stability in the housing sector, while promoting continued partnerships for the long-term sustainability of Housing Providers and strengthening the sector as a whole.

SIGNATURES

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ATTACHMENT

Attachment 1 Strategy for End of Mortgage / Agreement, May 8, 2024