Oxford County
Growing stronger together

Strategy for End of Mortgage / Agreement

Introduction

In 2022, the Province amended the *Housing Services Act,* 2011, to include an updated regulatory framework and funding approach for community (social) 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 new service agreements that are more flexible to meet the needs of the County and Housing Providers.

In support of this updated framework, the County has developed a Strategy for the development of new service agreements with Housing Providers to ensure a consistent approach across the housing portfolio. The Strategy more directly provides a set of guidelines to be used in the negotiation of new agreements, along with a list of potential funding options and the accompanying process for Housing Providers who reach End of Mortgage (EOM) or End of Agreement (EOA).

Overall, the Strategy is comprised the three main components as listed in the table below.

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/Asset Management	• 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

Overall, the Strategy is designed to encourage Housing Providers to continue offering deeply affordable rental housing, while addressing the long-term financial and capital sustainability of their portfolio. The combination of funding options will ultimately depend on the financial viability analysis that is completed for each project, along with consideration for unique operating and capital needs.

1. Guidelines for New Agreements

In the development of new agreements with each Housing Provider, the County will focus on retaining all community housing units, while ensuring project sustainability over the long-term. In doing so, the County will focus on the following guidelines in the development of new agreements and determination of funding options.

General Principles

- 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 must be flexible and based on demonstrated need.
- 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).
- Equity will be directed to current project operating and capital needs prior to leveraging new builds. Surplus equity may be used to leverage development, subject to County Council approval.

Rent

- Rent for RGI tenants will continue to be determined by individual circumstances using minimum rent, benefit unit maximum shelter or 30% of gross income.
- In the consideration of the RGI subsidy, the County will consider funding up to the difference between RGI rent and the market rent for that unit to a maximum of 80% of the Average Market Rent, in accordance with the County Municipal Housing Facilities By-law.
- If a mix of rents are proposed to support the financial viability of a project, Housing Providers will be encouraged to maximize rental income by including some units at affordable rental rates, in accordance with the County's Municipal Housing facilities By-law. Furthermore, Housing Providers will consider changing the mix of RGI and market rent units as well as increasing market rents to maximize revenue.

Capital Reserve Contribution

The County may provide a contribution or subsidy towards the capital reserve based on Housing Provider needs, subject to County Council budget approval, and in line with the following:

- Contributions to the capital reserve fund will be incorporated into the financial plan and adjusted every five years (or more often, if deemed necessary) based on Building Condition Assessments (BCAs) and reserve fund analysis.
- Capital reserves should not be greater than the amount required to fund major capital repairs and replacement over a ten-year horizon. If the reserve exceeds this amount, Housing Providers will no longer be required to transfer operating reserves to capital and the County will no longer be obligated to provide operating subsidies.
- Initial anticipated contributions to the reserve fund will be considered based on the current contribution amount plus the BCA/reserve fund analysis.

- A one-time capital reserve contribution may be considered on a one-time basis, case by case basis, subject to annual County Council budget approval.
- If capital reserves are sufficiently funded, the County may recover or reallocate subsidies to new development projects, subject to County Council approval.
- Should capital reserves be sufficiently funded, Housing Providers will be encouraged to invest in new developments or additional units, subject to County Council approval.
- Housing Providers will be required to participate in a central Asset Management program, to determine capital asset needs according to the most recent BCA. This program will support the continued review of capital repair project for the life of the asset.
- BCAs are required to be updated a minimum of every five-yeas, or earlier if an unexpected capital improvement is needed, or additional funding is requested.

Operating Surplus

The target operating surplus for 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).

Any projects with a cumulative operating surplus of greater than 30% of revenue (considered to be a viable operating reserve to cover three months of unplanned expenses) will be directed to contribute the remaining surplus to capital reserves, with consideration given to contributing an even larger portion of the surplus where possible. The funds in the capital reserve will be used in support of critical repairs and long-term capital projects indicated in the BCA, and regular updates to the BCA.

If capital reserves are sufficiently funded, the County may recover or reallocate subsidies to new development projects, subject to County Council approval.

Financial Plan/Asset Management

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 be reviewed at least every five years.

While an RGI subsidy is the only mandatory funding that the County is responsible for providing, to further support the provision of RGI units and the financial viability of the asset, the County may negotiate additional funding options with the Housing Provider. The terms and amounts of that funding would be informed by the financial plan and included in the new service agreement. The additional funding options are provided in Section 3 of this Strategy.

Overall, the joint financial plan ensures the appropriate level of stable and predictable funding is provided to support the viability of the Housing Provider. In developing the financial plan, staff will complete the following:

1. Collect Data Sources

The County will initially review the following operating and capital data sources:

- Rent roll.
- Financial statements (e.g., Annual Information Returns, Audited Financial Statements, etc.) for the past three years.
- Other subsidy estimates/supports, if applicable.
- Building Condition Assessment (BCA).
- Ten-year capital plan/forecast and/or asset planning data, if available.

2. Review of Project Details

To better understand revenue and expenses, staff will evaluate the following project details to determine the financial state of the Housing Provider:

- Revenue (Rent Roll)
    - Breakdown of existing unit types and rent levels (i.e. RGI, affordable, market).
    - Assessment of RGI and market rents compared to 80% of the average market rent in accordance with the County's Municipal Housing Facilities By-law.
    - Other rental income items (i.e. laundry).
    - Rental revenue potential (i.e. considering different affordability thresholds).
- Operating Expenses
    - Post EOM/ EOA loans (i.e. existing loans / potential refinancing).
    - Administration.
    - Maintenance/ Utilities.
    - Insurance.
    - Property taxes.
    - Transfers to capital reserves.
- Capital Reserve Replacement
    - Opening capital reserve balance.
    - Total capital expenditures for repair/renovation per year (according to BCA).
    - Facility conditions index – asset value compared to unfunded capital expenditures/liabilities.

Note: while Housing Providers with multiple projects typically combine their operating costs and capital reserves for all projects, financial viability will be based on a per project basis. Additional information may be requested at the discretion of the County.

3. Determining Financial Viability

Prior to determining subsidy and funding options, individual project data from the last one to five years (actual data rather than benchmark operating and capital amounts) will be used to conduct an in-depth analysis of the project's financial viability. The analysis will cover three potential subsidy/funding scenarios, with consideration for three time periods (present, five-years following EOM/EOA and ten-years following EOM/EOA), as follows:

- <u>Scenario 1 (no subsidy)</u>: The first scenario will review the project's financial viability with no further subsidies/funding from the County. While RGI subsidies will be provided to Housing Providers seeking to retain RGI units, Providers wishing to enter into an exit Agreement would first be required to demonstrate their viability to operate and provide RGI income subsidy without County assistance, as well as an appropriate exit strategy that ensures no tenant displacement or long-term viability concerns.

- Scenario 2 (RGI subsidy only): A rent subsidy would be applied to all existing RGI units, being the minimum funding required under the *Housing Services Act*. If providers are funded sufficiently for both operating and capital requirements, no further subsidy/funding options will be provided.

- Scenario 3 (additional funding/subsidies): For projects where operating or capital is not viable, even with an RGI subsidy, other funding options (as provide in Section 2) may be considered. In general, funding options that seek to increase a Housing Providers revenue will be considered prior to County funding options.

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 Country.

Overall, the tool considers a variety of project details (as previously noted) to determine the viability of a housing project, including whether the project is generating sufficient revenue to cover operating expenses, while providing RGI units and ensuring the building remains in an appropriate state of repair.

The tool considers inflation factors, appropriate rental increase, along with historical revenues/expenditures (previous five-year period), to determine appropriate subsidy/funding options for a new service agreement. Where historical expenses are not consistent with the general average of similar sized community housing projects in the County (i.e. property management/maintenance contracts), a more appropriate average will be applied to determine appropriate funding/subsidy options.

A more detailed process map respecting the consideration of funding/subsidy option is provided in Attachment 1 of this Strategy.

2. Funding Options

Depending on a Housing Provider's net operating income and capital reserves, the following funding options may be explored and/or applied to ensure financial stability. As a baseline, Housing Providers who enter into new operating agreements will receive an RGI subsidy as per legislative requirements. The exception being a Housing Provider entering into an Exit Agreement would no longer be eligible for any ongoing funding from the County.

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 annual budget, as approved by Council.

Table 2: Funding Options

Option	Details
RGI Subsidy/ Rent Supplement	Covers the difference between what the tenant pays (RGI) and what the Provider would otherwise receive for that unit at 80% of the Average Market Rent according to the County Municipal Housing Facilities By-law. This option is prescribed under the *HSA* and will become the baseline funding for Providers who enter into new operating agreements.
County Operating Subsidy	An operating subsidy, above the RGI subsidy, will be considered if a 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 Provider is not financially viable over the next five-year period. This option may include a subsidy to cover property taxes, utilities, maintenance, or other items at the discretion of the County.
County Capital Grant	A one-time capital injection may be considered for critical repairs, in accordance with a completed BCA.
Rent Increases	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

The following process will be followed for each Provider that reaches EOM/EOA. 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, County staff will attend Provider Board meetings and educate board members 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)	To prepare for EOM/EOA, Housing Providers are required to complete updated BCAs to determine capital repair needs and capital reserve contributions.
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 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. RGI and market rent units will be discussed along with plans for future rental revenue for these units (e.g. rent increases).
3. Property development / capital needs	Housing 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	Financial viability analyses will be conducted by County 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 Plan section of this Strategy.
5. Financial Plan	Staff and the Housing Provider will jointly develop a five-year financial plan. This plan will address how the 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 a new service agreement with the Housing Provider including details regarding the obligations of both the Housing Provider and County. While the minimum duration of a new agreement is currently ten years, a longer term is encouraged. A standard agreement template will be used to initiate this process.
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 flexibility to re-visit the agreement earlier than obligated, should the County feel this is necessary. Annual reporting will also be required to ensure Provider obligations are maintained.

Conclusion

The County and Housing Providers share a mutual interest in protecting valuable housing assets, ensuring residents continue to receive community-based housing, and ensuring the financial viability of non-profit and co-operative housing projects.

This Strategy provides a local process to better support individual Housing Providers in an effort to reach long-term financial sustainability, while also addressing broader housing needs across the County.

Attachment 1 – Subsidy/Funding Options Flow Chart