

Report to Community and Protective Services Committee

To: Chair and Members, Community and Protective Services Committee
From: George Kotsifas, Deputy City Manager, Planning and Economic Development
Subject: Odell Jalna Social Housing Provider Proposal
Date: February 1, 2022

Recommendation

That, on the recommendation of the Deputy City Manager, Planning and Economic Development, that the following actions **BE TAKEN** with respect to the Odell Jalna Social Housing Provider Proposal report that;

- a) Civic Administration **BE DIRECTED** to work with the Board of Odell Jalna and the Ministry of Municipal Affairs to advance the provider's proposal; and
- b) Civic Administration **BE DIRECTED** to re-invest the anticipated future tax levy supported mortgage subsidy savings related to the Odell Jalna portfolio to address the long-term financial stability of the Odell Jalna portfolio.

Executive Summary

As outlined in the End of Mortgage (EOM) and End of Operating Agreement (EOA) Impacts and Analysis Community and Protective Services report dated February 1, 2022. Many community housing providers (private non-profits and co-operatives) are reaching their end of the mortgage. When the mortgage has been paid off, the mortgage component of the operating subsidy from the Service Manager will be zero, reducing the amount of subsidy the housing provider receives.

As housing providers reach their EOM, it is becoming apparent that the current *Housing Services Act* funding formula developed many years ago is not adequate to sustain the viability of the housing stock in order to provide affordable housing in today's environment. London's community housing portfolio is aging. With the rising cost of operations, the extremely low prescribed market rents, and the significant capital repair needs, the financial funding model is not adequate. Without some form of additional subsidy, it is not financially feasible for all projects to continue to provide safe and appropriate affordable community housing.

As a transition to an improved legislative framework, the province announced the Community Housing Renewal Strategy and introduced new legislation – *Protecting Tenants and Strengthening Community Housing Act 2020* which incorporates amendments to the *Housing Services Act, 2011* intended to provide a streamlined legislative framework for community housing that will incent non-profit and co-operative housing providers to stay in the housing system once their original agreement and mortgages end. Civic Administration eagerly awaits guidance from the Ministry of Municipal Affairs and Housing (MMAH) and the new regulations, expected to be released sometime between spring and fall of 2022, for a better understanding of the provincial role going forward.

In anticipation of the new regulatory framework, the Municipal Housing division continues to look for options and innovative solutions outside the *Housing Services Act* framework to develop strategies to support housing providers' future sustainability.

The Board of Odell Jalna has presented the Service Manager with an innovative approach to maintaining the housing provider's financial stability and ensuring that no affordable community housing units are lost.

Linkage to the Corporate Strategic Plan

2019-2023 Strategic Plan for the City of London:

Council and staff continue to recognize the importance of actions to support the 2019-2023 - Strategic Plan for the City of London. Specifically, the efforts described in this report address the following Areas of Focus, including:

- Strengthening Our Community
- Building a Sustainable City

Strengthening our Community Strategic Area of Focus

The following strategies are intended to “increase affordable housing options”:

- Establish and revitalize community housing through a Regeneration Plan;
- Increase supportive and specialized housing options for households experiencing chronic homelessness;
- Strengthen the support for individuals and families in need of affordable housing;
- Utilize innovative regulations and investment to facilitate affordable housing development.

The following strategies are intended to achieve the result of reducing the number of individuals and families experiencing chronic homelessness or at risk:

- Create more purpose-built, sustainable, affordable housing stock in London;
- Implement coordinated access to mental health and addictions services and supports; and
- Improve emergency shelter diversion and rapid re-housing practices.

Housing Stability Action Plan

The City of London’s Housing Stability Action Plan focuses on increasing and maintaining affordable and quality housing options for individuals and families and reducing the number of individuals and families experiencing homelessness.

Analysis

1.0 Background Information

1.1 Background

The City of London’s Housing Stability Action Plan 2019 - 2024 identified the need to maintain the housing stock it has. The plan highlighted the need for more affordable housing stock in our community and that the shortage of safe, affordable housing options is impacting the stability and health of people across our community.

Provincial Non-Profits End of Mortgages

Community housing provided by non-profits and housing co-operative in projects that included provincial funding are distinct from federal projects. These provincial projects had their original operating agreements terminated when responsibilities were devolved to the Service Manager. The rules and requirements governing operations, including rules for how projects are funded, were taken from the original agreements, and transferred into legislation (originally through the *Social Housing Reform Act, 2000*, subsequently replaced by the *Housing Services Act, 2011*).

When the original operating agreements were replaced with a legislative framework, the legislation did not specify when the provider’s obligations to provide subsidized housing would conclude.

Provincial projects that are not officially removed from O. Reg. 368/11 under the *Housing Services Act, 2011*, must continue to provide affordable housing (including Rent Geared to Income - RGI) in accordance with the Act. In exchange, housing

providers continue to receive a subsidy from their Service Manager, which is calculated according to the funding formula set out in O. Reg 369/11.

The funding formula generally incorporates three (3) main components:

- 1) Operating Subsidy – which includes
 - a) Benchmark Revenue less
 - b) Benchmark Operating Costs and
 - c) Provider's Shelter Mortgage
- 2) RGI subsidy; and
- 3) Property Tax subsidy

When the mortgage has been paid off, the mortgage component of the operating subsidy will be zero.

This funding formula in O. Reg. 369/11 under the Act represents the minimum Service Manager subsidy required for a housing provider. Service Managers have the discretion and flexibility to provide a subsidy greater than the minimum requirements from other municipal resources.

Legislative Framework

The Minister can end a housing provider's obligations under the *Housing Services Act* by removing the project from regulation O. Reg. 368/11. This process occurs on a case-by-case basis and is often referred to as 'delisting'. To date, most examples of de-listing relate to federal projects after their operating agreement ends.

Obligations for provincial projects remain in place so long as they are listed in O. Reg. 368/11. Even in situations where a provider's mortgage has matured and/or the provider receives nil (\$0) in total subsidy from the Service Manager, the housing provider remains bound by the *Housing Services Act* so long as they are listed in O. Reg. 368/11. If a provincial project is de-listed from the *Housing Services Act*, the provider may no longer be entitled to legislative and regulatory exemptions or Service Manager investments.

As part of the *Protecting Tenants and Strengthening Community Housing Act* amendments to the *Housing Services Act*, the MMAH has placed a pause of removing housing projects from O. Reg. 368/11 for a three (3) year period (expect to end fall of 2022) however exceptions may be considered on a case-by-case basis. Once a provincial project is removed from the Act (de-listed), the Service Manager's legislative protections through the *Housing Services Act* are no longer in place however under the new provisions, community housing providers could voluntarily enter into service agreements or exit agreements with Service Managers related to the administration of housing projects.

1.2 Previous Reports Related to this Matter

In addition to these, the following reports provide direct and relevant background to local housing needs and plans:

- [2021 Mid-Year Update Housing Stability for All Plan](#) (CPSC: September 21, 2021)
- [Housing Stability for All Plan 2020 Update](#) (CPSC: May 11, 2021)
- [Letter of Mayor Holder to CPSC Re: 3,000 Unit Challenge](#) (CPSC: March 30, 2021)
- [Housing Quarterly Report](#) (CPSC: October 6, 2020)
- [Capital Repair and Improvement Program Approval of Loan Agreement](#) (CPSC: August 12, 2020)
- [Housing Quarterly Report](#) (CPSC: July 15, 2020)
- [Municipal Council Approval of the Housing Stability Plan 2019 to 2024...](#) (CPSC: December 3, 2019)
- [Homeless Prevention and Housing Plan 5 Year Review and Update](#) (CPSC: June 17, 2019)

- [Request for Proposal 18-05 Social Housing Building Inventory – Building Condition Assessment and Reserve Fund Studies](#) (CPSC: June 18, 2018)
- [End of Operating Agreements \(EOA\) for Social Housing Providers in London and Middlesex County](#) (CPSC: February 18, 2015)

2.0 Discussion and Considerations

2.1 Provincial Non-Profit Housing Provider Proposal

The Odell-Jalna portfolio includes 4 properties for a total of 246 units with 210 designated as RGI and 36 low-end market rent (currently at approximately 50% of Average Market Rent). The Homes Unlimited portfolio includes 5 properties for a total of 278 units. Merging with the Homes Unlimited portfolio provides the unique opportunity to adjust the deep subsidy tenant mix in Odell Jalna's projects.

Both Odell-Jalna and Homes Unlimited are governed by the same volunteer Board of Directors. In 2017, Homes Unlimited and Odell-Jalna corporations undertook the development of a five-year Strategic Plan. Adopted by both boards early in 2018, the Strategic Plan sets out a series of goals and actions that aims to improve operational effectiveness and expand the development of new affordable housing in London. The number one goal in the Strategic Plan is to facilitate the merger of Odell-Jalna with Homes Unlimited. The merged corporation will eliminate duplications and inefficiencies.

The City of London, as the Housing Service Manager, was approached by Odell-Jalna in 2019 regarding a proposed merger that would essentially merge the Odell-Jalna social housing portfolio with their Homes Unlimited affordable housing portfolio. Municipal Housing has been meeting with the board on several occasions to discuss the merger proposal and to develop shared objectives and goals (such as: maintaining existing RGI units, minimizing additional government subsidy, addressing capital requirements, developing a sustainable financial model, determining a framework approach, and the engagement with the MMAH).

The board's proposal also requested the Service Manager's support in de-listing from the *Housing Services Act* in an effort to access favourable refinancing rates, access existing property equity for capital repairs, minimize the administrative burden, promote a broader mix community approach across the Odell-Jalna and Homes Unlimited portfolio, and provide operational flexibility.

All of Odell-Jalna's 4 properties are identified as provincial projects, which all have been included in the board's proposal:

- Jalna Woods (64 units: 50 RGI and 14 Low Market Rent) - mortgage expires June 1, 2022;
- Odell Place (67 units: 57 RGI and 10 Low Market Rent) - mortgage expires July 1, 2024;
- Wavell Village (55 units: 49 RGI and 6 Low Market Rent) - mortgage expires October 1, 2024; and
- Ottaway Place (60 units: 54 RGI and 6 Low Market Rent) – mortgage expires October 1, 2029

Conversations and efforts between the Service Manager and the board focused on establishing a financial model that promotes the housing provider's operating financial sustainability, is within the City's existing approved funding, supports future capital planning needs, and continues to support the current RGI & affordable housing tenants.

2.2 Capital Assessment

In 2020, the Municipal Housing division finalized the building condition assessment (BCA) for the City's social housing portfolio. As the Service Manager, the City assisted community housing providers in gathering this information to support the development of their capital planning and reserve fund requirements.

The BCA report highlights a Facility Condition Index (FCI) for each property at the time of inspection and for Odell-Jalna's portfolio, the following represents Odell Jalna's property's FCI results:

Property	FCI %	Condition	Comments
Jalna Woods	2%	Good	Asset in reasonable condition and does not require major capital expenditures over the next 3 years
Ottaway Place	3%	Good	Asset in reasonable condition and does not require major capital expenditures over the next 3 years
Wavell Village	6%	Fair	Asset is deteriorating and requires capital expenditures. Will likely become poor condition within a few years if repairs are not addressed
Odell Place	7%	Fair	Asset is deteriorating and requires capital expenditures. Will likely become poor condition within a few years if repairs are not addressed

Note: The FCI term is used to describe the relative condition of a facility to the current replacement value of that facility. The FCI % is a calculation of the required capital investment divided by the current replacement value of the facility.

The BCA analysis included a review of the building envelope, structure, interior, mechanical and electrical components, and general life safety items. These items were evaluated on the following criteria:

- Good condition: > 8 years. The capital item is an original installation or, has recently been installed/replaced, with no visible reduction or anticipated reduction in performance, and should remain in good condition for several more years, provided that proper maintenance is performed regularly;
- Fair condition: 4 – 7 years. The capital item is in a condition which is typical of its age or, based on use;
- Poor condition: 1 – 3 years. The capital item is nearing or at the end of its useful service life and should be replaced/repared soon;
- Immediate: Health & Safety, Serious Code infraction.

Also, the BCA analysis identified the following priority ratings:

- Priority A – Life Safety: Hazardous conditions which could lead to critical or severe injury;
- Priority B – Structural Integrity: Conditions which if left uncorrected can reasonable be expected to lead to the deterioration of structural elements of the building;
- Priority C – Legislative Requirements: Conditions which are not in compliance with legislative requirements;
- Priority D – Reached their useful life or to maintain tenants' quality of life: Replacement or upgrading of building elements which have reached the end of their useful life, and which must be upgraded to maintain tenants' quality of life, and prevent the building from becoming physically or functionally obsolescent; and
- Priority E – Cost Efficiency Initiatives: Upgrades related to cost-effective initiatives which improve the operational efficiency of a building, particularly in the area of energy efficiency, and which have a reasonable payback.

The following chart highlights Odell-Jalna's BCA findings:

Priority	2022 – 2025	2026 - 2030	2031 - 2035	2036 - 2040
Priority A	\$537,000	\$19,000	\$242,000	\$198,000
Priority B	\$90,000	\$125,000	\$143,000	\$163,000

Priority C	\$0	\$0	\$216,000	\$50,000
Priority D	\$4,122,000	\$3,700,000	\$5,994,000	\$7,288,000
Priority E	\$63,000	\$2,000	\$20,000	\$20,000
Total A to E	\$4,812,000	\$3,846,000	\$6,615,000	\$7,719,000
Total A to C	\$627,000	\$144,000	\$601,000	\$411,000

Note: Odell-Jalna's 2019 year-end Reserve Fund balance for the portfolio was approximately \$405,000.

Total Priority A to E is provided to represent the complete BCA portfolio findings and Priority A to C represents the minimal investment from the BCA portfolio findings.

2.2 Analysis

In 2021, the Municipal Housing division secured the services of the Housing Service Corporation (HSC) to support the board and the Service Manager through a financial model review to develop a financial sustainability framework. The Municipal Housing division has concluded our work with the HSC and the board and has developed a financial sustainability model governed by maintaining Odell-Jalna's current net municipal funded subsidy funding (currently approximately \$1.2 million which includes potential loss of Gazette mortgage funding of approximately \$0.287 million for 2022 however a further loss of Gazette funding of approximately \$0.339 million would also be realized as a result of de-listing) and refinancing the existing four (4) Odell-Jalna properties to meet the above future portfolio capital need priorities (A through E). Essentially, the financial sustainability model requires reinvesting the mortgage savings from Odell Jalna's social housing portfolio in order to maintain existing subsidy levels. As noted above, this mortgage savings reinvestment framework is not unique to Odell Jalna and will likely be required as a tool for many other housing providers.

Most recently, the Municipal Housing division consulted with MMAH to confirm the process to which a de-listing request can be accepted and what considerations are required. For any housing provider to be de-listed from the Act, a business case submission is required from the Service Manager that highlights:

- 1) Background / context;
- 2) Description of the housing provider, affected buildings, and composition of RGI and Market units;
- 3) Description of circumstances necessitating delisting during the de-listing pause;
- 4) Description of consequences if de-listing request is not granted;
- 5) Service Manager will still be able to meet its legislative RGI targets;
- 6) Tenant selection for RGI units will still utilize the City's Centralized Waitlist;
- 7) What, if any, impact does this have on existing tenants and how is it mitigated;
- 8) How with the Service Manager ensures that the longstanding public investment the projects are preserved;
- 9) Results of a comprehensive evaluation;
- 10) Property Tax implications;
- 11) Any financial penalties to consider; and
- 12) What would the new funding relationship with the Service Manager be.

Subject to Council approval of the recommendations in this report, the Municipal Housing division can proceed to finalize a business case submission to the MMAH on behalf of the Service Manager and Odell Jalna and begin developing a subsequent Service Agreement with Odell Jalna to secure the future relationship for the delivery of Odell Jalna's social and community housing units with the Service Manager. The Service Agreement will be the new tool to ensure Odell Jalna's commitment to maintaining (at a minimum) the current level of RGI and affordable units.

3.0 Financial Impact and Considerations

3.1 Financing Impact

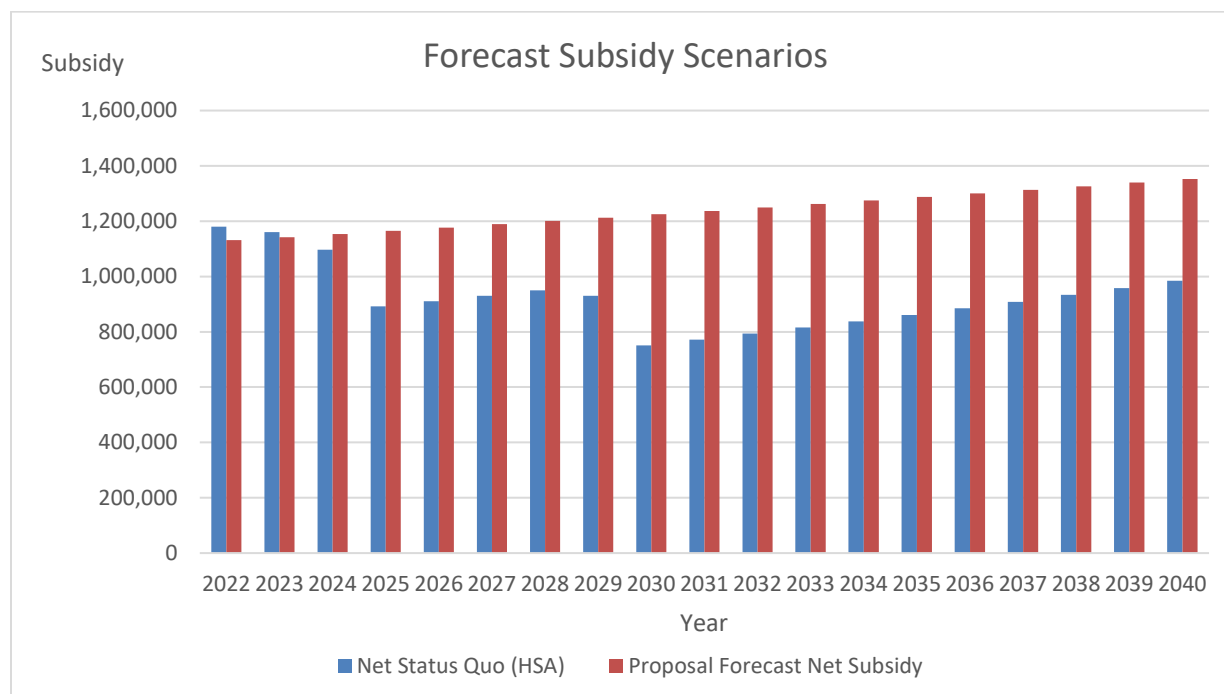
Based on the financial review done by HSC, the current Status Quo is forecasting a decrease in mortgage subsidy funding requirement to Odell Jalna according to the

funding formula prescribed in *Housing Service Act*. This decrease reduces the Service Manager's *Housing Services Act* responsibility to fund, thus produces 'mortgage subsidy savings' for the Service Manager. Mortgage subsidy savings for Odell Jalna's portfolio will be realized incrementally between 2022 and 2029 as the remaining mortgages mature. As the housing provider's mortgages mature, it is expected that Odell Jalna's subsidy funding will decrease from \$1.466 million in 2022 to \$0.750 million in 2030. The Service Manager (City)'s required contribution to fund the subsidy will decrease from \$1.180 million in 2022 to \$0.750 million in 2030.

Status Quo	2022	2023	2024-2027	2028-2040
Estimated - Subsidy Funding to Odell Jalna (Status Quo based on HSA)	1,466	1,364	3,966	11,380
Gazette Funding	(287)	(204)	(136)	-
Status Quo - Service Manager Portion (tax levy funded)	1,180	1,160	3,830	11,380
Proposed Approach	2022	2023	2024-2027	2028-2040
Proposal - Subsidy Funding to Odell Jalna	1,131	1,142	4,685	16,582
Gazette Funding	-	-	-	-
Proposal - Service Manager Portion (tax levy funded)	1,131	1,142	4,685	16,582
Forecasted Subsidy Above HSA Requirement	(49)	(18)	855	5,202

The financial review completed by HSC also explored other funding models that may enable Odell Jalna to achieve operational flexibility, while giving consideration to the impacts to the Service Manager's subsidy contribution and ability to support long-term financial sustainability of Odell Jalna. Based on the analysis, the scenario where the Service Manager maintains the current level of funding (estimated at \$1.131 million in 2022) and only increased with inflationary consideration was supported. Based on this model, the City saves approximately \$0.066 million in subsidy (forecast as per the *Housing Services Act* funding formula) between 2022 and 2023 with Odell Jalna's proposal however the proposal requires maintaining the subsidy in 2024 and beyond. The total subsidy forecast above what would otherwise be required by the *Housing Service Act* totals \$5.990 million from 2022 to 2040.

Below is a graph illustrating the comparison between the Status Quo (HSA subsidy) and the Proposal Scenario:



As per the End of Mortgage (EOM) and End of Operating Agreement (EOA) Impacts and Analysis Community and Protective Services report dated February 1, 2022, Civic Administration is recommending to reinvest social housing mortgage subsidy savings to support social housing providers in achieving financial sustainability. With the approval of the recommendation in that report, Civic Administration proposes to support Odell Jalna's proposal and to work with the Board of Odell Jalna and the Ministry of Municipal Affairs to enter into a new service agreement that will be consistent with the current level of funding while maintain existing community housing by improving Odell Jalna's financial sustainability.

Conclusion

The need for maintaining existing affordable community housing units is happening across Canada and significantly impacting larger urban centres like London. This report reflects the needs of the City to re-invest expected realized savings back into the housing system as a framework to maintain access to affordable community housing.

These investments are essential to securing the financial tools to support our housing providers' financial needs when their projects reach their EOA/EOM and to preserve access to existing affordable community housing.

The Board of Odell Jalna has presented the Service Manager with an innovative approach to maintaining the housing provider's financial stability and ensuring that no affordable housing units are lost. The Municipal Housing division supports continuing to work with the Board of Odell Jalna and the MMAH and views this proposal as an innovative approach and pilot that might provide similar strategies for other housing providers facing similar challenges.

Prepared by: Dave Purdy, Manager Municipal Housing

Submitted by: Patrick Cooper, Director, Municipal Housing Development

Recommended by: George Kotsifas, Deputy City Manager, Planning and Economic Development