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: End of Mortgage (EOM) and End of Operating Agreement (EOA) Impacts and Analysis
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 End of Mortgage (EOM) and End of Operating Agreement (EOA) Impacts and Analysis report;

a) The following report **BE RECEIVED** for information;

b) Civic Administration **BE DIRECTED** to re-invest any anticipated future municipal mortgage subsidy savings in the social housing portfolio to address the long-term financial sustainability of the portfolio; and

c) The Mayor **BE REQUESTED** to send a letter to the Minister of Municipal Affairs and Housing on behalf of the City Council:

    a. Requesting continued provincial partnership and investment in existing community housing;

    b. Highlighting Council's recent significant investment commitments in housing with the need for additional provincial support; and

    c. The need to receive the new *Housing Services Act* regulatory Exit and Service Agreement framework as early as possible to develop strategies to address challenges facing the sector.

IT BEING NOTED that Civic Administration will continue to examine alternative and innovative solutions to the challenge of maintaining social housing units due to EOM/EOA.

Executive Summary

Many community housing providers (private non-profits and co-operatives) are reaching the end of their original program obligations and/or mortgages. The end of operating mortgage/end of agreement issue has different implications for projects and units depending on what funding program they were originally developed under.

For the non-profit and co-operative housing providers, operating subsidy funding is established either through service agreements that were time-limited (typically for thirty-five (35) to forty (40) year periods, often aligning with mortgage maturity) or legislated under the *Housing Services Act*.

This means that some housing providers will no longer have to provide affordable or subsidized housing once their agreement expires, or the mortgage matures. This has resulted in a loss of over 6,500 community housing units in Ontario to date. Over the next few years, 289 non-profit and co-operative providers with approximately 41,000 units are at risk provincially of exiting the community housing portfolio due to reaching the end of their agreements. By 2027, this increases to 106,600 units at risk.

Even though providers will no longer have to pay mortgage costs once it matures, some of these housing projects may not be financially viable. Often this is in part because projects face significant and costly capital repair expenditures as major building systems reach the end of their life cycle, high costs of unit turnover, and the lack of adequate reserves and resources.

Without some form of subsidy, it is not feasible for all projects to continue to provide affordable housing and some providers may stop providing subsidized or low-end market rent when they are no longer legally obligated to do so.

Through Council's approval of the Roadmap to 3,000 Affordable Units Action Plan, a framework has been established to add new affordable housing units in our community. While Civic Administration focuses on developing strategies to add new affordable housing units there is an equal effort needed to retain as much existing affordable housing stock as possible. These two strategies complement each other with a collective focus to ensure that London continues to experience a net gain of affordable housing stock.

Future municipal subsidy savings resulting from mortgage maturities can be reinvested in community housing to address local housing priorities set out in London's Housing Stability Action Plan (which includes strategic capital actions) without increasing current municipal funding requirements.

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 reduce the number of individuals and families at risk or experiencing chronic homelessness:

- 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 Strategic initiative 2.2 Revitalize and Modernize Community Housing identifies 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.

Legacy social housing projects were developed through federal and/or provincial funding programs from the 1950's to 1995. Ten (10) different programs provided some combination of time-limited capital funding, mortgage subsidies and/or operating subsidies for housing providers to offer low-income Ontarians with stable and affordable housing.

Each program was designed with its own funding formula and program guidelines. Some community housing projects have rents set at low-end market rents, while others have rents that are geared to the income of residents (rent-geared-to-income or RGI) with many providers having both types.

In Ontario, the end of mortgage and end of operating agreements affects approximately 60% of the community housing supply that is owned by non-profits, housing co-operatives, and private landlords. The remaining 40% of the community housing supply is owned and operated by Local Housing Corporations, with no operating agreement or mortgage in place.

<u>Federal Projects End of Operating Agreement (EOA Impact)</u>

As part of the housing transfer, these federally funded housing projects became regulated by the City of London, as the Service Manager, pursuant to the current *Housing Services Act, 2011* for the remaining duration of the original operating agreements. As a result, these housing projects have no ongoing legislative mandate for the housing project or to the Service Manager following the expiration of the operating agreement.

Generally, federal operating agreements have terms that coincide with the length of the housing project's mortgage. These agreements set out the amount, duration, and conditions of the subsidy and when the mortgage for the housing project is paid off, the associated federal funding subsidy ends. Federal programs assumed that after the mortgage debt is retired, a housing project should be able to generate sufficient revenue to continue to provide lower end of market rents without receiving subsidies.

<u>Provincial Non-Profits End of Mortgages (EOM Impact)</u>

Community housing provided by non-profits and housing co-operatives in projects that included provincial funding is 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 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.

<u>Summary of EOM/EOA Key Changes / Impacts (without Exit or subsequent Service Agreement):</u>

Post End Date of Mortgage	**Federal (EOA)**	**Provincial (EOM)**
Affordability Requirement	×	✓
Residential Tenancies Act (RTA) Compliance	✓	✓
Reporting Requirement, including subsidy, capital budget, Annual Information Return, Low End Market Rent (Federal Projects Only)	×	✓
Maintaining Mandated Rent-Geared-to-Income (RGI) Units	×	✓
Ongoing Program Subsidy	×	✓
Access to Funding through Service Manager (Operating & Capital)	×	✓
Service Manager Approval for Asset Disposal	×	✓
Service Manager Approval for Change of Corporate Structure (i.e. merger)	×	✓

<u>Legislative Framework</u>

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.

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. As part of this, the Ministry of Municipal Affairs and Housing (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.

The changes to the *Housing Service Act*, enacted through the *Protecting Tenants and Strengthening Community Housing Act, 2000* will have direct impacts for London in it's role as the Service Manager for community housing. These changes, include service level standards, wait list and local eligibility rules, as well as new options for housing providers with ending mortgages and agreements.

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:

- Proposed Implementation of the "Roadmap to 3,000 Affordable Units" (Roadmap) Action Plan (CPCS: November 23, 2021)
- 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)

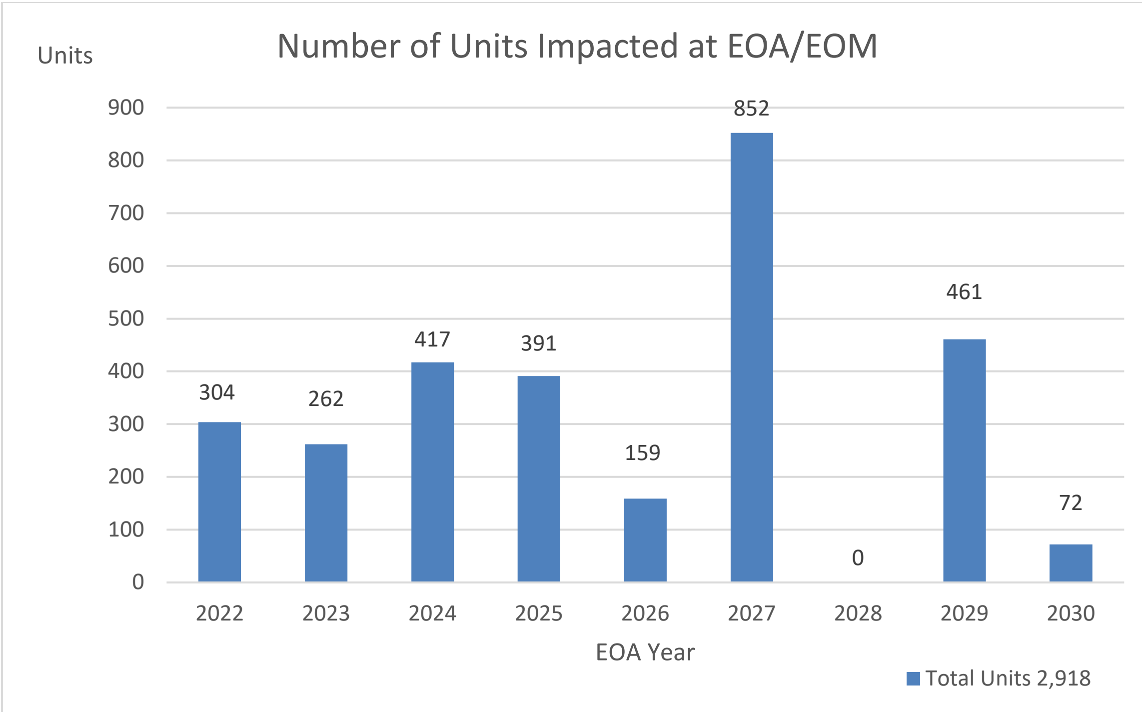
2.0 Discussion and Considerations

2.1 London Context

Funding for the federal projects developed through the different federal programs comes from the Canadian Mortgage Housing Corporation (CMHC) and flows through what is often referred to as 'Gazette' funding from the Ministry of Municipal Affairs and Housing to the Service Manager. This federal funding for projects will decline to zero as federal projects' mortgages mature with London's last federal mortgage maturing in 2021.

In London and Middlesex County, there are 64 social housing providers, which provide approximately 8,000 units in total consisting of 5,939 RGI units as part of the Service Manager's legislatively required target (including 3,282 London Middlesex Community Housing units) and 2,061 low-end market units.

The following chart highlights the number of future units impacted at EOM over the coming years:



As of 2021, all of London's Federal projects have reached their end of EOA. Currently, there are 30 Federal housing providers governed under the *Housing Services Act* providing 1,460 units which have not been delisted and continue to provide low-end market housing.

Although London has experienced federal projects being removed from the *Housing Service Act* in the past, many remain fundamentally committed to continuing to provide housing that is as affordable as possible through the passion which inspired these non-profits' corporate mandates and purpose. Generally, housing projects with expired agreements have continued to provide some level of affordable housing despite the loss of federal funding, although the depth of affordability has most likely changed given the current financial challenges.

Given the broad range of implications related to EOM/EOA, the Municipal Housing division has started developing a strategy that begins with a process to engage the housing provider sector to gain a better understanding of housing providers' goals, objectives, and future housing intentions. The objectives of the strategy will focus on building the capacity of our housing providers, simplify the partnership relationship with housing providers, support housing providers with future asset management and operational pressures, maintain the Service Manager legislative Service Level Standards, maintain the lower-end market units as affordable housing options in our community, and focus on planning for long term regeneration of housing provider's properties.

2.2 Advocacy

The EOM/EOA is one of the most pressing issues facing the sustainability and financial strength of social housing providers. As a result of mortgage maturity and expiring agreements, Service Managers must make complex decisions about maintaining and retaining existing affordable housing stock, meeting required legislative service level standards, and managing an aging housing stock while receiving inadequate funding. Social housing providers are challenged to maintain operational viability when subsidies decrease or terminate at mortgage maturity/operating agreement. Many housing providers are struggling financially due to the requirement to maintain lower-end of market rents while operational costs continue to increase.

The recommendations provided in this report provides the starting point to assemble the tools needed to establish the framework to continue to support our social housing providers. With London's continued commitment and investment, the need for additional senior levels of government partnerships remains an important component for our social housing providers' future success.

3.0 Financial Impact and Considerations

3.1. Financing Impacts

The City's approved 2020 – 2023 Multi-Year Budget includes property tax levy funding of $9.944 million for 2021 for housing providers' mortgage portion of subsidy payments. As the housing providers' mortgages mature starting in 2022, the funding formula, as prescribed by the *Housing Services Act*, reduces the required subsidy which produces 'mortgage subsidy savings' for the Service Manager compared to the current funding level. Mortgage subsidy savings will be realized incrementally between 2022 and 2030 as the remaining provincial projects reach their EOM. It is expected that mortgage subsidy savings will increase from $0.656 million in 2022 to $10 million in 2030 when the last mortgage matures. In total, the gross mortgage subsidy savings in London will be more than $46 million by the time the last provincial project's mortgage matures. The following chart outlines the anticipated savings expected between 2022 and 2030.

(in $000s)	2022	2023	2024	2025	2026	2027	2028 - 2030
Mortgage Savings (as per HSA requirements)	$889	$1,920	$3,579	$5,620	$7,328	$9,469	$37,171
Cumulative Gazette Funding Reduction	($233)	($903)	($1,369)	($1,936)	($2,263)	($2,876)	($10,005)
Net Service Manager Reduced Contribution Requirement (tax levy)	$656	$1,017	$2,210	$3,684	$5,065	$6,593	$27,166

As outlined in the table above, the required municipal contribution to housing provider subsidies is forecasted to decline over the coming years due to the expiration of mortgages. Subject to the approval of recommendation b) in this report, the municipal funding used to fund these mortgage subsidies is proposed to be maintained at 2021 levels in future Multi-Year Budgets, with these future subsidy savings reinvested in community housing to address local housing priorities set out in London's Housing Stability Action Plan. This will result in no increase to tax levy requirements but will also not result in tax levy reductions as mortgage subsidy requirements decline in future years. Examples of the anticipated re-investment of these savings include one-time contributions to address infrastructure lifecycle needs, funding for alternative service agreements once a providers' formal *Housing Services Act* obligations expire and addressing other housing pressures identified in the Housing Stability Action Plan.

As noted in the Capital Repair and Improvement Program Approval of Loan Agreement Community and Protective Services report dated August 12, 2020, there are 63 Social Housing Providers within the London and Middlesex County area (excluding London & Middlesex Community Housing) with significant future capital needs. Through the completion of the Building Condition Assessment and Reserve Fund Studies in 2020, the forecasted infrastructure gap for those 63 Social Housing Providers is approximately $60 million over the next 30 years. By utilizing anticipated subsidy savings to help address these infrastructure challenges, the ongoing financial sustainability of the social housing portfolio is improved, with the aim of retaining the current stock of housing.

Conclusion

The need for new affordable housing units exists across Canada and is significantly impacting larger urban centres like London; however, we must not lose sight of maintaining the affordable housing we have. This report reflects the needs of the City to re-invest expected future savings back into the housing system as a framework to maintain access to affordable housing.

These investments are essential to securing the financial tools to respond to housing projects reaching their EOM/EOA with the provisions governed under the upcoming legislative changes expected in the fall of 2022.

As the Municipal Housing division engages the housing provider community, in anticipation of the release of the MMAH framework regarding Service / Exit Agreement provisions in 2022, the Municipal Housing division will continue to further develop the framework for these agreements.

Prepared by:	**Dave Purdy, Manager Municipal Housing**
Submitted by:	**Patrick Cooper, Director of Municipal Housing Development**
Recommended by:	**George Kotsifas, Deputy City Manager, Planning and Economic Development**