

The Regional Municipality of York

Committee of the Whole
Community and Health Services
December 3, 2020

Report of the Commissioner of Community and Health Services

Recommendations for the End of Community Housing Mortgages

1. Recommendations

1. Council endorse the Service Manager End of Mortgage Position Paper (Attachment 1).
2. The Regional Clerk forward this report to the Minister of Municipal Affairs and Housing and local Members of Provincial Parliament.

2. Summary

This report provides Council with information about projected savings to York Region as community housing mortgages come to an end, as well as proposed changes that could determine the future of municipal funding arrangements with community housing providers. The report recommends Council endorse the provincial Service Manager Position Paper on how mortgage savings might be redirected to allow the Region to both support existing community housing assets and invest in its 10-year housing and homelessness plan.

Key Points:

- In its role as Service Manager, the Region is the primary funder of community housing and is mandated to provide a subsidy to cover the mortgage costs of housing providers designated under Part VII of the *Housing Services Act, 2011*
- As the mortgages of many of these housing providers come to an end, there will be no need to continue providing a mortgage subsidy. Municipalities across Ontario should realize over \$10.4 billion in reduced mortgage subsidy costs, also referred to as “mortgage savings,” over the next 40 years. York Region should realize \$1 billion
- Housing sector associations representing community housing providers are advocating for provincial regulatory changes that would allow them to continue receiving these property tax-funded mortgage savings to meet their operational, capital and redevelopment needs
- If agreed to by the Province of Ontario, this advocacy position would overfund housing providers by \$3.6 billion in municipal tax dollars (net of projected costs of maintaining the housing in a good state of repair), providing funding well beyond the

level needed to meet their operational and capital needs. In York Region, this position would overfund housing providers by \$600 million

- The Region led a task force of Service Managers across Ontario to develop recommendations that allow Service Managers to retain mortgage savings as funders of the system and reinvest in local housing and homelessness systems based on local needs, such as new supply of affordable housing and expanded programs for people who are homeless
- The Service Manager End of Mortgage Position Paper (Attachment 1) written by the task force was endorsed by the OMSSA Board on October 28, 2020
- The timing of these recommendations is critical as the province is contemplating new requirements related to service agreements and the treatment of mortgage savings, and Service Managers must help shape this new legislation

3. Background

As Service Manager, York Region is responsible for funding and administering the Region's community housing system

Community housing is a valuable, publicly-funded asset and critical part of the housing and homelessness system. Community housing provides subsidized and affordable rental housing for households living with low and moderate incomes, owned and operated by non-profit and co-operative housing providers, as well as Housing York Inc. York Region became responsible for community housing in 2000 when the Province of Ontario transferred its obligations to 47 municipal Service Managers. Service Managers are the legislated body responsible for community housing in Ontario, which includes planning and managing local housing and homelessness systems, and funding and administering community housing.

The province establishes the legislative framework for community housing, homelessness services and many related funding frameworks and programs through the *Housing Services Act, 2011*. As Service Manager designated under the *Housing Services Act, 2011*, York Region is mandated to:

- Ensure that community housing providers comply with provincial legislation and funding agreements, including ensuring that community housing is well-managed, maintained in a good state of repair and fit for occupancy
- Provide an annual subsidy for housing providers as required under federal and provincial programs
- Maintain legislated minimum service levels of 3,988 rent-geared-to-income units for households with low income following provincial subsidy rules
- Develop and implement a 10-year housing and homelessness plan that sets out objectives and targets to address local priorities and matters of provincial interest

- Maintain a wait list for subsidized housing
- Establish local eligibility rules, policies, programs and services
- Allocate federal and provincial funding for housing and homelessness programs in accordance with investment plans that reflect local needs

Community housing providers are critical stakeholders in the Region’s housing system

Community housing providers play an essential role in York Region’s housing system, providing affordable rental homes for almost 7,000 households living with low and moderate incomes. The Region fulfills its community housing responsibilities through relationships with housing providers including 45 non-profits and co-operatives, and Housing York Inc., each governed under various federal/provincial programs or legislation. In York Region, 33 of the 45 providers are specifically governed under Part VII of the *Housing Services Act, 2011*, representing 4,345 units. This includes a portion of Housing York Inc.’s portfolio.

Mortgages for many of these housing providers will end over the next decade, and the province will soon make decisions about future obligations

Part VII of the *Housing Services Act, 2011* sets out distinct requirements regarding these housing providers’ operations, governance and funding model. Over the next decade, the mortgages of many of these housing providers will end; however, the *Housing Services Act, 2011* does not currently prescribe an end date for Service Manager and housing provider obligations after mortgages are paid off. The Service Manager continues to be responsible for funding in accordance with the funding model, and housing providers’ obligations continue in perpetuity. Table 1 summarizes the distribution of community housing units by housing provider.

Table 1

Total Community Housing Units Administered by York Region

Housing Provider Type	Number of Housing Units
Non-profit providers ¹	3,301
Co-operative providers ¹	877
Housing York Inc. ²	2,762
Total	6,940

¹ Non-profit and co-operative housing providers operate 3,320 units governed under Part VII of the *Housing Services Act, 2011*.

² Housing York Inc.’s portfolio includes units constructed under several different federal and provincial funding programs, including 1,025 units governed under Part VII of the *Housing Services Act, 2011*.

The municipal tax base covers the majority of community housing costs mandated through a provincial funding formula

As primary funders of the community housing system, funding for Part VII housing providers comes from the municipal tax base. Service Managers provide an annual operating subsidy to Part VII housing providers based on a provincial funding formula to cover operating and mortgage costs, as well as rent-geared-to-income and property tax funding. The funding formula ensures the operating subsidy provided by Service Managers results in revenues that are equal to expenses.

In addition, as the level of government legislated to administer community housing, Service Managers must ensure all housing providers' assets remain in a good state of repair. When the province transferred responsibility for funding and administration of community housing to Service Managers in the early 2000s, the program transfer did not include adequate financial reserves for both current and future capital needs. As a result, municipalities have been tasked with developing programs and financial solutions to maintain an underfunded community housing system.

York Region led a task force across Ontario to develop recommendations for mortgage savings that support local plans

In 2019, York Region identified the potential for future mortgage savings through its extensive financial modelling of community housing mortgages and capital repair needs. The province committed to reviewing the impact of mortgage maturity related to Part VII housing providers under the Community Housing Renewal Strategy.

Throughout 2020, the Region worked with KPMG and 27 other Service Managers across Ontario to understand the magnitude of mortgage savings across the province. This process included engagement with key stakeholders such as housing sector associations, Urban Commissioners, Regional and Single Tier Chief Administrative Officers (RSTCAO) the Association of Municipalities of Ontario, and the Ontario Municipal Social Services Association (OMSSA). The Region also chaired an End of Mortgage Service Manager Task Force to develop consistent recommendations for mortgage savings across the province that would allow Service Managers to reinvest mortgage savings based on the local needs identified in corporate strategic plans and 10-year housing and homelessness plans. These recommendations are presented in the Service Manager End of Mortgage Position Paper (Attachment 1).

4. Analysis

When housing providers' mortgages end, the mortgage savings will total more than \$10 billion province-wide and \$1 billion in York Region over 40 years

The results of the KPMG-verified model show that the total mortgage savings over 40 years for the 28 Service Managers involved in the study is approximately \$10.4 billion. The mortgage savings for York Region is projected at \$1 billion.

KPMG arrived at these findings by analyzing a model that consolidated data submitted by 28 of 47 Service Managers, representing approximately 51,000 Part VII community housing units. As there are 19 additional Service Managers with Part VII housing providers in Ontario, the actual mortgage savings may be significantly greater. The model considered mortgage savings and housing providers' capital repair needs over a 40-year period, and evaluated the impact to align with the term of two capital plans. As the Region's capital plan covers a 20-year period, the term of one capital plan did not capture the full span of savings from mortgage maturity.

Housing sector associations are lobbying for changes that would overfund housing providers by \$3.6 billion province-wide over 40 years

Given the province's commitment to reviewing the impact of mortgage maturity on funding for Part VII housing providers, sector associations—Ontario Non-Profit Housing Association and the Co-operative Housing Federation—have been lobbying the province for changes to the funding formula. These changes would require Service Managers to continue providing a mortgage subsidy even where housing providers no longer have mortgage costs. Associations are advocating for this approach so individual housing providers can use the mortgage subsidy to pay for unfunded capital repair needs and invest in new supply.

The KPMG model based on data from 28 Service Managers found this approach would significantly overfund individual housing providers. If the province approves this approach, housing providers would receive the majority of mortgage savings, well beyond what is needed to meet their capital repair needs. Over-funding across Ontario over 40 years would total an estimated \$3.6 billion. For the Region, nearly 100% of mortgage savings or \$1 billion would go to housing providers, even though capital repair needs are only projected to cost \$400 million. This would represent overfunding of approximately \$600 million over 40 years. Table 2 outlines the level of overfunding that would accrue under the approach recommended by the housing sector associations.

Table 2
40-Year Impact of Approach Recommended by Housing Sector Associations

	York Region	Ontario
Total mortgage savings	\$1 billion	\$10.4 billion
Mortgage savings allocated to housing providers	\$1 billion	\$7.4 billion
Housing provider capital repair needs	\$400 million	\$3.8 billion
Overfunding to housing providers	\$600 million	\$3.6 billion

The Region agrees that maintaining a good state of repair is crucial to sustaining publicly-funded assets, and inadequate capital repair funding is a concern shared by housing providers and Service Managers; however, housing providers should not be overfunded beyond their capital repair needs.

The position paper recommends that municipal mortgage savings be used to advance priorities in corporate strategic plans and 10-year housing and homelessness plans

The savings created when housing providers' mortgages end provides an opportunity for Service Managers to leverage and strategically reinvest available funding based on local needs. The Position Paper recognizes that Service Managers are the primary funders of community housing and recommends that:

- Each Service Manager retain the savings realized once a housing provider's mortgage comes to an end
- The province grant flexibility for Service Managers to reinvest savings into their local housing and homelessness systems based on local needs

This recommended approach is flexible, considers local context, provides budget predictability and results in no additional costs to Service Managers. If approved by the province, this approach would enable Service Managers, like the Region, to invest mortgage savings based on local plans and priorities.

Delivering and promoting affordable housing is a key priority for the Region, outlined in the 2019 to 2023 Corporate Strategic Plan

A key priority for the Region is to create new affordable housing supply, retain existing community housing in good condition, and deliver supports to help end chronic homelessness. The Region's 10-year housing and homelessness plan includes goals and actions to address housing affordability concerns, and advance homelessness prevention and related support services. By retaining mortgage savings at a Service Manager level, local goals can be advanced without additional financial burden on municipal taxpayers.

Mortgage savings could be used to help fund the Region's housing priorities. Should the province permit Service Managers to determine how mortgage savings may be used, staff will make recommendations for consideration by Council in future budget submissions.

Pending legislative and regulatory changes will impact the relationship between Service Managers and Part VII housing providers

The timing of these recommendations is critical, as the province recently enacted the *Protecting Tenants and Strengthening Community Housing Act, 2020* to amend the *Housing Services Act, 2011*. This will result in future legislative and regulatory changes that will significantly change the relationship between Part VII housing providers and Service Managers. Under the amended legislation, housing providers may choose to exit the system, or Service Managers may enter into new service agreements with housing providers that

may include operating obligations for the housing provider, funding and/or other incentives from the Service Manager or other levels of government. This change is meant to incentivize housing providers to stay in the system once their mortgages end and allow new providers to enter the system. However, it is not clear if this change would also require Service Managers to provide new funding to encourage continued participation in the system.

As the province contemplates new requirements surrounding service agreements and the treatment of mortgage savings, it is critical that Service Managers help shape legislation and regulations as the system's primary funder. The paper represents the collective Service Manager position that provincial regulations must grant Service Managers flexibility to customize agreements and funding arrangements with housing providers and not prescribe how mortgage savings are invested. It is crucial to the advancement of local goals that pending legislative and regulatory changes allow Service Managers to retain mortgage savings and autonomy in reinvesting these savings based on local priorities and plans.

5. Financial

As the mortgages of Part VII housing providers end, the Region will realize \$1 billion in mortgage savings over 40 years. Reinvestment of mortgage savings in York Region is critical to realizing commitments in the 2019 to 2023 Corporate Strategic Plan and the Region's 10-year housing and homelessness plan.

The first Part VII mortgage will end in late 2022, and the majority will end in 2028

Mortgage savings will not be immediately realized in York Region as the first mortgage ends in late 2022. The majority of mortgages for Part VII housing providers will end in 2028, representing approximately \$70 million from 2019-2028. By the end of a 20-year period, the mortgage savings will be approximately \$360 million. The mortgage savings can help advance the priorities identified in the Corporate Strategic Plan and 10-year housing and homelessness plan in a sustainable manner. The reinvestment of mortgage savings in York Region will be considered as part of the Regional budget process to best meet local needs and priorities.

6. Local Impact

As Service Manager, the Region funds and administers community housing in all nine local municipalities. The Region will continue to manage the community housing system in a responsive manner so residents living with low income have access to high-quality affordable housing options.

7. Conclusion

Community housing is a publicly-funded asset and an important component of local housing and homelessness systems. Over the next decade, the mortgages of many Part VII housing

providers will come to an end, creating \$1 billion in mortgage savings for the Region. As the primary funders of community housing, Service Managers across Ontario, including the Region, developed guiding principles and recommendations to the province for the treatment of mortgage savings. The timing of these recommendations is critical, as housing sector associations are advocating for changes that will overfund housing providers by hundreds of millions of municipal tax dollars, and the province is introducing new legislative and regulatory requirements. The position paper recommends that Service Managers retain the mortgage savings and reinvest the savings to address the unique needs of their local communities. If approved by the province, this approach can enable the Region to advance local goals, including priorities under the 2019 to 2023 Corporate Strategic Plan and goals under the 10-year housing and homelessness plan, without additional financial burden on municipal taxpayers.

For more information on this report, please contact Kathy Milsom, General Manager, Housing Services at 1-877-464-9675 ext. 72091. Accessible formats or communication supports are available upon request.

Recommended by: **Katherine Chislett**
Commissioner of Community and Health Services

Approved for Submission: **Bruce Macgregor**
Chief Administrative Officer

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Attachments (1)
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