

The Regional Municipality of York

Committee of the Whole
Community and Health Services
April 13, 2023

Report of the Commissioner of Community and Health Services

Sustaining Community Housing through a Conditional Capital Grant Program

1. Recommendations

1. Council approve the development and implementation of a conditional capital grant program to replace the existing housing provider loan program in order to better address housing providers' capital repair needs.
2. Council grant the Commissioner, Community and Health Services, delegated authority to determine, in consultation with the Regional Solicitor, the terms and conditions of the conditional capital grant agreements, and ancillary documents required, to provide conditional capital grants to housing providers and, where desired, replace any existing housing provider loans.
3. Council grant authority to the Commissioner, Community and Health Services to enter into conditional capital grant agreements with housing providers and execute all related documents on business terms satisfactory to the Commissioner and on legal terms satisfactory to the Regional Solicitor.

2. Summary

This report seeks Council approval to replace the Region's existing capital loan program with a conditional capital grant program to better address community housing providers' extensive capital repair needs in a timely and efficient manner.

Key Points:

- As Service Manager, the Region must ensure community housing remains in a good state of repair for current and future residents
- Community non-profit housing providers have estimated unfunded capital repair needs of \$90 million
- The Region's current capital repair loan program is cumbersome, delays work on critical repairs and uses the Region's own funds to repay the loans

- A conditional capital grant would introduce greater efficiencies to help ensure capital repairs are completed in a timely manner and protect the financial sustainability of existing community housing units
- The proposal aligns with Provincial programs introduced since 2009, such as the Ontario Priorities Housing Initiative, which ensures average rents are maintained at an affordable level for at least 10 years following completion of work and do not require loan security
- The existing loan program budget contribution and spending allocation would be maintained to ensure no tax levy impact

3. Background

As Service Manager, the Region must ensure community housing remains in a good state of repair for current and future residents

The Region, as Service Manager, is responsible for funding and administering community housing under the *Housing Services Act, 2011*, and must ensure community housing remains safe, and in a good state of repair for current and future residents. The Region has a responsibility to sustain the system as a whole, and contractual obligations to ensure appropriate measures are enacted to remedy any issues related to the operation and management of the buildings. Sustaining existing assets is especially critical as in [February 2021](#), Council declared a housing affordability crisis in York Region.

Housing providers have unfunded capital repair needs that need to be addressed

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 funding for both current and future capital needs. Without Regional assistance, housing providers have no means of securing the additional funding they require to maintain their buildings. Housing providers are also prohibited from renegotiating or extending their mortgages. As a result, there is an estimated housing repair backlog of \$90 million.

Council approved a capital loan program to help sustain existing community housing assets

In [March 2008](#), Council approved a capital loan program to fund repairs for housing providers that are unable to cover the costs through their capital reserves. The program is comprised of two loan opportunities: an additional subsidy loan or a secured loan. An additional subsidy loan is funding for repairs under \$500,000 and is an interest free loan. A secured loan is funding for repairs of \$500,000 or more, is secured on title and bears interest.

Housing providers must meet specific project criteria to be eligible for these loans. This includes demonstrating that capital work is necessary, the proposed remediation is the most cost-effective approach, and work cannot proceed without financial support. Work must relate to repairs that address a health and safety or regulatory standard, repairs that prevent

deterioration of the asset, or replacement of building components that have reached or exceeded the end of their useful life.

Under the current loan program, the Region has controls and oversight provisions in place to ensure appropriate use of funds and program compliance including security on title in the event of breach for any loan provided to a housing provider over \$500,000. All housing providers that receive either an additional subsidy or a secured loan are required to submit annual capital plans for the Region's approval and may only spend their capital reserve funds on approved projects.

Housing providers use Regional subsidies to repay the loans

Most housing providers have very small operating surpluses. If a housing provider has an operating surplus, half of the surplus is retained by the housing provider and the other half is returned to the Region. When a housing provider enters into a loan with the Region, they are able to retain the Region's portion of the operating surplus and use it to pay back the loan. Housing providers with an additional subsidy loan repay the loan through their operating surplus each year. Providers with a secured loan set aside operating surpluses in a separate account to repay the secured loan following the end of their mortgage.

Since housing providers are unable to pay back the loans without Regional subsidies, they are already treated as grants by the Region.

4. Analysis

The Region's existing capital repair loan program is cumbersome, complex and delays work on critical repairs

The loan program has been able to address repairs that would otherwise go unfunded; however, the secured loans can take up to two years to execute as securing the loans on title requires time-consuming approvals from providers' first lender and Canada Mortgage and Housing Corporation. Determining the appropriate amount to register is also challenging as providers often require additional funding in the future; the Region must either register a significant amount on title upfront or continue to adjust. In addition, delays in executing secured loans can both increase the cost of repairs and create safety risks.

Replacing the existing loan program with a conditional capital grant would better address housing providers' repair needs in a timely manner

Housing providers continue to require timely, direct access to funding to address their capital repair needs. Replacing the existing loan program with a grant program would enable more timely, direct access to funding. Housing providers that receive a conditional capital grant would be required to follow Regionally established program guidelines, fill a designated number of units through the subsidized housing wait list, and remain affordable for 10 years. This approach aligns with provincial programs introduced since 2009, such as the Ontario Priorities Housing Initiative, which flows funding through conditional grants as standard business practice.

A conditional capital grant offers the flexibility needed to support providers under a prescriptive funding formula

Many housing providers are funded through a prescriptive funding formula while their mortgages are in effect, which does not address all capital repair needs. As outlined in the [June 2022](#) report to Council, the Province introduced regulatory changes under the *Housing Services Act, 2011* for new service agreement requirements following the end of housing providers' mortgages.

Service agreements allow Service Managers to right-size funding based on providers' operational and capital needs. Funding arrangements will be based on negotiated financial plans that address operating and planned capital repair needs over time, shifting away from a prescriptive funding formula. Although service agreements will factor in housing providers' capital repair needs, some providers will not reach the end of their mortgage for up to 10 years. A conditional capital grant would provide housing providers access to capital funding and address backlogs while their mortgage remains in place. A report providing more information on service agreements will be provided to Council in fall 2023.

A conditional capital grant would be available to all housing providers funded and administered by the Region to help sustain the community housing system, as well as new providers interested in entering into a service agreement with the Region. The existing project eligibility criteria established under the current loan program would be retained, as they have been a prudent and effective means to address housing provider capital repair needs and sustain publicly-funded assets.

Housing providers participating in the conditional grant program would be required to enter into an agreement with the Region

To access capital repair funding through a conditional grant program, the Region would require housing providers to enter into a legal agreement with funding conditions, capital planning and reporting requirements. Currently, the Region takes a hands-on approach to supporting housing providers with capital repair needs. A technical services team reviews all scopes of work, provides professional advice, monitors progress and inspects completed work before issuing any funding. This practice would continue under the conditional grant framework. Following the completion of the work, Housing Services works with the housing provider to ensure annual and multi-year capital plans and annual reporting is completed. Housing Services also completes operational reviews to identify governance, financial and technical issues and works with the housing provider to remedy any issues of non-compliance.

If a housing provider was in non-compliance of the funding commitments, the Region would introduce remedies in the *Housing Services Act, 2011* or found within the various executed legal agreements. Funds would be repayable to the Region if all agreement conditions are not met.

Staff will work with Legal Services to explore additional risk mitigation tools like restrictive covenants and no dealings clauses to ensure adequate protection of the Region's interests.

5. Financial

Replacing the capital loan program with a conditional capital grant program will have no budget impact

The Non-Profit Capital Repair Reserve was established to address the unfunded capital repair needs of non-profit community housing providers. As of December 31, 2022, it had an estimated balance of \$71.6 million. The loan program has an annual budget of \$5 million to support community housing provider's capital repair needs. Over the past five years, an average of only \$1.6 million has been advanced annually to housing providers.

The complexity and time needed to complete the required processes and provide funding resulted in delays in allocating the money to housing providers. These delays will likely increase the severity and cost of the repairs in the future. Moving to a conditional capital grant program would ensure the annual funding allocation was spent and housing providers received the funding they needed in a timely manner.

The Region already has a process for housing providers to apply for capital repair funding for Federal/Provincial programs such as the Ontario Priorities Housing Initiative and the Canada-Ontario Community Housing Initiative. The Region's conditional capital grant program would piggyback on this process, increasing the amount of funding available. The process includes a scoring evaluation matrix to prioritize projects so even though the funding available is insufficient to cover all of the housing backlog, it ensures that the most urgent capital projects are funded first.

Housing providers with existing loans would be considered for a conditional capital grant tied to an affordability period

As of December 2022, the Region has loaned a total of \$21.2 million to housing providers to fund essential capital repairs. Approximately \$3.8 million of the additional subsidy loans has been repaid, and approximately \$3.1 million has been set aside by providers to repay the secured loan in accordance with agreement terms.

To replace loans with conditional capital grants, housing providers would have to follow Regionally established program guidelines, enter into an agreement with the Region to continue to fill vacant units using the subsidized housing wait list, and remain affordable for 10 years. If a housing provider has funds set aside to repay a secured loan, the funds would be transferred to the providers capital reserve to reduce the amount of capital repair funding required by the Region.

The Region does not account for existing loans to be repaid as it is difficult for housing providers to repay the loans without additional funding from the Region. The existing program already functions as a grant from an accounting perspective.

Staff will consult with Legal to determine the documents required if the replacement of an existing housing provider loan is desired.

6. Local Impact

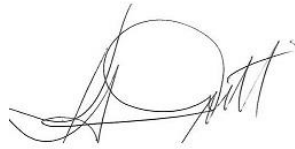
A conditional capital grant allows housing providers to proceed with capital repair spending in a timely manner in all local municipalities in York Region.

7. Conclusion

Replacement of the loan program with a conditional capital grant would introduce greater efficiencies to help address the estimated housing repair backlog of \$90 million. A capital grant program would ensure capital repairs are completed in a timely manner and protect affordability of existing community housing units without any increase in tax levy since the funding is already included in the budget.

For more information on this report, please contact Michelle Willson, Director, Housing Finance at 1-877-464-9675 ext. 76064. 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

March 22, 2023

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