REGION OF OTTAWA-CARLETON REPORT
RÉGION D'OTTAWA-CARLETON RAPPORT

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DATE	5 May 1999
TO/DEST.	Co-ordinator, Community Services Committee
FROM/EXP.	Special Advisor on Social Housing
SUBJECT/OBJET	**SOCIAL HOUSING REFORM SUBSIDY FORMULA: FINANCIAL IMPACT**

DEPARTMENTAL RECOMMENDATION

That Community Services Committee recommend Council receive this report for information.

BACKGROUND

Provincial Social Housing Reform

On 1 January 1998, the Province transferred its financial responsibility for provincially-administered social housing to the Region. The Region is now funding approximately 18,000 units of social housing developed under a variety of senior government programs and managed by over 80 non-profit, co-operative and public housing providers.

The Province will transfer administrative responsibility for the stock once reforms aimed at streamlining and simplifying the social housing system are in place. A proposal to reform the provincially-administered social housing programs, developed by the provincial Social Housing Committee in consultation with municipalities and housing providers, was presented to the Minister of Municipal Affairs and Housing for consideration in November 1998. There has as yet been no response by the Province to Committee recommendations.

The proposed reform model involves two types of subsidy - the carrying costs on a repayable operating loan and the rent supplement. The first of these will reduce over time as principal payments are made, the latter will tend to rise as the subsidy covers the affordability gap from market rent down to rent-geared-to-income rent. According to the model, projects are required to operate on a market basis and fully cover a predetermined share of the debt and all operating costs. Because most projects still cannot break even at market rent, a portion of the debt is set aside in the form of an operating loan. This operating loan is interest-free to the provider and the project is expected to make predetermined mandatory payments, based on anticipated cash flows generated at market rent. Although the operating loan is interest-free to the provider, the Region (as a Consolidated Municipal Service Manager) is required to carry the annual interest costs on this outstanding debt. In order to ensure affordability to the lower-income households served by social housing, a rent subsidy mechanism will provide subsidy to cover the difference between the market rent and the rent-geared-to-income (rgi) rent level. This subsidy is provided for a period matching the current subsidy agreement – even if the operating loan is retired earlier.

Analysis of Proposed Reform Model

To clarify the financial impact of the proposed reformed subsidy model, a consultant, Steve Pomeroy of Focus Consulting, was engaged to compare the likely subsidy costs under the proposed reform model with subsidy costs under the current programs. Staff identified a sample of social housing projects across the Region. Twenty-eight social housing providers were asked to provide data for one or more provincially-administered projects in their portfolios. Information required included such things as a project description, subsidy program, mortgage details, project revenues and costs. In situations where a number of projects satisfied the consultant's requirements, providers were asked to select projects which represented neither the most nor the least efficient in their portfolios. Twenty housing providers responded to the request. From that response, the consultant selected nineteen projects, reflecting the range of programs and providers in the Region, to complete his analysis.

Summary Findings

The objective of the study was to compare the subsidy requirement of the proposed reform model with that of existing programs. This included examining the number of projects that could retire the operating loan within term and those that would require an extension greater than five years and to compare the relative subsidy costs of reform and status quo. It should be noted that the reform model remains only a proposal with a number of important details yet to be resolved. Analysis was undertaken based on the consultant's understanding of how the model will work with explicit assumptions used in areas where final details are unresolved. Thus this is not a definitive assessment of possible impact; it is an exploration of possible impact. It should also be noted that analysis is based on a sample drawn from projects identified in a request for information to providers. While intended to generate a cross section of projects, it is not drawn on a statistically representative sampling frame. Because the sample is not statistically valid, it is inappropriate to draw any definitive conclusions about the larger portfolio. With these caveats in mind, summary findings are as follows:

- Ottawa-Carleton Housing projects would require no operating loan and would generate surpluses that could offset subsidy expenditures in other parts of the social housing portfolio.
- Market rents are the most critical variable impacting the level of the operating loan, the duration over which it can be retired and the growth in ongoing rent-geared-to-income supplement costs.
- Leaving aside OHC projects, approximately one-third of the remaining social housing portfolio may be unable to fully retire the operating loan within the term of existing project operating agreements. This finding is very sensitive to market rents. Careful attention must

be paid to setting rents which could improve the potential of projects to retire the operating loan.

- In most cases the reform model would generate a higher subsidy cost to the Region than the current programs within the term of existing agreements. Although the reform model provides a grace period of five years for groups to repay the loan, there is a cost associated with this for the CMSM which would continue to carry subsidy costs on operating loans.
- Only one project (5% of this sample) would be unable to repay the operating loan within a five year extension. This is a project with relatively low market rents, which may not accurately reflect fair market rent.
- The proposal to maintain rent supplements for the current term and the formula for doing so, even after the operating loan is retired, significantly affect the subsidy expenditure impact on the Region. Although the project surplus generated after retirement of the operating loan is shared, this approach needs to be explored further.
- Almost half of the projects will not be able to maintain the same level of rent supplement through internal subsidies once the operating loan is retired and subsidy commitment expires. This is also the case under the status quo; it is not a function of reform, but neither does reform correct this problem.

PUBLIC CONSULTATION

Approximately two-thirds of social housing providers asked to provide data for one or more provincially-administered projects in their portfolio participated in the study. Final study results have been shared with these providers and have been presented as well to the Region's Social Housing Working Group. The Social Housing Working Group had input into the current report and will continue to be consulted on future discussions with the Ministry of Municipal Affairs and Housing on the proposed reform model.

CONCLUSION

Significant amongst the consultant's findings is that in most cases, the reform model would generate a higher subsidy cost to the Region than do the current programs due in large part to rising rent-geared-to-income subsidies. The study did not attempt to model any refinement of the subsidy mechanism to overcome deficiencies in the current recommendation of the Social Housing Committee. It is clear, however, that some additional analysis and refinement of the reform mechanism are necessary.

Staff will use findings of the analysis to inform future discussions with the Ministry on elements of the social housing reform package. In addition, results of this analysis are being shared with the staff of other Regions in order to determine whether the findings may be generalized throughout the Province. The Province will be requested to undertake further analyses of the proposed reform model prior to approving it for implementation by municipalities.

Approved by
Joyce M. Potter