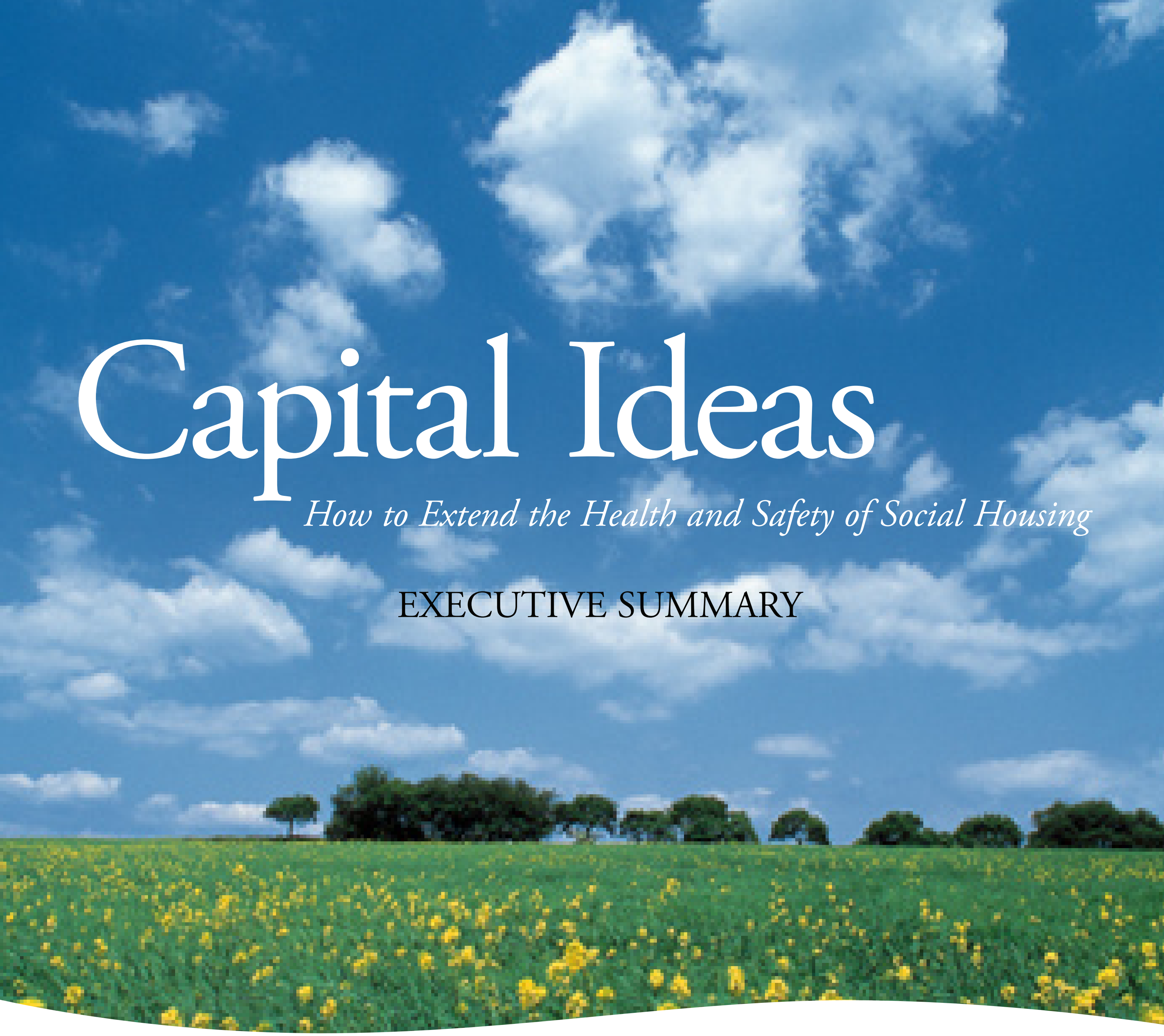

Capital Ideas

How to Extend the Health and Safety of Social Housing

EXECUTIVE SUMMARY

Prepared by the Social Housing Services Corporation
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EXECUTIVE SUMMARY

Ontario's social housing is a capital asset which provides for the health and safety of our most vulnerable residents. The Province has mandated that municipalities meet minimum service levels, and maintaining the existing stock is the most cost-effective means of doing so. The problem is that senior levels of government have historically under-funded capital investment and municipalities lack the tax base equal to the job.

Developing solutions to this problem requires a shared understanding of the scope of the capital shortfalls. Provincial estimates have been significantly smaller than those of municipalities. SHSC is coordinating the Asset Management Group, comprised of municipal representatives, housing providers and senior governments, to develop a common methodology so that all pipers are playing the same tune. Only then, can comprehensive strategies be finalized.

Re-investment by the senior levels of government is the fairest option of all. It would address both the hidden debt passed on by devolution, as well as the differing ability to pay. In particular, the running down of the federal transfer threatens the viability of social housing, especially for local housing corporations.

In the absence of reinvestment by the senior levels, municipal governments must look to borrowing options, identify income streams for repayment, and examine other revenue sources or means of cost containment.

Municipalities have general borrowing authority, but it is limited by the Municipal Act. Where the terms of a loan or debenture go beyond the term of the current council, they are limited in the total amount they can borrow - the annual repayment limit set by the Ministry of Municipal Affairs and Housing. Otherwise they must obtain the approval of the Ontario Municipal Board. Given this overall limitation of borrowing levels, municipalities may be reluctant to use debt capacity for other than "traditional" municipal purposes.

A promising alternative is the "cash flow trade", where the housing operator borrows against the strength of its cash flow without impinging on the real estate asset itself. SHSC would bundle these loans and obtain the funds from the capital markets. Operating agreements with housing providers would be extended until the additional capital loan was repaid. This also ensures that the RGI units supplied by providers are available to meet service level requirements.

Infrastructure Ontario, an agency of the Ministry of Public Infrastructure Renewal, provides a bulk borrowing facility for municipalities to access funds for aging capital works. While currently restricted to lending for municipally-owned housing, i.e. local housing corporations, expanding authority to include non-profit housing providers would parallel provisions extended to non-profit long term care homes. The interest rates possible under Infrastructure Ontario loans would be most attractive to smaller municipalities.

Currently, the Social Housing Reform Act (SHRA) prevents housing providers from adding new debt without provincial approval, as this would affect the provincial liability. Mortgage refinancing is often used by private sector landlords and individual homeowners to access relatively inexpensive funds for major capital work. An increase to the principal amount can be offset by extending the amortization period, meaning that the impact on subsidy requirements and the property tax base is minimized. Service Managers, who are ultimately responsible in the event of mortgage foreclosures, should gain new powers over mortgage refinancing. SHSC has proposed that it assume mortgage administration in order to provide a full range of financial products and services to the sector. Again, refinancing should be matched with an extended requirement to supply RGI units to the Service Manager.

Larger non-profits and local housing corporations are of sufficient size to realize administrative efficiencies. In particular, investment in energy conservation reduces operating costs and the savings can be dedicated to support capital borrowings. Non-profit providers have two other potential income streams to support or repay borrowings. With provincial approval, a portion of the annual capital reserve contribution could be used instead to support capital borrowings. As well, when mortgages are paid off, some providers may find that they have additional financial flexibility. Local housing corporations, lacking access to capital reserves and mortgage financing, also face steady cutbacks to federal transfers. Ultimately, reversing the decline of the federal contribution is necessary to avoid increased municipal costs.

Cost avoidance is another means to increase municipal and housing provider capacity to deal with capital shortfalls. The Co-operative Housing Federation of Canada's Ontario Region has proposed that the Province upload the cost and program control for Ontario's devolved housing co-operatives to the provincial level. There are about 21,300 units of co-operative housing under municipal administration, representing $100 million in municipal costs. Co-operatives operate under different corporate and member requirements, so the proposal, if accepted, would reduce administrative complexity for Service Managers.

Another cost avoidance would be for the province to exempt housing providers from paying property taxes, as are some municipal corporations and other charitable, non-profit corporations providing relief to the poor. The impacts on municipalities would be negligible (effecting mostly lower tier municipalities) as reduced property tax revenues would be offset by smaller subsidies to providers. The major result would be that the educational component of the property tax, now received by the Province, would no longer be reflected in the housing provider's operating budget, freeing up resources.

Energy conservation is an under-utilized source of savings. SHSC's Green Light Initiative (GLI), for example, provides one-window access to a variety of grant and loan programs to improve energy conservation for electricity, gas and water. However, non-profits have made little use of this program, despite SHSC's marketing campaigns and encouragement by Service Managers. Service Managers may need to insist that providers make use of programs like GLI as part of a capital asset strategy.

Finally, municipalities will need to consider other tax and revenue measures to avoid property tax pressures. In some cases, social housing could be redeveloped at higher density. Generally, redevelopment of a site does not result in surplus revenues, as new development is so costly. In a few cases, a project may have surplus land, and the proceeds from its sale could be used for repairs and upgrades.

Tax Increment Financing (TIFs) may be a useful tool where social housing redevelopment is part of a larger neighbourhood renewal. In Ontario, TIFs have been used for brown field redevelopment, where contaminated land is cleaned and redeveloped. TIFs allow municipalities to borrow now against future higher land values once redevelopment is completed.

Sale and lease backs are sometimes used by the private sector where the key business is not the management and maintenance of real estate. The key question is whether the increased lease costs are cheaper than simply borrowing the capital required.

Another means would be adding a municipal portion to the Land Transfer Tax (LTT) to help meet capital shortfalls in social housing. Using a revenue stream from real estate transactions to ensure a related real estate public purpose may be more readily accepted than other uses. Increased income disparities have led to higher property values. By directing LTT to pay for a critical piece of social infrastructure, we maintain the healthy communities required for future wealth creation. With the exception of the City of Toronto, this use of the LTT would require an amendment to the Municipal Act.

Reinvesting in social housing is the most cost-effective means of ensuring we continue to have housing available for all income groups. The senior levels of government have greater capacity than do municipalities to keep the stock in good repair. The federal government, in particular, needs to reverse its declining support for social housing, as local housing corporations (LHCs) face a clear risk. Municipalities have a range of borrowing options, cost containment, and other revenue sources to consider. The effective use of these options depends in federal and provincial willingness to provide the tools required to do the job.

SUMMARY OF OPTIONS

Option	Cost of Funds	Ease of Access	Comments
REINVESTMENT BY SENIOR LEVELS OF GOVERNMENT			
Invest new capital; stop decline in federal transfer	Depends on how new funds were distributed.	Depends on criteria agreed to by SMs.	Difficulty will be in getting full funds from senior levels.
BORROWING CHOICES			
General Municipal Borrowing	Municipalities can borrow at Government of Canada bonds + 50-55bps .	Fairly easy as long as within spending limits.	Municipal willingness will depend on other pressures for capital.
Cash-Flow Trade	Cost would depend on number of factors including time between borrowing and repayment and whether insured.	Difficult for all but the most sophisticated of SMs. May be easier if SHSC has role. Not all providers will have the cash flow to repay principal.	New financing vehicle would have to be marketed to private lenders. May reduce need for provincial approval as cash flow, not real estate, provides security.
Infrastructure Ontario	Current rate is 4.85% which is attractive to smaller municipalities.	Available only to municipally-owned social housing; DSSABs also not eligible.	No take-up yet, by Service Managers. Province is considering SHSC request to extend to non-profits and coops
Refinance Non-Profit Mortgages	Current MAH/OFA rates on provincial mortgage renewals are about 25-30bps above comparable GoC bond rates.	Requires provincial approval; Financial institutions will compete.	Increased debt can be offset by longer amortization period – not available to LHCs
REPAYMENT OPTIONS			
Operating efficiencies	n/a	Larger non-profits and local housing corporations can achieve economies of scale	Operating savings can be used to support debt repayment
Redirect portion of capital reserve contributions	Zero current cost as funds part of subsidy flow	Requires provincial approval	Not available to LHCs
Financial room at mortgage pay down	n/a	Not all non-profits will gain flexibility	n/a for LHCs

[1] Government of Canada 30 year bond rates were 4.258% at time of writing; accounting for the 50bps (basis points) results in an effective municipal borrowing rate of 4.758%.

COST CONTAINMENT MEASURES			
Upload co-op housing	$100 million municipal cost uploaded to province	Requires provincial approval	Not all Service Managers would benefit (if no co-ops)
Exempt social housing from property taxes	Little/no net cost to Service Managers, as tax revenue decrease are offset by subsidy savings; province loses education portion	Requires provincial change to legislation	Province may prefer more targeted measure. Lower-tier levels of government could be affected.
Use of Special Programs (e.g. energy conservation)	Grants and loan interest loans make this an attractive option	Fairly easy for SMs since SHSC facilitates.	Limited to items covered by programs; provider take-up has been low.

OTHER TAX AND REVENUE MEASURES			
Re-Development / Intensification	No borrowing required if sale of land covers cost.	Could be relatively difficult since many SMs not familiar with financial issues in development.	Most effective for sites with surplus land. Demolition and rebuilding would entail a cost
Tax Increment Funding	Cost of TIF depends on tax cut and increase in value.	Fairly easy since municipalities will set own criteria for borrowing	TIFs available for neighbourhood improvement, not project capital
Sale and Leaseback.	No borrowing cost since it would be captured in cost of lease but effective rate would depend on lease rate.	Moderately easy to arrange since model already developed by private sector. SM could require assistance to negotiate lease.	Increased lease costs may be greater than cost of borrowing equivalent capital.
Land Transfer Tax	LTT loads cost on real estate transactions, a related economic activity.	LTT is established and easy to access, however resistance to tax increase is strong.	Only the City of Toronto can use LTT. Requires change to Municipal Act