CITY OF HAMILTON
HEALTHY AND SAFE COMMUNITIES DEPARTMENT
Housing Services Division

TO:	Chair and Members Emergency and Community Services Committee
COMMITTEE DATE:	October 19, 2023
SUBJECT/REPORT NO:	End of Mortgage Strategy and Implementation (HSC23050) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY: **SIGNATURE:**	Michelle Baird Director, Housing Services Division Healthy and Safe Communities Department Michelle Baird

RECOMMENDATIONS

(a) That the End of Mortgage Strategy, including the funding model, attached as Appendix "A" to report HSC23050 be approved and that the General Manager of the Healthy and Safe Communities Department or designate, be delegated the authority to modify the strategy so long as it supports the long-term sustainability of the social housing portfolio at End of Agreement/ End of Mortgage and does not negatively impact the City of Hamilton's budget;

(b) That the General Manager of Healthy and Safe Communities or designate be authorized and directed to enter service and exit agreements with housing providers for projects under *Housing Services Act*, S.O. 2011, c. 6, Sched. 1, that reach End of Operating Agreement or End of Mortgage after 2023 and execute any ancillary agreements or documents in order to provide ongoing affordability for tenants and long-term sustainability for the project, in a form satisfactory to the City Solicitor;

(c) That $5.1M be referred to the Housing Services 2024 Tax Operating Budget process annually for the next four years to increase the levy base to $20.4M, and that this enhancement be increased by inflationary factors, in order to provide an ongoing base totalling $153 million from 2023-2032 to address capital needs of Housing Projects that are at End of Mortgage/End of Agreement;

(d) That at the end of the year, if the Housing Division's Net levy is in a surplus, that any unspent funds be transferred to the Social Housing Transition Reserve #112244 to be utilized in future years to fund capital grant requests;

(e) That a Full Time Equivalent staffing position for a Capital Analyst be referred to the 2024 Housing Services Division complement at an approximate cost of $111,289 annually for salary and benefits be included in the 2024 Tax Operating Budget;

(f) That the temporary position of Senior Financial Analyst be converted into a permanent Full Time Equivalent position to be approved in the 2024 Corporate Services, Financial Planning, Administration and Policy Division, funded as reported in HSC22040 through the existing Social Housing investment program levy base.

EXECUTIVE SUMMARY

The social housing system is undergoing a fundamental transformation. Social housing refers to a series of programs that built deeply affordable housing from the 1950's to 1997. It is during this period that most rent-geared-to-income housing in Hamilton and across Ontario was built. Funding and obligations for housing providers were tied to mortgages. Agreements generally ended once mortgages were fully paid off. Depending on the government with whom agreements were originally established, the expiration of these agreements are either referred to as End of Agreement or End of Mortgage. End of Agreement refers to agreements originally signed between housing providers and the federal government that have come to an end. These agreements end once the mortgage is paid off and generally do not carry any obligations once ended. End of Mortgage refers to agreements signed between housing providers and the provincial government. These agreements do carry ongoing obligations to provide rent-geared-to-income housing once their mortgage ends.

Most mortgages for federally funded projects have ended in Hamilton. As reported in report HSC22040 - Service and Exit Agreements for Community Housing Providers at End of Mortgage (EOM) and Reinvestment of Mortgage Savings and brought forward to Emergency and Community Services Committee on August 11, 2022, 1647 federal units reached End of Agreement and left the system by the end of 2020. In 2021 the first wave of mortgages for provincially-funded housing providers in Hamilton began to end. Without the corresponding legislation in place for new service agreements, these projects continued to receive funding following the pre-existing *Housing Services Act* formula. This formula grossly underestimates the capital required to retain an aging housing stock. While all the provincially-funded projects that have already reached End of Mortgage have been retained so far, they require new agreements that sufficiently-fund these projects so that affordable housing is maintained.

End of Agreement and End of Mortgage present municipalities with a new challenge, the likes of which have not been previously encountered. Prior to the amendments made to the *Housing Services Act (2011)* in 2022, the funding framework of agreements and legislation governing the provision of social housing remained largely unaltered for decades. The provincially-prescribed funding formula assumed that once the mortgage was paid off, the project would continue to operate with sufficient revenue to meet operating expenses and capital repairs. Without continued financial assistance, many social housing providers will operate in a deficit or will have inadequate reserves to fund needed capital repairs.

In 2022, the province of Ontario amended the *Housing Services Act* to include updated Service and Exit Agreement requirements, detailing both a new regulatory framework and funding approach. The amended legislation provides two options for Housing Providers at End of Mortgage. Housing providers may continue to offer social and/or affordable housing under a new agreement within a new community housing framework or they must meet the prescribed requirements necessary to exit the community housing portfolio.

Central to new operating agreements is the financial plan, a joint endeavor between the Service Manager and Housing Provider that must be reviewed at least every five years and that outlines both the Housing Provider and Service Manager financial responsibilities to ensure that projects remain sustainable and affordable to tenants. At a minimum, the legislation requires that Housing Providers entering new agreements be funded the difference between what the rent-geared-to-income tenant pays for rent and what would otherwise be paid for that unit.

Authority to enter into new service and exit agreements with housing providers at End of Agreement and End of Mortgage was authorized by Council until the end of 2023 (Report HSC22040). It is recommended that authority be delegated to 2024 and beyond so that new agreements can be established.

New Service Agreement regulations allow the City of Hamilton to allocate funding based on housing providers' operational and capital needs. To ensure that the new agreements meet legislative expectations and adequately support the long-term viability of social housing units originally funded by the province, staff have developed a new End of Mortgage Renewal Strategy with guiding principles and policy recommendations, including a new funding model, (Appendix “A”). It is recommended that this strategy be approved.

The proposed strategy will apply equally to CityHousing Hamilton and non CityHousing Hamilton projects. However, given the City’s unique relationship and existing agreement with CityHousing Hamilton, projects at End of Agreement will be considered at the same time as projects at End of Mortgage for CityHousing Hamilton. Hamilton East Kiwanis and McGivney Homes also have agreements with the City to fund their federal projects using the funding formula for provincial projects and will have their End of Agreement projects reviewed with their End of Mortgage projects. For other non-CityHousing Hamilton Housing Providers, the initial focus will be confined to projects at End of Mortgage.

The strategy is defined by a key set of principles and guidelines to guide negotiation of new agreements with housing providers. The strategy also outlines a process for working with Housing Providers to review the viability of their projects from an operating and capital perspective to determine financial supports that may be required.

The strategy for new agreements is comprised of four components: a set of principles and guidelines, funding options, a process approach, and a financial model.

Viability analyses at End of Mortgage will be conducted to ensure that the project can function sufficiently to address both operational and capital needs. Investments to ensure that projects remain operationally viable have already been made to the budget through the retention of ‘mortgage savings’ and the approved levy base request for social housing projects reaching End of Mortgage. While funding is currently anticipated to be sufficient to remain within our base for operational requirements, projects will experience capital shortfalls.

In 2016, Building Condition Assessments were completed on all social housing provider properties. Building condition assessment reports detail the repairs required for the housing project in both the short and long term, along with the estimated cost of completing these repairs. In 2016 the estimated capital repair costs for social housing projects was $643M. Updated Building Condition Assessments are currently in process and all social housing projects should have their new Building Condition Assessments completed by the end of 2024. Updated assessments will help update the cost differential between capital reserve funds and capital repair work required. It is anticipated that the cost of capital repairs will increase. Although capital repair costs are substantial and cannot solely be addressed through subsidies from the City of Hamilton, a significant municipal investment is required for the continued provision of social housing units. To address capital viability, Council has approved the 2023 budget for $653,000 for annual municipal social housing capital repairs, roughly 1% of what is required for capital repairs based on the 2016 building condition assessments. It is recommended that funding up to 25% of the 2016 building condition assessments be provided by the municipality for capital funding to support the long-term financial sustainability of our social housing portfolio.

To achieve this objective, it is recommended that $5.1M from the municipal tax levy be referred to the 2024 Tax Supported Capital Levy budget annually for four years to a cumulative total of $20.4M, and that this enhancement increase by inflationary factors to provide an ongoing base to address capital needs of Housing Projects at End of Mortgage/End of Agreement. The other 75% needed for funding capital repair will be obtained through funding mechanisms available to the Housing Provider.

Given the volume of projects requiring review, and the attention that will be required to ensure capital funding sources are maximized and used efficiently a Full Time Equivalent staffing position for a Capital Analyst is needed to resource this work. It is recommended that this FTE be added to the 2024 Housing Services Division complement and that funding for a Capital Analyst at an approximate cost of $111,289 annually for salary and benefits be referred to the 2024 tax operating budget.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: It is recommended that $5.1M be added to the Housing Services 2024 Tax Operating Budget for the next four years to a cumulative total of $20.4M, and that this enhancement provide an ongoing base to address capital needs of Housing Projects at End of Mortgage/End of Agreement. Given the timing to review and process requests, and the actual draw on the available funding within a given year, it is recommended that the Social Housing Transition Reserve #112244 be used to support the administration of the funding. The use of the reserve will allow the base to be maintained if not used within the current year due to the amount of time required to complete the analysis and funding agreements for providers.

Staffing: It is recommended that Council approve funding from the Municipal Tax Levy for a full-time equivalent staffing Capital Analyst position to be added to the 2024 Housing Services complement and that funding for a Capital

Analyst at an approximate cost of $111, 289 annually for salary and benefits be referred to the 2024 Tax Operating Budget.

To further ensure a sufficient staff to conduct the necessary financial analyses, the current temporary Business Support Services Coordinator position will be converted to a Senior Financial Analyst reporting to Corporate Services, Financial Planning and Administration to support the Housing Services Division in the financial and analytical work required in preparing and maintaining the financial component of the new End of Mortgage or End of Agreements contracts. The annual salary and benefit cost is funded from the reinvestment of Social Housing funding as reported in Council Report HSC220040. This position is currently being recruited.

Legal: Amendments to Ontario Regulation 367/11 of the *Housing Services Act*, 2011 establish baseline rules governing new Service and Exit agreements. Hamilton Legal Services has drafted new Exit and Operating agreements based on legislation and key agreement components.

New operating agreements are legally binding for a minimum of 10 years. New operating agreements require Service Managers to provide rent-geared-to-income assistance to cover what the rent-geared-to-income tenant pays to the Housing Provider and what would otherwise be received for that unit. In addition to ensuring affordability for existing tenants, Service Managers are legally bound to ensure that their agreements provide for the sustainability of the physical asset. Beyond these requirements, no funding formula is specified. In the absence of a new agreement, the existing *Housing Services Act* requirements remain in effect.

End of Mortgage does not impact the Service Managers' obligation to meet prescribed Service Level Standards.

HISTORICAL BACKGROUND

In 1997 the federal government devolved responsibility for social housing to the provinces.

In 2001, with the passing of the *Social Housing Reform Act*, the Province of Ontario transferred program administration and funding responsibilities to municipalities. The

Social Housing Reform Act outlined the current social housing system framework, including the obligations of local Service Managers across the province.

In 2011, the Province enacted the *Housing Services Act* (the Act) and associated regulations to replace the *Social Housing Reform Act* with updated requirements for the funding and administration of transferred social housing projects. Information about Service Manager administrative obligations, including metric and key performance indicators for the City of Hamilton is detailed in the 2022 *Social Housing Annual Update*, Report HSC23016.

In July 2022, the Province amended Ontario Regulation 367/11 of the Act to allow for the creation of new service agreements between the Service Manager and the Housing Provider that stipulate the terms under which they will continue to provide rent-geared-to-income (RGI) housing.

Most of the original operating agreements that governed the provision of social housing originally funded by the federal government within the City of Hamilton's boundaries have already expired. Remaining mortgages for projects originally funded by the province are set to expire over the next few years as their mortgages are paid off. These projects will require new agreements to ensure that they remain sustainable and viable.

Previous reports to Council, including Report CES16064 Social Housing – End of Federal Operating Agreements Impact and Analysis (December 12, 2016) and Report HSC22040 – Service and Exit Agreements for Community Housing Providers at End of Mortgage (EOM) and Reinvestment of Mortgage Savings (August 11, 2022) provide detailed background information about the history of social housing and the impact that different legislation has had on both the oversight and administration of social housing. Report CES16064 highlighted actions that could be taken to preserve social housing in Hamilton as projects reached the end of their federal agreements. Report HSC22040 provided recommendations that were subsequently approved to retain 'mortgage savings' for social housing projects and provide a one-time enhancement to the Housing Services Division budget of $1.1M for rent supplements, operating subsidy or capital funding for housing projects at end of Mortgage and End of Agreement.

As per Report HSC22040, Council endorsed the recommendation that staff develop a long-term strategy for funding Social Housing Providers at End of Operating Agreement/End of Mortgage and report back to Council.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The new July 2022 Service Agreement amendments establishes minimum requirements for:

- Baseline provisions to continue funding rent-geared-to income units;
- Setting a minimum term length of 10 years for the service agreement;
- Co-development of a Financial Plan that addresses the operating and capital needs of the project that is reviewed at least every five years;
- Selection rules for units where households will be receiving rent-geared-to-income assistance, to align with existing selection and waitlist rules under the *Housing Services Act*;
- The inclusion of a process to manage issues of non-compliance and dispute resolution; and
- Participation in regulated Housing Services Corporation programs with current exemptions continuing.

The amended legislation provides two options for Housing Providers at End of Mortgage; continue to offer social and/or affordable housing under a new agreement within a new community housing framework or meet the prescribed requirements necessary to exit the community housing portfolio.

Housing Providers who have reached End of Mortgage but have yet to sign a new operating or exit agreement continue to be governed by the pre-existing Housing Services Act rules and funding formula.

Exit Agreements are required if a Housing Provider and/or a Service Manager do not wish to enter a ‘new’ community housing framework. Conditions for provincial projects to exit (i.e., those projects that have reached End of Mortgage) include the continued provision of rent-geared-to-income for existing tenants and the continued operation of the project as an affordable housing project or the redevelopment of the project for affordable housing. For projects that are sold, reinvestment of the proceeds of the sale of the project must go towards affordable housing. Thus, Exit Agreements ensure that existing tenants are not displaced, and longstanding public investments are preserved.

For Housing Providers at End of Mortgage who wish to enter the ‘new’ community housing framework, the regulations require new operating agreements to provide for the sustainability of the physical asset and affordability for existing tenants. Under the amended regulations, the Service Manager is legislated to pay the difference between the portion the tenant pays for rent-geared-to-income and what otherwise would be paid for that unit. No other funding criteria is specified.

Existing local policies governing tenancies such as unit occupancy and rent-geared-to-income eligibility remain in effect and are not impacted by the new framework.

As per provincial requirements, Service Managers are required to have 10-year Housing and Homelessness Action Plans. This plan, which received council endorsement in August 2020, lists as one of the strategies the need to “develop and implement a sustainable municipal funding source for social housing renewal”. Implementation actions listed in the Action Plan include developing a sustainable funding model and allocating the funds to community housing renewal projects through an allocation process that “maximizes efficiency and effectiveness”. Municipal investments are needed not only to meet the City’s Action Plan but also to meet the legislative requirements of the Housing Services Act to provide good quality and safe housing for people to live in.

The Housing Sustainability and Investment Roadmap four-pillar approach, which is complementary to the Housing and Homelessness Action Plan, also includes the retention of affordable housing units as one of their objectives. Retaining current units is timelier and more cost-effective than constructing new units. End of Mortgage provides an opportunity for the City of Hamilton to meet our Service Level Standard agreements and provide the requisite number of units that we are legislated to provide.

RELEVANT CONSULTATION

An End of Mortgage Renewal group was created in January 2022 with staff from Corporate Finance and Housing Services Division. The group was tasked with determining strategic direction and developing a financial analysis including potential End of Mortgage incentives, funding considerations and projections along with implications and costs of varying approaches.

Consultations with City of Hamilton Legal Services staff have been ongoing to ensure a consistent interpretation of the Act and to create exit and operating agreements.
In 2022, Housing Services Division staff started meeting other Service Manager jurisdictions to discuss local interpretations, approaches and management of projects entering End of Mortgage.

Consultations with housing providers for End of Mortgage began as early as 2016 and have been conducted intermittently since. Housing Provider feedback was used to refine the proposed End of Mortgage principles and strategy.

In June 2023, Hamilton Housing Services Division staff conducted an environmental scan of the approaches and principles being used by other jurisdictions at End of Mortgage.

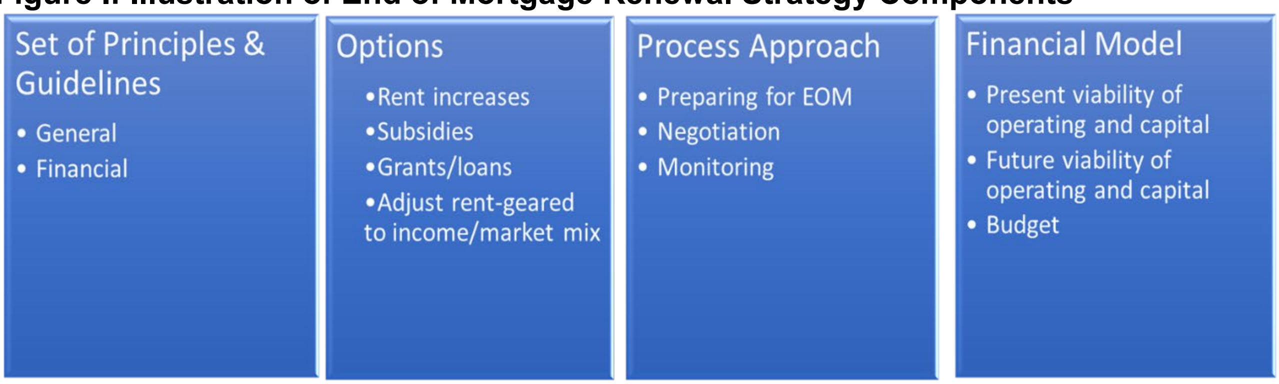
ANALYSIS AND RATIONALE FOR RECOMMENDATION

In total, staff will work on new agreements under the proposed strategy for 128 multi-unit projects, which comprise the bulk of our units, and 610 additional units in single or semi-detached projects. The total number of units needing to be preserved in our social housing inventory is 10, 678. The way in which the actual number of projects is determined may vary depending on how best to configure the single and semi-detached units.

The environmental scan underscored a shared set of goals between municipalities such as building housing provider capacity and autonomy, ensuring housing unit affordability, raising rent to 80% of average market rent when advisable, and addressing current capital needs prior to leveraging new builds. While all Service Managers have or will be creating a financial modeling plan, expectations for surplus and capital requirements for housing projects varied. All municipalities were considering applying rent-geared-to-income subsidy as baseline as per legislative requirements. The Region of York and the City of Ottawa were considering a subsidy framework which is all-encompassing (i.e., one subsidy that factors in both rent-geared-to-income and capital).

The City of Hamilton strategy for new agreements is comprised of four components: a set of principles and guidelines, funding options, a process approach, and a financial model.

Figure I: Illustration of End of Mortgage Renewal Strategy Components



The principles and guidelines developed, along with a systematic approach for working with providers at End of Mortgage, and a transparent funding model create an overall strategy designed to encourage housing providers to continue to offer affordable housing, address the long-term financial sustainability of their portfolio, and ensure that projects are kept in a satisfactory state of repair. The combination of funding options will ultimately depend on the viability analyses and the housing project's unique circumstances based on their operating and capital needs. Further details about the strategy can be found in Appendix “A.” A workplan and timelines for when projects reach End of Agreement/End of Mortgage can be found in Appendix “B.”

At present, there is a single staff member who administers the totality of capital needs for all social housing. Given the detailed review required for the upcoming projects reaching End of Agreement/End of Mortgage, an additional capital incentives staff would be instrumental in analysing capital needs and ensuring that providers access available funding sources. Addressing capital remains the most complex of the End of Agreement/End of Mortgage issues. The amount of funding required by housing providers for capital needs far exceeds the amount that the City of Hamilton can provide. An additional capital analyst can ensure that resources are maximized for housing projects at End of Mortgage and that providers are best positioned to address their project’s capital repair needs. Efforts are currently underway to also hire a temporary new senior financial analyst to help with reviewing the financial viability of projects requiring new agreements and assist with the development of funding agreements.

Based on a preliminary analysis, Housing Services Division Staff anticipate staying within the current operating base to support Housing Projects at End of Agreement and End of Mortgage. The analysis also suggests that additional municipal funding is required to help meet the extensive capital repair needs of our aging social housing stock. The majority of Social Housing Providers currently have an accumulated backlog of repairs requiring completion, reflecting the insufficiency of the previous funding formula. Based on 2016 Building Condition Assessments, reports that indicate repairs required for the housing project in both the short and long term, along with estimated cost of completing these repairs, the estimated amount for Social Housing Providers to address their capital costs is $643M.

Recognizing that a substantial municipal investment is required to address a portion of the capital repair costs, while simultaneously acknowledging finite resources and the need for Housing Providers to obtain additional funding through various sources, the City of Hamilton is proposing to partially bridge the capital repair costs by contributing 25% of capital repair costs to support and maintain units. 24% or $153M would be included in the levy based over the next 10 years, through an enhancement of 5.1M for four years to increase the base to 20.4M. It is recommended that this enhancement be increased annually by inflationary factors, in order to provide an ongoing base to address capital needs of Housing Projects that are at End of Mortgage/End of Agreement. The other 1% would be derived from the Annual Municipal Social Housing Capital Repairs and Regeneration funding. The remaining 75% would be funded by providers internal financing, through a bundle of options including Canada Mortgage and Housing Corporation (CMHC) loans/grant requests and other Provincial funding such as Canada-Ontario Community Housing Initiative (COCHI). The chart below details the funding request and the current funding sources available to Housing Providers at End of Mortgage.

Chart 1: Capital and Funding Request and Sources at End of Mortgage

	2023-2032	Notes
Capital		
Building Condition Assessments (BCAs)	643,000,000	Based on 2016 BCAs
Subtotal- capital needs	**643,000,000**	**May vary based on updated BCAs**
Funding Sources		
Provider – Capital Reserves		Will vary depending on base and financial situation
Provider- Loan/refinancing		Depends if eligible and advisable
Provider Grant/COCHI		Depends if eligible and awarded
Annual Municipal Social Housing Capital Repairs and Regen 6730041000	7,319,000	Approval pending through annual Capital budget process. $7.319M is the cumulative projection of requests for 2023-2032
Levy Base Request in recommendation (c)	153,000,000	$5.1M annual enhancement from 2024-2027, cumulative $51M. Ongoing base of $20.4M 2028-2032, cumulative $102M *see Note 1 below
City of Hamilton Contribution at ~25%	**160,319,000**	**~25% = 160,319,000/643,000,000**

Note 1

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	**Total**
Levy Increase	$5.1M	$5.1M	$5.1M	$5.1M	0	0	0	0	0	**$20.4M**
Levy Base	$5.1M	$10.2M	$15.3M	$20.4M	$20.4M	$20.4M	$20.4M	$20.4M	$20.4M	**$153M**

While legislation only requires Service Managers to fund rent-geared-to-income assistance and not capital repair costs, Service Managers are required to fund projects in a manner that ensures that the project can be sustained and is viable. Without sufficient funding from the municipality, the City of Hamilton risks losing more affordable housing within our geographical boundary.

ALTERNATIVES FOR CONSIDERATION

N/A

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report HSC23050: End of Mortgage Strategy and Funding Model

Appendix "B" to Report HSC23050: End of Mortgage Workplan and Timelines