Toward a Brighter Future: Opportunities to Reduce Affordable Need and Homelessness in the GTHA

Prepared for the GTA Housing Action Lab
& Evergreen Centre for Green Cities

EVERGREEN

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Focus Consulting

Focus on what you Can do
Not what you cannot

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Executive Summary

This paper was commissioned in order to examine recent funding and policy changes in the affordable housing arena in Ontario, and more specifically the GTHA.

It has reviewed the current and emerging program framework and related level of funding, as well as policy announcements and recent activities across the six Service Manager regions. It seeks to identify potential opportunities to improve outcomes in the near future.

The paper was prepared during an "interim year", one that welcomed new funding and policy announcements with promises that this was just a start. It heralds new opportunities, and indeed a brighter future, but all is contingent on anticipated announcements in early 2017: What shape will the national housing strategy take? How will funding levels be increased, and how can GTHA municipalities strategically capitalize on these new opportunities to increase outcomes of the collective housing system across the GTHA?

To illustrate and inspire action, the paper develops three alternate scenarios to examine how outcomes can be effectively scaled up through a combination of increased funding and more thoughtful integration and leverage of policy and funding opportunities. It concludes with some observations on how gaps and misalignment might be addressed, and how these recent efforts can be bolstered and expanded under a national housing strategy and associated sustainable, predictable and flexible funding framework.

The main policy frameworks that are guiding affordable housing activities in the GTHA are:

- The federal-provincial bi-lateral agreement on Investments in Affordable Housing (IAH) including the 2016 amendment, which has added additional resourcing;
- The respective comprehensive housing and homeless plans developed and adopted in each Region in 2014; and
- The provincial Long Term Affordable Housing Strategy 2016 Update.
- It is expected that the ongoing process on developing a national housing strategy will reinforce and augment both policy mechanisms and funding levels over the next five years.

Overcoming impediments and misalignment

Over the past decade, increasing experience and competence at the municipal level, together with increased flexibility in the program rules, have helped to reduce gaps and misalignment and increase collaboration and program experimentation.

However some irritants remain:

- One of the loudest complaints and gaps in the policy and funding framework has been the on and off nature of the federal funding. Typically funded over a 3–5 year window, renewals have often been delayed until the 11th hour making it difficult to plan especially for new development.
- When funding has been linked to economic stimulus and employment objectives there are unrealistic pressures to spend in very tight timeframes. Similarly finite spending timeframes linked to a budget year also force spending and exacerbate poor and inefficient spending decisions.
- Prescriptive and restrictive rules have also been identified as a weakness and irritant (e.g. funds are earmarked as grants so cannot be used to finance loan type assistance, which can then establish a revolving fund to recycle these limited funds).
- Reporting requirements still tend to emphasize financial accountability and sometimes overlook the equally important measurement of outcomes (although this too is improving). To date detailed financial reporting has not been effectively used to develop and operationalize performance and outcome measurements. These reporting activities consume substantial staff resources for both providers and funders, without generating any benefit beyond financial management.
- Separate funding conduits in some program areas remain uncoordinated. This is especially an issue in the homeless area where federal funds flow to local "community entities" while provincial CHPI funds flow to Service Managers (again comprehensive local housing and homeless plans help to knit these back together, but with separate and varying rules and reporting across funders). The separation of federal funding streams between two agencies (homeless secretariat in SEDC and CMHC) also adds to inconsistency and excess reporting (especially with the federal focus now on creating housing options under a housing first model).

Optimizing new opportunities

The recent and emerging policy and funding frameworks have evolved from those established in 2001–2005 when Investments in Affordable Housing (IAH) initially started. These have gradually become more strategic, comprehensive and flexible.

The provincial requirement under the initial LTAHS 2010 to develop comprehensive housing and homeless plans by 2014 has significantly improved decision-making and strategic investment. It helps to identify and coordinate funding from different sources by focusing on outcomes at the local level, where housing challenges exist.

The frameworks now encourage and enable a broader array of responses, beyond simply building new affordable housing. In particular the consolidation and increased flexibilities in the provincial Community Homeless Prevention Initiative (CHPI) ensures that necessary supports to secure housing stability for assisted formerly homeless persons are in place. Expanding into other options, such as housing allowances, have helped in accelerating movement off waiting lists. The LTAHS update is now enabling and encouraging administrative and subsidy streamlining and simplification, which can help to minimize administrative costs and improve outcomes in terms of households assisted.

Local Service Managers have actively embraced opportunities to experiment and attempt new models, such as collaborating with the Ministry of Finance to reform RGI administration, acquiring condominium units as a way to expand affordable supply without the delays and obstacles of the new development process.

Providers and municipal Service Managers are also actively identifying and pursuing redevelopment and intensification opportunities on existing underutilized social housing sites. This can potentially be enhanced if the Social Housing Improvement Program funding and some related new financing were renewed and implemented under the National Housing Strategy.

Using coordinated synergies to increase outcomes

A key element of the new environment is that improved outcomes can be achieved only though collective and collaborative actions, including federal funding, provincial policy flexibility and support, and local creativity and strategic implementation.

To explore how these current and emerging policy frameworks, together with active experimentation at the local level, can expand and extend outcomes, three scenarios were developed reflecting the past, present and future of affordable housing in the GTHA.

These are premised on three levels of resourcing:

1. **More of the same,** a continuation of the level of resourcing funding under IAH/HPS and associated provincial programs from 2011–14, with no new policy flexibility or reform;
2. **An enhanced level of funding** as contained in the respective 2016 federal and provincial budgets, and some minimal policy change or reform (as facilitated in the LTAHS);
3. **Substantially increased level of funding** supporting fundamental policy reform (as expected under the NHS).

Outputs (number of units and/or households assisted) under each are based on the province wide reported outcomes publish by the Ministry (on a province wide basis). For the purpose of developing scenarios outputs for the GTHA assume that the GTHA contributed to 60% of the outcomes.

In each case, for ease of presentation, the aggregate expenditure level and aggregate outcome across the GTHA is presented (rather than develop these separately for each Region or Service Area).

The scenarios include the following funding vehicles:

- Investments in Affordable Housing (IAH);
- Investments in Affordable Housing (SIF–IAH), reflecting 2016 enhancements to IAH;
- Social Housing Improvement Program (SIF–SHIP);
- RGI Replace Fund (protection for tenants impacted by federal expiring subsidy);
- Homeless Partnership Strategy (HPS);

- Community Homeless Prevention initiative (CHPI);
- The scheduled reduction in federal subsidy for existing social housing (Federal EOA, as scheduled and announced in Ontario Gazette through 2018 with estimates developed based on known federal aggregate reductions to Ontario 2019–2021).

They also consider the assumed benefits and effects of provincial policy enhancements including additional units facilitated by inclusionary policies and additional leverage via RGI reform or stacked housing benefits, and the potential impacts of lower cost financing under the federal Affordable Rental Financing Initiative and approaches generated under the Innovation Fund.

Combining all types of expenditure in each scenario and projecting this out over the next five years suggests three possible aggregate funding levels:

- In scenario 1 and 2 the aggregate funding declines as a result of declining federal subsidy under the existing Social Housing Agreement—so called expiring operating agreements.
- Under scenario 3 there is no decline as it is assumed that the federal reduction is fully offset by reinvestments into the system (although how these funds are reinvested is not specified).

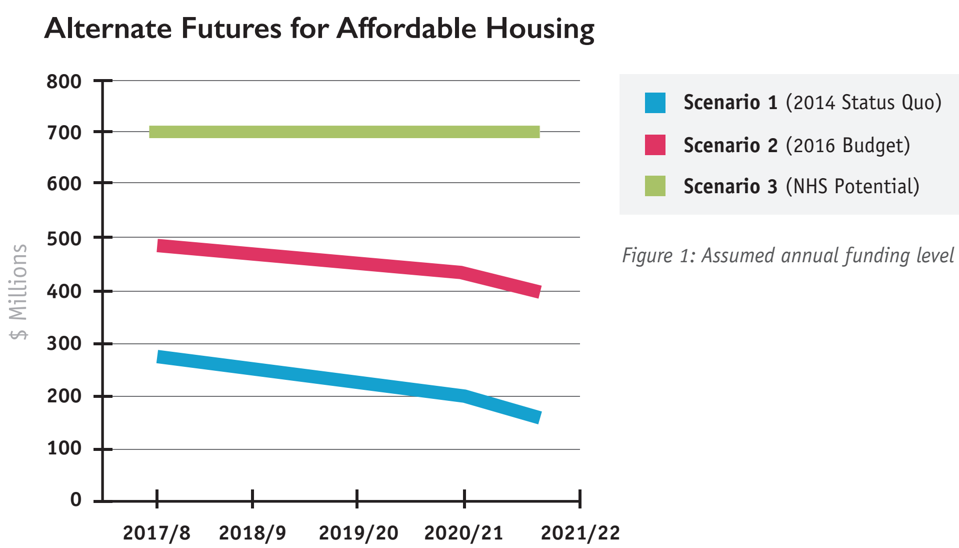


Figure 1: Assumed annual funding level

Aggregate average annual spending across the six GTHA regions in the status quo scenario 1 approximates $220 M; this is doubled in scenario 2 (to $451M) and more than tripled in scenario 3 (to $705M) *(Figure 1)*.

The relative impact of scenario 3 increases incrementally as the timeframe moves out to 2022, due to stabilized versus declining expenditure trajectory.

As discussed below, the more important aspect of the scenario is the outcomes that these respective levels of funding generate—represented by the number of households assisted.

Potential impact and outcomes

In estimating how these three funding levels together with the reinforcing and augmenting policy support frameworks might create improved affordable housing outcomes, it is assumed that the mix of outcomes remains consistent with the status quo. That is, the distribution between creating new supply, renovating or improving conditions and providing rental assistance remains similar.

The outcomes improve across the three scenarios, but most dramatically under scenario 3 (shown in Figure 2). Under this scenario, while the funding was increased by just under three times the base level, the outputs are a magnitude of five times the base case (3,500 households assisted). The more optimistic, but achievable outcome of scenario 3 increases the number of households helped each year to 19,000 (Figure2).

In part this reflects the increased funding for renovation and housing allowances. But importantly, it also serves to illustrate how a more thoughtful integrated use of funding and policy tools can effectively create synergies that generate a greater outcome than when funding programs are used independently.

Outcomes Under 3 Alternative Futures

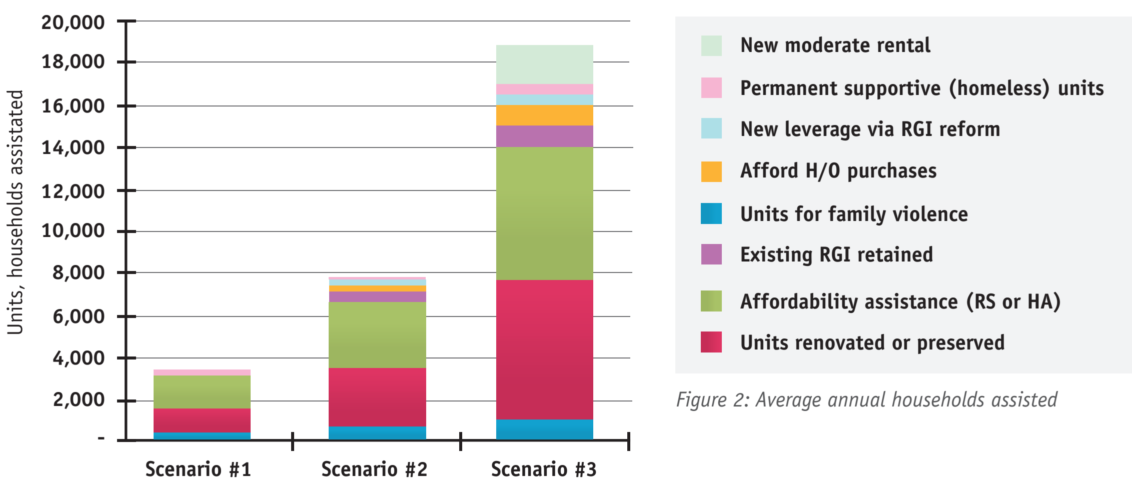


Figure 2: Average annual households assisted

Such synergies can best be achieved at the front line—when delivering programs at the local level. These potential outcomes are conditional on creating appropriate rules and flexibilities in the funding mechanisms to enable local creativity and adaption, while respecting basic principles of public accountability for the use of the subsidy funds.

Conclusions

The three alternative future scenarios illustrate that significant progress can be made over the next five years.

With only modest increases in funding, outcomes represented by the number of households assisted can be expanded to five or six times the level achieved in recent years. The report documents the opportunity to increase housing opportunities for up to 18,500 residents in the GTHA by 2022 through the implementation of a funded national housing strategy.

The goal of ending long-term chronic homelessness and rapidly responding to ongoing emergences that place individuals and families at risk is achievable. As a nation and as communities we have the expertise and the will to do this.

In budget 2016 the federal government announced that they were making an initial investment to kick start this process and would, over the coming year, consult on a longer-term investment plan. The province has reinforced these steps in its budget and is refreshing its own long-term affordable housing strategy. These allocations include $418 million in social and affordable housing investments, some $193 million to respond to the homelessness crisis within the GTHA from 2016 to 2018.

A new national housing strategy, anticipated to be announced in early 2017, together with a commitment to predictable, sustainable and flexible funding can be a timely and effective way to complement the strategies and funding now in place at the local and provincial level.

In 1989 an international housing finance expert asserted that Canada had the best social housing finance system in the world. Over the following two decades Canada lost this reputation. With strong federal leadership, it is now poised to earn it back.

Introduction

This background paper is intended to consolidate recent data and funding opportunities across the GTA and Hamilton Regions (GTHA) and identify how recent events, such as renewed federal interest in housing, the federal and provincial budgets and Ontario LTAHS update are now establishing more favourable conditions for regional municipalities and Service Managers to have a meaningful impact in addressing affordable housing need and homelessness.

These conditions may create new or expanding opportunities for Service Managers and providers although this may require them to adopt new or reformed practices in order to optimize this potential.

The paper first reviews the broader market context and how this is impacting affordable housing needs. It then highlights the recent new funding initiatives that are enhancing the fiscal capacity to implement locally developed housing and homeless plans. It highlights some of the recent innovations and experimental initiatives designed and implemented across the GTA and identifies areas where gaps and misalignment across jurisdictions inhibits better outcomes.

The paper then examines recent and possible funding levels, based on budget announcements and expectations for the national housing strategy and using three scenarios examines how outcomes can be effectively scaled up through a combination of increased funding and more thoughtful integration and leverage of policy and funding opportunities.

It concludes with some observations on how gaps and misalignment might be addressed, and how these recent efforts can be bolstered and expanded under a national housing strategy and associated sustainable, predictable and flexible funding framework.

Framing the Challenge

Not a week goes by without another media story asserting that the Toronto housing market is in crisis —a bubble about to bust, too many new condominiums under construction, or new buyers unable to access ownership.

How well the market functions, both in terms of access and existing residents have significant impacts for both individual families and individuals as well for the regional economy.

It also impacts the other part of the housing system, the rental and social housing sectors, which both bear the strain (or success) of the market in varying ways. If young families are unable to realize their dream of ownership, they remain renters. This adds or retains demand in the rental sector and impacts vacancies and rents. For agencies seeking to assist families with affordability challenges or to implement housing first strategies to stabilize formerly homeless persons, low vacancies and rising rents make it more difficult and more expensive to implement their plans.

Ideally policy should seek to create and sustain a balanced and healthy housing system. One in which existing owners can build wealth through their home asset while others can still access this goal; where renters have choices and reasonable affordable rents, without having to forego other necessities in order to pay the rent, and where people can afford to live within a reasonable commuting distance to their place of work or other activities.

The market context—demand factors

It is true that the GTA region (and Hamilton too) have, with only a small pause in 2008, seen a remarkable sustained increase in home prices. The Realnet home price index for Toronto and Hamilton have increase respectively by 99% and 88% since 2005, annual average increases of 7–8%. And this has created some challenges for first-time buyers to enter the market.

However this rise, and the high prices that now exist are not without reason. These prices have been enabled by the core fundamentals—strong demand from a combination of high levels of net migration (and Hamilton gaining from relocations out of Toronto), strong employment and income growth and, most particularly, declining and historically low mortgage rates.

In their fall 2015 rental market report, CMHC noted that the labour market has been strong with unemployment at its lowest since 2004, while average weekly wages are up 5% over the same period. As a result of more people working, abetted by increase in wage levels, the median income of both families and non-family households (predominantly singles but also some unrelated 2+ households) also showed positive trends. In both regions both family and non-family household income increased (between 2.7%–3.0% annually), slightly above the rate of inflation.

The combination of these demographic and labour market trends was that there were more people, creating more households with more people working and earning higher incomes. This increased capacity to pay and fuelled demand for homes, both in the rental and ownership sectors.

Owners were also enabled by historically low mortgage rates, which significantly amplified their borrowing capacity and inevitable helped to drive up home prices. Price increases were concurrently reinforced by existing owners cashing in on their appreciation and trading up.

The market context—supply response

To a large degree the market has responded to increasing demand and capacity to pay, as well as by shifting the product mix in favour of condominiums, which tend to be relatively lower priced compared to detached homes.

However new housing starts have not responded to rental demand, in part because there is more effective demand in the ownership/investor sector and in part because there is a lack of "effective demand (i.e. a need for low rent units, but these are not a viable proposition for developers).

In Hamilton, there is a similar very low volume of purpose built rental units (averaging 5% of all starts since 2001). However in Hamilton, the condominium construction is not at the same proportion as in the GTA and consequently there are few investor condominiums flowing into the rental supply.

An inevitable result of low rental starts is downward pressure on vacancy rates and rising rents. While both trends are evident, neither is dramatic (Exhibit 1). Vacancies have declined and remain below a healthy market benchmark of 3% in Toronto. And rents (Exhibit 2) have increased although until 2011, generally no faster than the rate of inflation (to some extent influenced by the rent guideline on existing units). The rate of rent increase has however been notably higher in Hamilton. This in part is attributable to institutional and corporate investors purchasing rental properties, upgrading and raising rents.

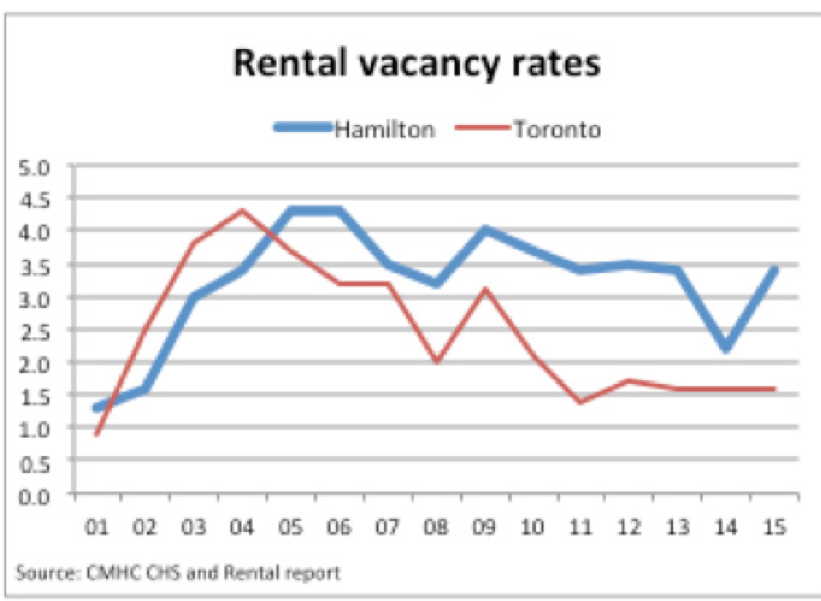


Exhibit 1: Illustrative rental vacancies

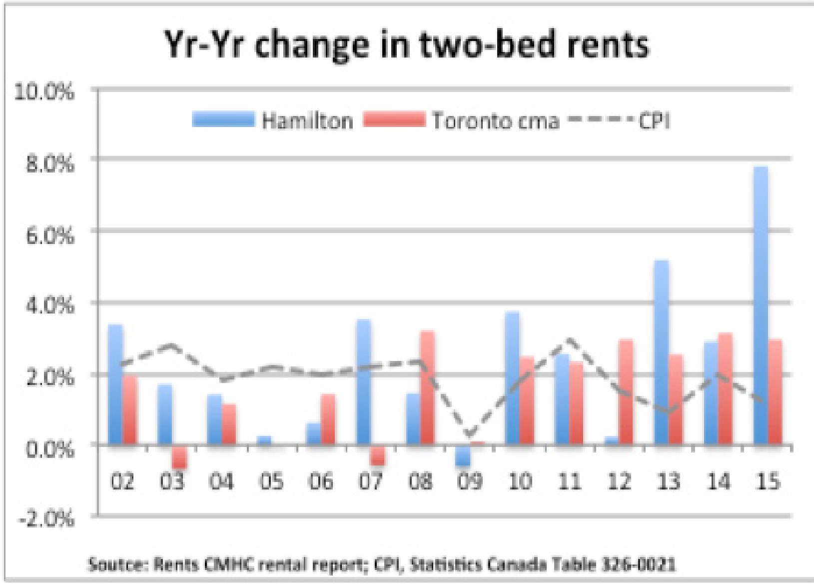


Exhibit 2: Trends in annual rent increases

The less than dramatic decline in rental vacancies is largely a result of renter households choosing to buy a home, thereby freeing up a rental unit. Despite perceptions of unaffordable ownership costs, low interest rates along with increased income more than offset (and in fact helped cause) the home price increase.

It is notable that between 2001 and 2011 the homeownership rate has increased substantially both nationally (from 65.8 to 69%) and in the GTA (from 63.2% to 68.3%). Hamilton recorded a similar increase through 2006, but by 2011 levelled off at 71.4%.

How does the broader housing market impact affordable housing?

The housing system is comprised of three closely connected elements: the ownership sector (70%), the private rental sector (25%) and the non-market social sector (5%). In their service manager roles, regional municipalities focus much of their effort and investment on the social housing sector (including homeless responses). Through planning and infrastructure policy and investment they also seek to manage efficient growth and support an overall healthy well-balanced housing system.
Policies and initiatives to facilitate an effective responsive market can help reduce levels of housing need (e.g. add enough new supply to create vacancies and take pressure off of rents), and in some cases can help to create opportunities for housing first responses. For example, enabling access to ownership opportunities frees up rental units and helps to alleviate pressure in the rental sector.

Market forces and conditions also create the need for municipalities to augment and complement the market through direct interventions to address market failure, particularly the lack of affordable new rental development.

Persisting housing need

Across the GTHA levels of affordable housing need remain significant. Largely as a result of economic conditions (improving incomes), core need in all Regions declined between 2006 and 2011 in both absolute and relative terms. The total number of renters in need declined by 6% to 211,000, and the incidence similarly declined across all Regions (Exhibit 3). However the incidence of need remains significant with almost one in three renters in core housing need. Only in Halton Region is renter need somewhat lower at 21%.

In Peel and York, core need is notable among owners. Across municipalities the incidence of owner need is highest in the City of Toronto reflecting efforts of moderate-income households to access the ownership ladder. However, overall, core need is far higher and generally more acute among renters.

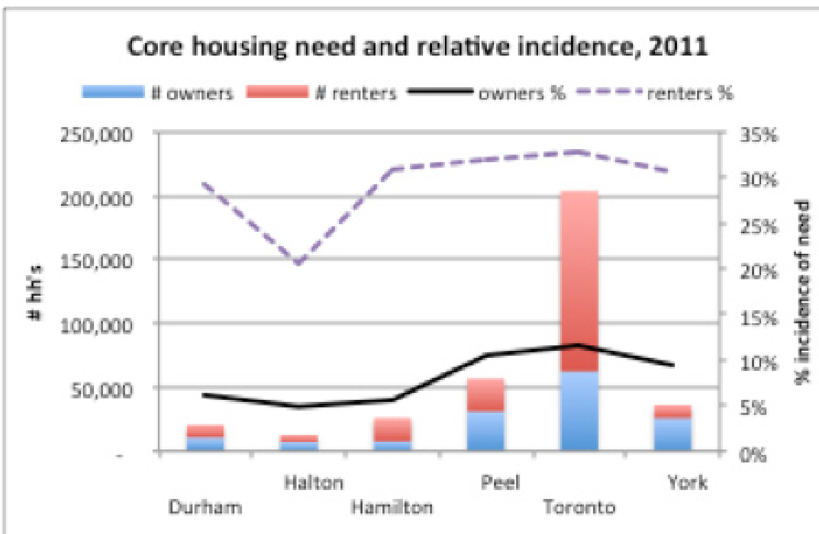


Exhibit 3: Core housing need by tenure

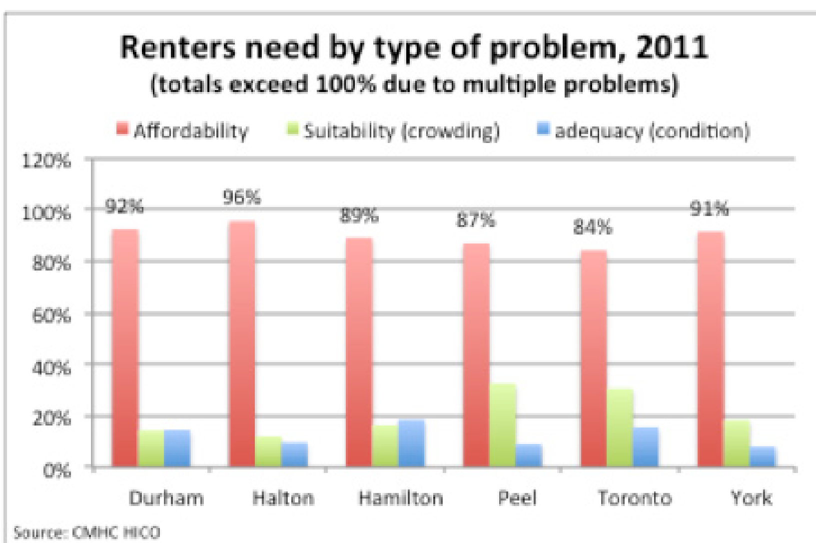


Exhibit 4: Core need by type of problem

Problem is mainly affordability

Among renters, where need is much higher than owners, the predominant problem is one of affordability (Exhibit 4). Across the GTHA almost 90% of renters in need experience an affordability challenge (pay over 30% for rent and have incomes below that required to afford the average market rent). The next largest issue, suitability, is typically related to affordability—unable to afford a sufficiently sized dwelling unit households experience crowding and suitability problems.

The persistent low level of purpose built rental starts is a particular challenge across the GTHA and the Regions are seeking to augment the market in this area. As discussed later, many are also experimenting with varying forms of rental assistance including portable housing allowances.

Responses to Recent and Emerging Challenges

Policy frameworks, and more importantly funding to help create affordable housing responses are necessary to address weaknesses and market failure.

In particular, low-income households lack effective demand (i.e. what they can pay is too little to stimulate new development). Some new purpose built rental construction is occurring, but at rents well above levels affordable to the lower two-three income quintiles. Similarly rented condominiums units also have above average rents. Direct intervention is necessary to correct for and compensate for lack of market provision. Historically such public policy and program responses were somewhat ad hoc and opportunistic, taking advantage of whichever senior government-funding program was available.

More recently with the provincial requirement to develop and adopt comprehensive housing and homeless plans (and similarly at the federal level the link between homeless funding at local plans in designated communities) have helped to establish a more thoughtful and coordinated set of responses to the prevailing challenges. As discussed later, while this has helped in coordination and some streamlined funding, the overall levels of funding have remained modest and have thus resulted in minimal outcomes (compared to historical levels pre 1990 and relative to need).

Development of Comprehensive Housing and Homeless Plans

To coordinate and facilitate effective investments, in late 2013/early 2014, all regional governments in Ontario developed and adopted comprehensive housing and homeless plans (HHPs). These set out priority objectives, and targets to addressing homelessness and affordable housing need and identified various strategies to achieve these objectives. With the limited resources of municipal property taxes, regional and local municipalities are highly dependent on funding from the provincial and federal governments in order to provide the necessary financial resources to implement these plans.

Since 2001 levels of funding (mainly under the federal-provincial Investments in Affordable Housing, IAH) have been constrained, and have been insufficient to enable local municipalities from achieving the ambitious, albeit realistic, targets set out in their plans.

In the spring of 2016 a series of budget and policy announcements were presented through the provincial budget (March 16th), federal budget (March 22nd), and the Ontario Long Term Affordable Strategy Update (March 30th). Together these announcements present a number of new or proposed policy initiatives together with new or enhanced funding streams that should assist GTHA municipalities in advancing their goals around affordable housing and reduction of homelessness.

It should be noted that at the federal level the primary indicators of policy direction are items identified in the budget. There is as yet no comprehensive plan or policy framework. Conversely at the provincial level, the LTAHS sets out a range of policy directions and approaches, but is not yet fully costed or resourced. In some cases policy changes are more of an enabling nature (for example providing statutory authority to local municipalities to implement inclusionary policies that may help in increasing construction of affordable housing, and efforts to streamline administration of RGI rent systems); in others they presage new funding, such as demonstration initiatives for portable housing allowances, and new funding for supportive housing to facilitate housing homeless persons exiting the shelter system.

To the extent that opportunities require some resourcing, we first examine the budgets of the provincial and federal government.

Review of Recent Funding Announcements and Opportunities

Spending decisions are typically comingled with policy directions and decisions (i.e. efforts to consolidate and streamline administration or targeting funds to certain priority issues such as social housing retrofit or populations such as seniors, Aboriginal households).

For ease of presentation the expenditure plans are presented first, noting any specific policy implications. Subsequently some specific policy initiatives which may not yet be fully funded) are then outlined, most notably the set of initiatives announced as part of the Ontario Long Term Affordable Housing Strategy Update.

One of the key challenges with budget announcements, especially when they implicate another level of government in cost sharing, is distinguishing new funding from previous announcements and sorting through retroactive announcements.

Much of the funding that supports local comprehensive housing strategies draws on the jointly funded Investments in Affordable Housing (IAH). Here we briefly review the two budgets—provincial and federal and then elaborate on what these means for funding at the local level.

2016 Provincial Budget

The provincial budget preceded the federal budget, and initially announced a total of $178M in new provincial spending over three years to include $17M for a pilot portable housing allowance and $45M over three years to enhance flexible local funding for the Community Homelessness Prevention Initiative (CHPI). There were a number of associated policy initiatives announced, as discussed below under the LTAHS update.
The provincial budget funding was subsequently impacted by the increased level of funding under the federal budget which included doubling cost shared IAH funding.
As a result of the matching requirement and the increase federal funding, the planned expenditures have been increased as noted below.

2016 Federal Budget

In terms of new funding resources the federal budget was more significant. Nationally this announced over $2.3B in funding, part of which reflected previously announced funding under the IAH although this was doubled. Some of this flows via provinces and territories but only the IAH line requires provincial cost matching. Other envelopes including seniors, Aboriginal off reserve and social housing retrofit also flow via the province but do not require cost matching.

Funding for homelessness under the Homelessness Partnering Strategy (HPS) flow from the department of Economic and Social Development Canada directly to community entities.

It is important to note that the 2016 budget for IAH 2016–2018 is an addition to previously announced funding for the 2014–19 period (which provided $253M annually over 5 years for a total of $1.25B.

2016 Federal Budget Related to Housing (Millions of dollars)			
	2016–2017	2017–2018	Total
Increase in Investment in Affordable Housing IAH*	261.6	242.8	504.4
Affordable Housing for Seniors	100.3	100.4	200.7
Supporting Energy and Water Efficiency Retrofits and Renovations to Existing Social Housing	500	73.9	573.9
Supporting Shelters for Victims of Violence	60	29.9	89.9
Tackling Homelessness	57.9	53.9	111.8
Subtotal	**979.8**	**500.9**	**1480.7**
Investments in Housing for First Nations, Inuit and Northern Communities	13.1	72.6	85.7
Investments to Support the Construction of Affordable Rental Housing (Innovation Fund)	1,349.1	956.3	2035.4
Grand Total	**500**	**500**	**1000**

** This in on top of the $253M/yr. previously announced for 2014–19*
** Requires prov/terr cost sharing*

Source: Finance Canada Budget 2016 pp 97-101

Similarly the $111.8M to tackle homelessness is an addition to the previously announced 2014–19 budget for the Homelessness Partnering Strategy (HPS) at $119M per year. This is now directed primarily toward Housing First responses and flows through Economic and Social Development Canada (ESDC) to the designed 61 community entities, with no direct provincial involvement (although Province is aware of the HPS allocations when distributing CHPI funds, as discussed further below).

Two component of the federal budget remain to be fully detailed, the additional investments to encourage and support innovation in the provision of affordable rental housing ($85.7M over 2 years and a total of $208M over 5 years) and the affordable rental financing ($500M/yr.) both noted in the table below.

Impacts on Ontario provincial resources

All of the identified federal initiatives were initially funded on a two-year basis (to March 2018) with any additional funding levels beyond that period to be determined as a national housing strategy is developed over the next year.

Since 2002, federal funding for affordable housing has been allocated through a bilateral funding agreement with the province, under which most (but not all) federal funds had to be cost matched by the province).
A new bilateral agreement was executed in June 2016 to specify how the enhanced federal spending will flow through and be augmented by the province of Ontario.
Under 2014–19 IAH the federal and provincial governments had planned to each spend $80M each year and this was reflected in the 2016 provincial budget. The enhanced funding in the subsequent 2016 federal budget means that the federal and provincial governments will now spend a further $84M each in the two fiscal years 2016–2018, for a total additional commitment of $336M.

IAH and additional funding – Ontario-Canada Bilateral Agreements ($ millions)

	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019	Total
2014-19 bilateral IAH *	$160	$160	$160	$160	$160	$800
2016 new bilateral – IAH increase *			$168	$168		$336
2016 additional federal (no cost matching) **			$100	$100		$200

*   *These values reflect combined federal and provincial planned spending and include cost matching* * Requires prov/terr cost sharing*

** *This unilateral funding is directed to social housing energy retrofit, construction and repair of seniors housing and construction and repair of transition homes and shelters for victims of family violence*

Unilateral federal funding of $100M per year will also be made available for the three specific priorities (seniors, victims of violence and retrofit). No cost matching is required for the new seniors housing, victims of violence or social housing retrofit, even through administratively these are managed within the IAH bilateral agreement.

In addition funding for homelessness (an increase totalling $111.8M nationally in federal 2016 budget) under the Homeless Partnering strategy is also not explicitly conditional on cost sharing, however, in practice, the province and municipalities typically carry a share of ongoing costs for support services.

The federal-provincial agreement aggregates funding under a broad Social Infrastructure Fund (SIF) with two sub components:

- Social Housing Improvement Program (SIF–SHIP); and
- Investments in Affordable Housing (SIF–IAH)

Under past and current IAH funding framework, each Service Manager has some flexibility in allocating funding across four program sub areas:

a. **Housing Allowances/Rent Supplements**
b. **New Rental Housing**
c. **Renovation (homeowners and disabled)**
d. **Homeownership Assistance**

Under the enhanced 2016 funding these have been augmented with a new program to fund rehabilitation and construction of shelters and transitional housing for victims of violence and for seniors.

The province has subsequently issued Notional Funding Allocations under its' 2016 Social Infrastructure Fund to distribute the aggregate budget (federal and provincial combined funding) across Service Managers.

How These Recent Budgetary Measures Impact GTHA Municipalities

The combined resourcing under the three funding envelopes significantly increases the funding to each Service Manager and augments resources to implement local housing and homeless plans serving households in need.

Subsequent to the 2009–11 stimulus spending under Canada's Economic Action Plan (CEAP) and prior to 2016 there was no funding to support rehabilitation and retrofit of existing, aging social housing assets.

Service Manager Notional Funding Allocatons in GTHA ($ millions)

	IAH (2014 Extension)			IAH–SIF		SH Retrofit	Total	
Service Managers	2016–17	2017–18	2018–19	2016–17	2017–18	2016–17	2016–17	2017–18
City of Toronto	40.8	37.9	39.6	45.4	32.8	76.1	162.2	70.8
Durham	5.6	5.6	5.6	6.4	4.7	5.5	17.5	10.3
Halton	4.2	4.2	4.1	4.8	3.5	3.5	12.4	7.6
Peel	12.7	12.6	12.6	14.5	10.5	10.6	37.8	23.2
York	9.1	9.0	9.0	10.4	7.5	5.1	24.6	16.6
City of Hamilton	6.1	6.1	6.1	7.0	5.1	11.6	24.7	11.1
Total	**78.4**	**75.5**	**77.0**	**88.6**	**64.0**	**112.3**	**279.3**	**139.5**

Source: MMAH

The new retrofit fund created in the 2016 federal budget provides temporary funding for social housing retrofit, with an emphasis on energy efficiency measures. This envelope alone (total of $573M nationally with $112M of this flowing to the six GTHA Service Managers) has a large impact on the aggregate funding level. However it is concentrated in the current fiscal year (2016–17) on the premise that retrofit work could be commissioned and completed more quickly than new construction and thereby more immediately helps on the objective of employment and economic stimulus. It remains to be seen if the federal government will renew and extend or establish such retrofit funding on a more permanent basis in 2017 and beyond.

Looking at 2017–18, when the influence of the retrofit funding is no longer significant (unless extended in 2017 budget), the relative level of resourcing is still well over 300% higher than that that had been available in 2014–15.

As such the new level of funding together with some flexibility in how each service manager can use the funds, substantial increases the number of households that can be assisted.

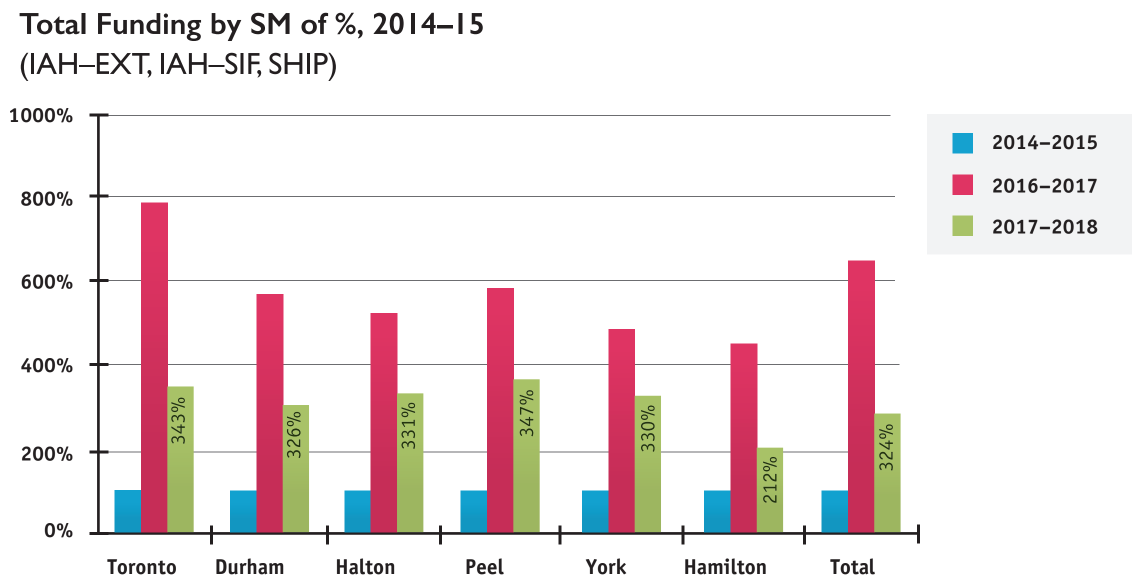


Exhibit 5: Combined funding levels, by Service Manager

Additional Funding to Address Homelessness

Most of the new federal funding is directed generally toward housing issues. In addition, a separate envelope of funding was provided to help respond to persistent homelessness under the Homelessness Partnering Strategy (HPS).

Like the IAH funding, a federal budget for HPS had been previously approved for 2014–19 so the funds announced in Budget 2016 are similarly additional and enhance total funding for homelessness.

Unlike IAH federal funding for homelessness does not flow through bilateral agreements with the province. However, it does require eligible expenditures to include supplementary funding from at least one other source. This informal cost sharing occurs at the community/project level, rather than prior matching.

Historically HPS funding was distributed primarily to 61 "designated communities," together with some smaller allocations for other areas and for specific populations such as rural, youth and Aboriginal. The six SMs in the GTHA are among the 61 designated communities (although the designated community entity in York is the United Way, rather than the Region). In each case their funding was increased from its current 2016–17 level by roughly 20%.

Federal HPS Allocations			
Region	2014–2015	2016–2017	2017–2018
Toronto	17.3	21.6	21.6
Durham	0.28	0.42	0.42
Halton	0.34	0.51	0.51
Peel	1.17	1.29	1.41
York	0.53	n/a	n/a
Hamilton	4.2	5.3	5.3

While the province is not directly involved in the HPS funding it does provide complementary funding under the Province's Community Homelessness Prevention Initiative (CHPI), which has been in place since 2013.

CHPI combines funding from former separate housing and homelessness programs into a single flexible program. Funding can now be used by Service Managers to address local priorities and better meet the needs of individuals and families who are homeless or at risk of becoming homeless in their local communities (for example, funding that previously had to be used for emergency shelter beds can now be used to provide more long term housing solutions).

In 2016–17 the total Ontario budget is $293.7 million in funding. Just over half of this ($164M) is directed to the six GTHA Service Manager areas:

Ontario 2016/17 CHPI Allocations	
Service Managers	**2016/17 Allocation**
City of Toronto	111,572,600
Regional Municipality of Peel	12,836,500
Regional Municipality of Durham	5,890,600
Regional Municipality of Halton	4,284,200
Regional Municipality of York	10,527,100
City of Hamilton	19,073,700
Total	**164,184,700**

While these funds are specifically targeted to serving homelessness, they can be, and often are, combined with funding under IAH to create supported rental options for homeless individuals and families. Much of the CHPI funding is also mixed with HPS funds at the local level to support the implementation of planned initiatives locally.

Additional Emerging Funding Opportunities

As noted in reviewing the federal 2016 budget, two new funding sources have been announced, but not yet formalized.

These are:

- Affordable Rental Housing Innovation Fund (with $85M in the first two years with a planned total of $208.3M over 5 years); and
- Affordable Rental Housing Financing Initiative to provide low-cost loans to municipalities and housing developers for the construction of new affordable rental housing projects (up to $500M in loans annually for 5 years).

Criteria for the innovation fund were released in September and confirm that this targets affordable rental (as such this appears to exclude other options such as assisted ownership) and seeks to primarily create new rental construction. A call for innovation proposals has been issued although there is no firm deadline, applications will be considered on a periodic basis. The budget allocates only $13M nationally in 2016/17 so it is likely there will be minimal initiatives funded in the first round – there is more potential in 2017/18 when the budget increases $73M.

Initial discussions with federal officials suggest that while both were notionally labelled as "affordable housing funds" the meaning of affordable has not been defined.
It is expected that the Affordable Rental Financing Initiative may target modest rents, potentially above the 100% of average market rent (AMR) used in the IAH criteria. As such it could seek to stimulate general rental supply rather than explicitly restricting use to project with low rents below 100% AMR.

It should be noted that this proposed initiative might not involve a budgetary expenditure. Capital will be raised under the federal crown-borrowing framework and such funds provided as loans with a small administrative fee added. This is the approach currently used under the CMHC direct lending for renewing social housing loans.

Current convention 5 year loans are priced at roughly 3.6%, while well qualified borrowers can achieve a CMHC insured loan at 2.35%. CMHC recently raised financing for social housing renewals at 1.05% a discount of 125 basis points over insured loans. Accordingly, this initiative could secure rates close to 1.0%.

If the government chose to provide interest free financing (an option that they included in consultation discussions) this make this a budgetary expenditure (i.e. foregone interest earnings become an expenditure) and will require treasury Board approval.

It also remains unclear whether this funding source will also be made available to proponents of projects with capital funding under IAH programs.

Combining Affordable Financing with IAH could have a positive impact in enhancing affordability of IAH initiatives. For example, on a $100,000 mortgage (assuming the IAH grant is covering $100,000–$150,000 of cost) the monthly payments at 3.5% over 25 years would be $498. If the finance initiative can lower the rate by 125 basis points to 2.25%, the monthly cost (and thus potential required rent) would decline by $64 to $434. If, in addition to the lower rate, the amortization period were extended to 35 years this would lower payments and increase monthly affordability by a further $90 to $343. So, in combination with grant low rate financing can effectively enhance affordability.

On the proposed Innovation Fund, initial discussions with federal officials have suggested that they prefer not to be prescriptive, but rather to leave this open to proposals as a way to encourage and solicit "innovative" and new approaches. As such this could be a potential source for some mixed models—such as non-profits creating mixed market-affordable options and potentially as a source for funding work on intensification/redevelopment and leverage of existing social housing assets. The published selection criteria do however suggest some preferences: initiatives are encouraged to include energy efficiency measures, be viable without long term subsidy, provide accessible units and target the rental sector.

Estimates of Declining Federal Funding

While the recent funding announcements provide enhanced funding, another consideration is the ongoing expiry of federal agreements. This will reduce some ongoing subsidy transfers (although some of these may be offset by concurrent mortgage maturation).

The federal transfer for ongoing subsidy (for pre 1994 properties is flowed to the province and subsequently allocated to each Service Manager based on their specific share of federally funded (unilateral and cost shared) pre 1994 projects.

Any payments of debentures related to public housing projects are first stripped out and paid directly by the province. The remaining operating subsidy is passed down. As federal agreements mature, the annual funding transfer to each Service Manager will decline.

Gazetted SHA funding from 2016 to 2018 (Calendar Year) $ Millions

Region	2016	2017	2018	Change 16–17	Change 17–18	% Change
Toronto	131.1	116.8	107.0	-14.29	-9.74	18%
Durham	22.5	22.1	19.1	-0.42	-2.97	15%
Halton	10.4	10.3	9.7	-0.06	-0.58	6%
Peel	3.4	3.4	3.3	-0.05	-0.11	4%
York	9.2	9.5	9.5	0.29	-0.01	-3%
Hamilton	21.2	19.0	17.7	-2.22	-1.33	17%
Total	**197.8**	**181.0**	**166.3**	**-16.75**	**-14.73**	**16%**

The scheduled transfers to the GTHA Service Managers are summarized above. The impacts are quite diverse. Toronto and Hamilton as older cities tended to have a much higher proportion of public and early non-profit units and as such are seeing a proportionately larger reduction in federal subsidy transfers.

Meanwhile the younger suburban regions had a lower volume of public housing and a later phase of social housing development (most under post 1985 provincial and PT programs) and as such are not as significantly affected by the declining federal transfers. It is important to note that the impact of maturing federal agreements is not always negative. The impact varies by program. In particular, the 1978–85 unilateral federal program involved a subsidy formula where total annual subsidy was less than the annual mortgage payments so at expiry, the project is in a better cash flow position (because the larger mortgage payments have also ended and more than offset reduced subsidy).

Within the 1978–85 portfolios however, MNP projects were eligible for matching provincial subsidy, which increased the number of RGI units. In these cases, if the RGI level is high (above 70%) it is likely that their annual subsidy may exceed the mortgage payment and will require the matching subsidy (now funded directly by the SM) to continue.

Impacts of municipal subsidy obligations

Another important impact is that many Service Managers benefitted from "excess federal subsidy". The federal transfer payments were premised on 1995/96 subsidy levels. When mortgages renewed at lower rates the subsidy requirements declined and this created a windfall gain for the SM. Service Managers have allocated these savings either directly into current expenditure (reducing their own direct contribution to ongoing operating subsidy) or into a social housing reserve (used to fund special initiatives such housing allowances and new development).

This excess federal inflow has reduced the net Service Manager expenditure. So when the federal transfers decline, the most significant fiscal impact will be on the Service Manager. They will no longer receive funds to lower their net ongoing subsidy cost or to fund special initiatives, and accordingly locally generated (tax levy) sources will be required to offset this loss.

In order to put the declining levels of federal subsidy into context data from the Canada-Ontario Social Housing Agreement (SHA) provides a schedule of subsidy payments. This provides a source to determine annual declines at the provincial level, by program. The array of programs can also be identified by the degree of targeting:

- Those with high proportions of deeply targeted RGI units will face the greatest challenge for Service Managers. This includes Public Housing, together with Urban Native and RNH units;
- Expiring federal rent supplements may also create a fiscal challenge, as there is no directly associated maturing mortgage payment. However, many of these were stacked on Sec 26/27 programs where there are expiring loans and no ongoing subsidy so the ending federal rent supplements may be partly offset by more viable underlying projects;
- Some programs had a low ratio of targeting and a subsidy formula as noted above that creates a positive net income effect at expiry (Pre 1986 Sec 95);
- Another portion of units were only partially targeted and generally at shallower levels (Post 1986 FP), and this set of projects do not begin to see any expiry effect until after 2021.

These groups are reflected in the table below (Ontario Total Numbers).

The total federal transfers to Ontario Service Managers in 2020 are in the order of $254M (this is less that the total federal transfer to Ontario because the total includes a portion of debenture payments that are used to retire debt so are not passed on to Service Managers). The aggregate transfer to the six GTHA Service Managers in 2020 is $133M. As as a general proxy the GTHA impact (after adjusting for debentures) is just over half of the province wide total.

Scheduled decline in federal subsidy as agreements end and associated annual units leaving subsidy in Ontario							
Fully targeted, high % RGI					Partial targeted	No targeting		Total Federal
	Rent	Public	Urban	RNH	Post 85	Sec.95	Sec.	Transfer
$ Millions	Sups	Housing	Native		Fed/Prov	(former 56.1)	26/27/61	
2016–17	31.1	167.6	21.4	4.6	154.1	64.8	0.1	443.7
2017–18	29.5	160.4	21.1	2.2	154.1	51.4	0.1	418.8
2018–19	27.9	152.3	20.9	1.1	154.1	37.3	0.1	393.7
2019–20	25.3	140.5	20.3	0.4	154.1	25.2	0.1	365.9
2020–21	23.4	126.3	19.0	0.1	154.1	16.0	0.1	339.0
Units expiring in each year								
2016–17	221	3,539	15	419	0	4,567	407	9,168
2017–18	923	2,385	35	202	0	5,630	666	9,841
2018–19	680	5,793	14	134	0	4,893	931	12,445
2019–20	1,323	8,181	77	75	0	4,432	913	15,001
2020–21	593	7,894	199	35	0	3,868	352	12,941

The two larger segments, the fully targeted programs and the partially targeted, will see annual subsidy fall over 5 years by $56M and $49M respectively (total of $105M). If half of this is in the six GTHA service areas, the overall impact will be in the order of a $50M annual reduction by 2021. On average, provincially, this will impact appropriately 12,000 units per year (and just over half this number in the GTHA).

In order to sustain RGI affordability in targeted portfolios this will mean these six Service Managers will need to offset any net reduction (i.e. after taking into account concurrent end of mortgage payments). This impact should for most Service Managers be manageable, especially since from 2016–18 the majority of expiries are in the pre 1985 Sec 95 portfolio where there is no negative effects (since the mortgage payments are larger than the subsidy and both end together).

Supporting and Reinforcing Policy Measures

At the federal level the 2016 budget did not fundamentally change the policy context for affordable housing, however, it did enhance funding levels and also added some new funding envelopes that are indicative of policy directions in which the federal government may expand further, depending on the outcomes of the national housing strategy consultation process.

Most notable this included a new financing role (initially targeting "affordable rental" although this remains to defined), as well as some funding to stimulate innovation and potentially some transformation in the operations and approach to delivering affordable housing.

While the IAH envelope enables provinces and territories to develop and implement renovation and rehabilitation, housing allowances and assisted homeownership, the other federal funding areas remain more focused on rental and on creating new units.

Ontario long term affordable housing strategy (Update 2016)

In addition to the aforementioned budget increases, the province has also created an updated policy framework to provide additional tools to local municipalities and service managers. This includes:

- Developing a framework for a portable housing benefit (as one step in disentangling the provision of social programs from physical assets);
- Simplifying the RGI calculations and system;
- Modernizing and potentially reforming traditional social housing programs;
- Transforming the supportive housing system;
- Supporting better market housing outcomes through planning measures such as inclusionary housing.

These policy changes should create some administrative efficiencies as well as enhancing outcomes. Elements such as inclusionary zoning will have a small positive impact by lowering land costs on included units.

In announcing a suite of policy changes as part of a broader strategy separate from the budget, the province has gone beyond the federal government in signalling its desired policy objectives and outcomes.

In some respects the provincial LTAHs is more far reaching than the initial Federal policy directions, although this may change one deliberations on the NHS are completed and CMHC has sought cabinet and Budget approval for any additional directions as part of framing a comprehensive long term strategy.

The important feature of these policy changes and enhancements is that they help to reinforce and potentially expand the impact and reach of the separate, albeit related, budget measures. For example, changes to the RGI subsidy mechanism might improve rental revenue and leverage of providers; modernizing existing social housing might then create authority to use reformed and increased rent revenues in leveraging existing assets. And with new tools such as inclusionary zoning new partnerships to redevelop and intensify existing sites might add to the number of new affordable and market units created.

Evolving Capacity and Maturing at Municipal Level

Ontario and GTHA municipalities became more engaged in housing as a result of the realignment of responsibilities in 1998, and the subsequent Social Housing Reform Act (2000; replaced with the Housing Services Act 2011).

Among other things this shifted both administrative responsibility and ongoing subsidy obligations to the local level. Prior to that time, while many municipalities had subsidiary non-profit housing corporations to build and operate social housing and were involved in planning related activities, many had quite limited involvement and understanding of social housing programs and administration. They had few if any staff with background and capacity in this area and at the time of devolution (2001) had to embark on a steep learning curve.

Consequently there was initially a preoccupation with managing and administering subsidy on the existing social housing portfolios. There was little time or capacity to venture into new development or other new activities. And at that time there was also minimal funding to support new initiatives.

Concurrently following eight years without any federal (or provincial) funding for new activity new development expertise and capacity in the non-profit housing sector had also dissipated.

Federal re-engagement, first under the National Homeless Initiative (now known as the HPS) in 1999 and subsequently the Affordable Housing Initiative (now IAH) in 2001 created a small impetus for new activity.

In retrospect, the relatively low levels of funding under NHI and AHI (which, once allocated to each Service Manager were quite modest) was appropriate. Lacking expertise and capacity, and the community sector municipalities would have been overwhelmed and many would have had difficulty delivering new initiatives. The initial modest level of funding allowed municipal staff to develop local procurement practices and expertise and initiate some new activity.

In the area of homelessness, there was a requirement to develop system wide coordination and plan and help municipalities (and provincial funding ministries) streamline multiple funding sources and to more efficiently direct activities and programming.

A more purposeful and coordinated approach was further reinforced through the enactment of a provincial housing Strategy, the Long Term Affordable Housing Strategy (LTAHS) in 2010, which required all municipal service managers to develop and implement local housing and homeless plans. This planning framework facilitated a careful analysis and assessment of need as a basis for designing locally tailored program responses. Increasing flexibility of program agreements and guidelines at both the federal and provincial level further enabled customizing approaches to better fit local challenges. The earlier focus on rental supply evolved to embrace a broader range of options, including rental allowances, assisted ownership and housing rehabilitation and adaptation programming.

As the assets now under their administration aged, municipal service managers have had to take on new roles in asset management – assessing the physical condition and facilitating capital planning and asset renewal. Many Service Managers have consequently added staff expertise in asset management and development.

Now, some fifteen years after devolution to the local level, municipalities have matured and have more experienced and capable staff expertise. There is both a capacity and a readiness to build on the past decade and to take on new initiatives.

Expanding roles and outcomes

The maturing of local capacity creates a timely opportunity to collaborate with both the provincial and federal levels in expanding responses to housing affordability and homelessness challenges. Moreover, the expertise and capacity is now in place to ramp up levels of activity and to deliver the increased funding such as provided through the 2016 provincial and federal budgets.

All regional Service Managers have adopted comprehensive housing and homeless plans that set objectives and performance targets. Some, for example Halton and York, are more modest in scope, setting targets to align with the levels of funding that these jurisdictions believed was likely; others, such as Toronto and Hamilton, were more aspirational. They identified the magnitude of need and set targets with a view to significantly address levels of outstanding need, while advocating to the province and federal government for additional resources (especially in the area of asset renewal and replacement, in the case of TCHCs capital plan).

In all cases, and again following the provincial funding framework, each Region/City has developed targets at an overall level relating to total new "affordable housing opportunities" and by program area. These generally include three capital programs: rental supply, assisted ownership, renovation assistance and a program of ongoing rental assistance (various forms of rent supplement or housing allowance).

While all draw on funding under IAH and now on the new Social Infrastructure Funds, in all regions the federal-provincial allocations are augmented by each Region's own local tax levy funds. Most have also adopted a practice of waiving development fees and charges for developments providing affordable housing.

Reflecting the nature of housing need (predominantly affordability issues, as discussed earlier) most municipalities have targeted their funding allocation more heavily toward rental assistance and housing allowances. This results in more households served per dollar of expenditure. However unlike capital expenditures (new build and renovation), these are ongoing expenditures (i.e. operating dollars) and may present a challenge for municipalities to sustain over the long term.

All have also identified new rental development at affordable rents as a key area of activity, but this consumes a large share of funding for a small number of new units. With plans implemented in 2014, there are now two years of reporting against the targets and activities. These reveal that all Regions and the City are having a positive impact in removing households from need as well as streamlining and enhancing delivery of homeless support services. These outcomes are presented and discussed later within the discussion of alternative futures.

Ongoing Innovations at the Local Level

A valuable reflection of the increasing capacity and expertise at the local level is the array of innovation and customization of delivery approaches across the GTHA (and more broadly across municipalities). Potentially these can be expanded and built upon with increased levels of funding and policy support.

Through comprehensive planning, localities have more carefully examined the nature and degree of homeless and housing need and, to the degree that provincial regulations and funding mechanisms permit, have implemented systemic reforms as well as designed new approaches.

Some brief examples:

- York Region has designed and implemented a housing stability homeless prevention initiative Short Term Assistance for Renters (STAR) that provides up to 24 months of rental assistance together with 30 months of access to wrap around supports for families at risk of loosing their home.
- Toronto through TCHC has pioneered public/social housing site redevelopment drawing on historic property assets in valuable land locations using a mixed income –mixed tenure model to redevelop and intensify older public housing sites. This is modernizing and updating aging stock as well as adding new housing supply while retaining affordability for tenants. This has including creatively recycling existing RGI subsidies to leverage financing.
- Halton Region have designed a new housing allowance program targeting households on the social housing waiting list that are adequately housed, but simply experience an affordability challenge (Halton In-situ Program, HIP). This includes administering the allowance through the tax system in partnership with the Ontario Ministry of Finance.
- Both in Peel and Halton, the municipality has invested in both existing (Peel) and new build (Halton) condominiums as a way to acquire new affordable rental stock. This is cost effective compared to developing affordable projects, can generate units more quickly (versus a 2–3 year development process) and is building productive partnerships with builders to create inclusive communities. In some respects it represents the form of outcome that might be pursued under proposed inclusionary zoning mechanisms (although driven by sound business decisions rather than simply planning rules). The units are owned and operated by municipal or community non-profits.
- Hamilton has been delivering an assisted ownership program under which if a purchaser breaks the agreement the City recaptures the original grant plus a share of appreciation; this recovery is then recycled back into new down payment assistance.

- Hamilton is encouraging proponents of new affordable housing to include Community Hubs in new developments. They allocate extra points in evaluating proposals that propose to include integration of support hubs in new development to reinforce better health and employment outcomes for tenants and for the broader community.
- The City of Toronto has adopted an Open Door Program to facilitate affordable housing development. Under this initiative all projects can receive a full range of City financial and funding incentives—from waived development charges, waived property taxes for the term of affordability, and most often municipal and federal/provincial capital funding.
- A further supporting element of Toronto's Open Door Program is the use of surplus municipal properties in a variety of ways to create affordable rental and ownership housing. In some instances, the City has retained the asset and in other instances land sales have been involved. In one example the City has made serviced land available at no cost to a developer who will build and operate affordable rental housing under a 50-year lease. At the end of the lease the land and building are owned by the City. On another rental site, where there was no land use planning obligation, the City sold the site in return for a guarantee of 50 years of affordable housing. The partnership agreement was secured as part of the land sale process with the City and Build Toronto providing affordable housing funding to bridge the gap between the price of what the market will deliver and an affordable rent level.

Gaps and Misalignment

While there has been a maturing of expertise, which has led to some experimentation in program approaches, and some increase in funding levels, there remain some barriers and challenges to overcome.

These include funding parameters that impose unrealistic time frames (e.g. “shovel ready”, which can lead to poor and inefficient spending decisions) as well as impediments caused by segmented or siloed programming, including when separate streams of funding are not effectively coordinated (e.g. CHPI and HPS).

Tight time frames and programmatic restrictions

As municipalities update their plans for the current year, all have identified opportunities to increase output, drawing on the increase in federal and provincial funding. At the same time all also note that tight deadlines to deliver imposes significant pressures on their delivery systems. This has been a particular challenge for the social housing retrofit funding, which is almost all allocated to 2016/17 and must be committed this year.

Municipal officials express concern that **with tight deadlines they have been forced into spending decisions that may not be optimal. The focus is on spending, rather than on careful strategic investment**. Certain projects are selected simply because they are shovel ready, but may not always coincide with local priorities.

One Region has established a social housing reserve and uses this to sustain a pipeline of projects, so in that case it was easier to substitute SIF funding and cycle Regional funds to the next round of investment. However without such reserves, or sufficient reserve, municipalities are less able to plan and adapt to short term funding infusions. As municipalities and housing providers have highlighted for many years, a more effective system requires greater certainty and predictability to facilitate sound investment.

While significant improvements have been made under both bilateral funding agreements and provincial funding mechanisms to localities in terms of increased flexibilities of funding streams, **there remains a degree of siloed program funding or restrictions on stacking certain types of funding** which still negate or preclude sound thoughtful investment at the local level. For example some programs such as affordable ownership down payment assistance might be delivered as a deferred or shared appreciation mortgage (SAM) loan, so that funds can be recaptured and recycled through the affordable housing system, but municipalities may be required to allocate funds on a grant basis only.

Inefficient reporting and administrative details

Programmatic funding vehicles also dictate program specific reporting, usually from the perspective of financial accountability, and less based on outcomes achieved.

Increasingly resources are co-mingled and the outcomes are not necessarily attributable to a single program. For example, HPS funding from the federal level is combined with provincial CHPI funds and also some locally generated Regional funds to create new affordable units, or rental assistance. Funding under HPS is one-tenth that of CHPI but the reporting details for HPS are ten times greater.

Another administrative irritant that has emerged under the new Ontario Renovates program is the requirement to register a mortgage for renovation loans (over a certain amount) rather than simply use a promissory note. This adds complexity and legal expenses to a loan that is forgivable anyway (so effectively a grant).
With funding flowing from differing orders of government, and delivery increasingly on an aggregation and partnership basis, reporting and attributing outcomes becomes challenging and could be streamlined and simplified.

Separate funding conduits in some program areas remain uncoordinated

This is especially an issue in the homeless area where federal funds flow to local "community entities" while provincial CHPI funds flow to service managers (again comprehensive local housing and homeless plans help to knit these back together, but with separate and varying rules and reporting across funders). The separation of federal funding streams between separate agencies (homeless secretariat in SEDC and CMHC) also add to inconsistency and excess reporting (especially with the federal focus now on creating housing options under a housing first model).

Fund plans not programs

One of the important aspects in the evolution of expertise and practice over the past 15 years is a greater degree of responsibility and accountability, reinforced by purposeful comprehensive planning and subsequent reporting against planned outcomes.

This should facilitate continued flexibility and reduced need for detailed program regulation and guidelines. Provided the core principles, funding conditions and outcomes are pre-determined it should be possible to evolve the funding framework from programmatic funding to broader block funding allocated against approved plans. While some financial accountability reporting is still required, this could be streamlined and greater emphasis given to outcome measurement.

Overlap and inefficiencies between housing and income assistance

One of the greatest areas of misalignment is the overlap of RGI social housing and income assistance (when beneficiary lives in social housing). This creates unfair and inefficient subsidy expenditure as well as imposing and sustaining negative outcomes in relation to subsidy dependency and work disincentives.

Much has been written including submissions to the LTAHS consultation about the RGI system, which is de facto a form of income assistance (it seeks to limit amount spent on housing the leave room for everything else).

In particular social housing minimum rents charged to OW/ODSP beneficiaries contribute to non-viable social housing (because these generate insufficient rent revenues to sustain operations and capital renewal), effectively transfer the subsidy from the welfare system (province) to social housing (municipality), and exacerbate disincentives to work. Moreover, with a minimal rent, a beneficiary sees a large jump in rent when moving to earnings based RGI. If their rent is set at the maximum shelter component, as specified in federal rent scale (schedule to operating agreements), they would see a decrease in rent and thus a benefit from work.

This would also realign subsidy expenditure removing income assistance from municipal tax base and placing on provincial tax base (where an income redistribution program is intended to be located).

Considering Prospects for the Future

The recent funding and policy announcements and promises of more to come under a NHS provide opportunities to expand activities and outcomes as well as to expand and reform operating practices with a focus on improved system wide outcomes. Policy initiatives such as inclusionary by-laws stretch subsidy funds further (i.e. inclusion enables units with no land cost).

To help stakeholders think about how future opportunities might evolve, three scenarios are outlined, premised on three levels of resourcing:

4. More of the same, a continuation of the level of resourcing funding under IAH/HPS and associated provincial programs from 2011–14, with no new policy flexibility or reform;
5. An enhanced level of funding as contained in the respective 2016 federal and provincial budgets, and some minimal policy change or reform;
6. Substantially increased level of funding supporting fundamental policy reform.

Developing the alternative scenarios

In order to develop illustrative scenarios, funding levels and outputs under the 2011–14 funding framework are used as the base case. Funding levels are based on the planned and announced notional allocations for 2016/17, 17/18.

Outputs (number of units and/or households assisted under each are based on the province wide reported outcomes publish by the Ministry (on a province wide basis). For the purpose of developing scenarios here outputs for the GTHA are based on population share. It is assumed that the GTHA contributed to 60% of the outcomes.

In each case, for ease of presentation, the aggregate expenditure level and aggregate outcome across the GTHA is presented (rather than develop separately for each Region or Service Area)

The scenarios include the following funding vehicles:

- Investments in Affordable Housing (IAH);
- Investments in Affordable Housing (SIF–IAH), reflecting 2016 enhancements to IAH;
- Social Housing Improvement Program (SIF–SHIP);
- RGI Replace Fund (protection for tenants impacted by federal expiring subsidy);
- Homeless Partnership Strategy (HPS);
- Community Homeless Prevention Initiative (CHPI);

- The scheduled reduction in federal subsidy for existing social housing (Federal EOA, as scheduled and announced in Ontario Gazette through 2018 with estimates developed based of known federal aggregate reductions to Ontario 2019–2021).

They also consider the assumed benefits of effects of provincial policy enhancements including additional units facilitated by inclusionary policies and additional leverage via RGI reform or stacked housing benefits, as well as potential impacts of lower cost financing under the federal Affordable Rental Financing Initiative and approaches generated under the Innovation Fund.

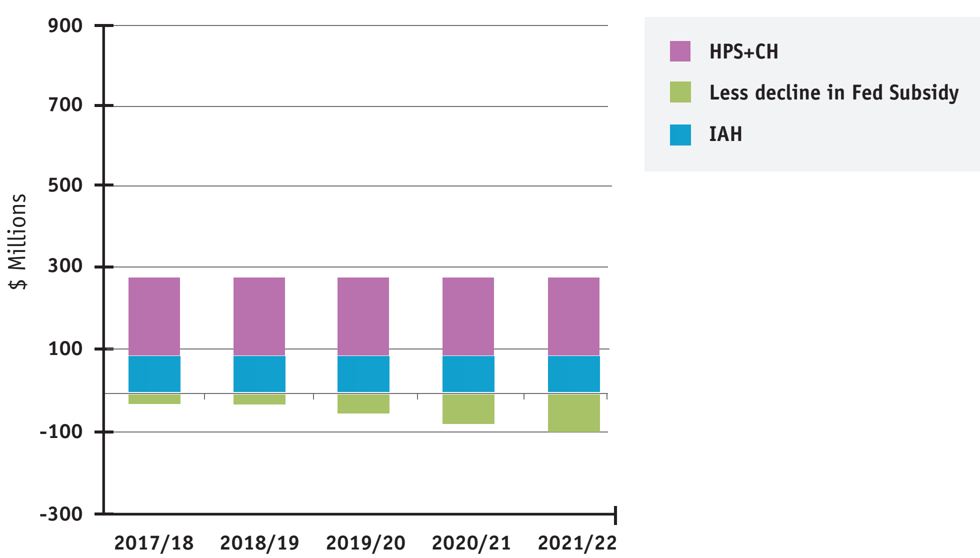
The purpose of these scenarios is not to be definitive in the level of outputs and outcomes that will result, but rather to be indicative of the potential if funding levels and policy changes materialized as suggested.

The following charts first present the potential levels of funding under each scenario and generally reflect known funding levels for scenario 1 and 2, and for the third assume some increased funding levels under the proposed NHS. While scenario two and three include some assumed impacts from policy reform (e.g. IZ, modernization of social housing subsidy system, and a new Housing Benefit) this is not quantified in expenditures, but is included in outcomes (at an assumed estimate, which is quite modest).

Scenario 1

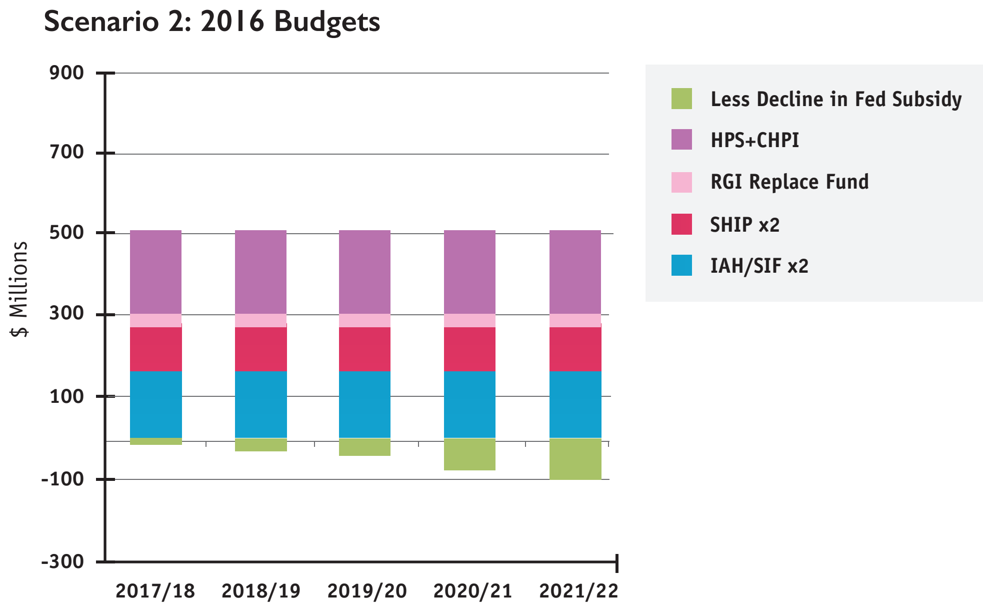
Reflects the base levels of funding under the IAH (both federal and provincial matching), HPS plus CHPI funds and the effect of declining federal subsidy under EOA.

Scenario 1: 2014 Status Quo



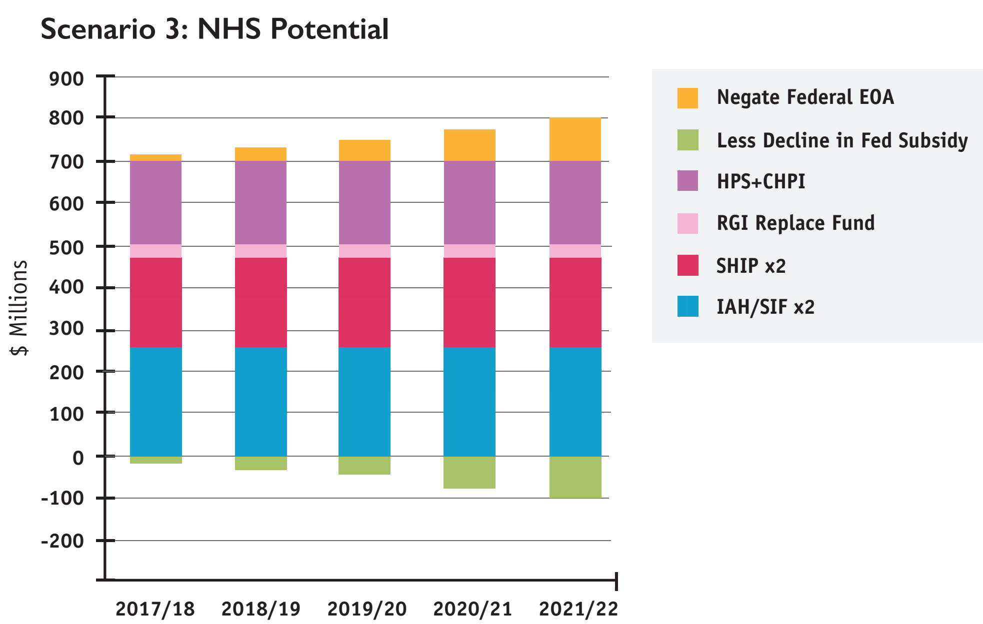
Scenario 2

Includes the same base levels as the status quo, but adds the enhanced level of funding as contained in the respective 2016 federal and provincial budgets, and some minimal policy change or reform.



Scenario 3

Assumes a substantially increased level of funding mainly via an extension and increase in retrofit funding (SHIP), doubling the IAH/SIF funding and reinvesting savings from incremental decline in federal subsidy (i.e. neutralize this impact). It also assumes slightly larger impacts from policy reform compared to those in scenario 2.



Combining all types of expenditure in each scenario and projecting this out over the next five years suggests three possible aggregate funding levels (Exhibit 9). In scenario 1 and 2 the aggregate funding declines as a result of declining federal subsidy under the existing Social Housing Agreement – so called expiring operating agreements. Federal. Under scenario 3 there is no decline as it is assumed that the federal decline is fully offset by reinvestments into the system (although how these funds are reinvested is not specified).

Alternate Futures for Affordable Housing

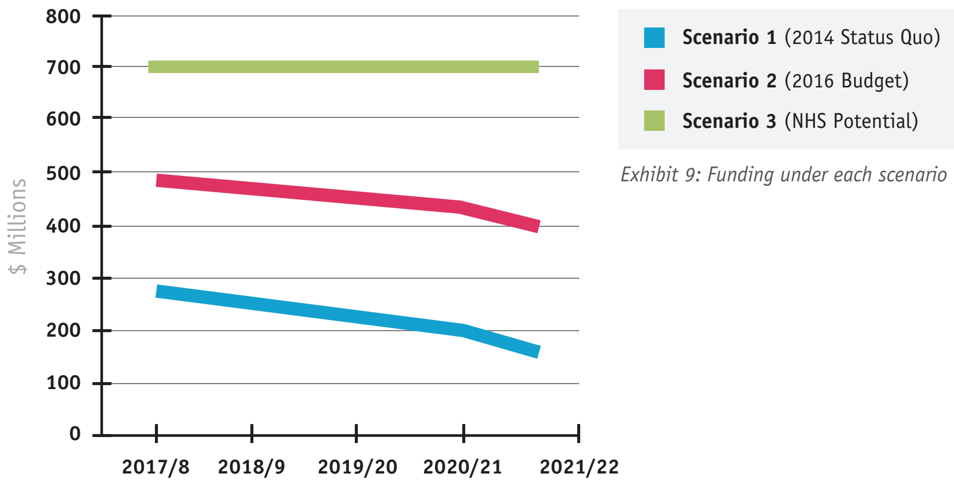


Exhibit 9: Funding under each scenario

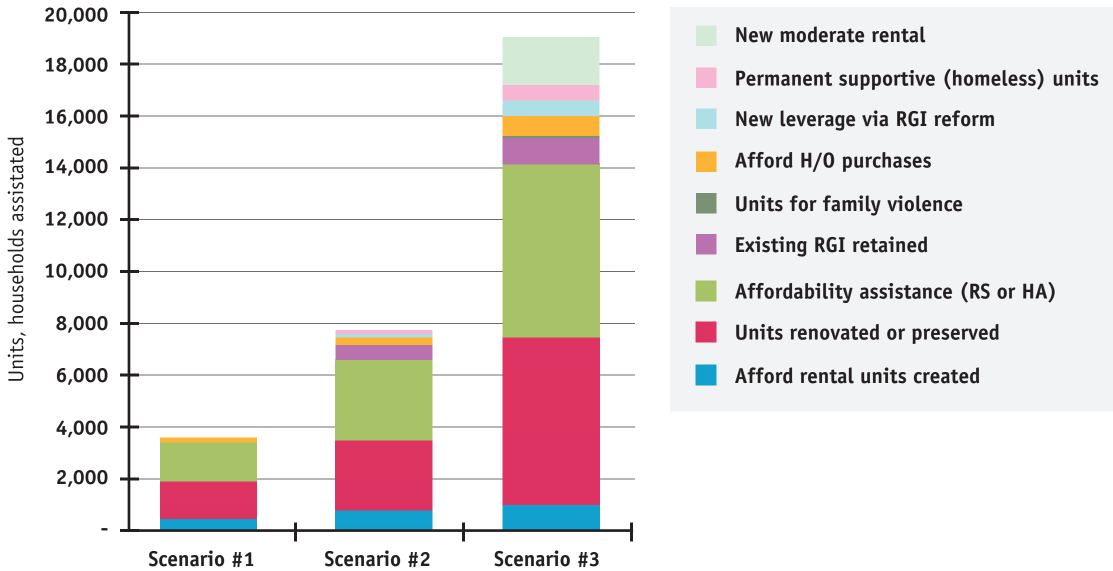
Aggregate spending across the six GTHA regions in the status quo scenario for 2017/18 approximates $255M; this is almost doubled in scenario 2 (to $486M) and tripled in scenario 3. The relative impact of scenario 3 is larger as the timeframe moves out to 2022, due to stabilized versus declining expenditure trajectory. As discussed below, the more important aspect of the scenario is the outcomes that these respective levels of funding generate.

Potential outcomes

In estimating how these three funding levels together with the reinforcing and augmenting policy support frameworks might create improved affordable housing outcomes, it is assumed that the mix of outcomes remains consistent with the status quo. That is the distribution between creating new supply, renovating or improving conditions and providing rental assistance remains similar.

The outcomes improve dramatically across the three scenarios. In particular, under scenario 3 (Exhibit 10), while the funding was increased by just under three times the base level, the outputs are a magnitude of five times the base case (3,500 vs. 19,000 households assisted). In part this reflects the increased funding for renovation and housing allowances.

Annual Average Outcomes Under 3 Alternative Futures



But importantly, it also serves to illustrate how more thoughtful integrated use of funding and policy tools can effectively create synergies that generate a greater outcome than when funding programs are used independently. Such synergies can best be achieved at the front line—when delivering programs at the local level.

This of course is conditional on creating appropriate rules and flexibilities in the funding mechanisms to enable local creativity and adaption, while respecting basic principles of public accountability for the use of the subsidy funds.

Conclusion

While market conditions and persisting high levels of need present a range of challenges to officials the municipalities across the GTHA are well positioned to respond.

Over the past fifteen years they have gradually developed the internal expertise, capacity and sophistication to both manage ongoing housing system responsibilities as well as to invest in and help improve and optimize system outcomes.

Through comprehensive and purposeful planning and partnering activities the officials have a solid grasp on the common as well as unique challenges and opportunities in their respective jurisdiction.

They are in a high state of readiness to take on increasing responsibilities and to deliver the increased levels of funding that the federal government has signalled it is prepared to provide.

Due to its scale and the backlog of need, addressing the affordable housing challenge remains a formidable task, and can only be pursued through strong inter-governmental, community and private sector partnerships.

Some small barriers and irritants remain (most notable inconsistent and conflicting policies and short term funding windows) but these are readily identified and can be effectively addressed and removed.

A new national housing strategy, together with a commitment to predictable, sustainable and flexible funding can be a timely and effective way to complement the strategies and funding now in place at the local and provincial level.

The three alternative future scenarios illustrate that significant progress can be made. With only modest increases in funding, outcomes can be expanded to five or six times the level achieved in recent years. The goal of ending long-term chronic homelessness and rapidly responding to ongoing emergences that place individuals and families at risk is achievable. As a nation and as communities we have the expertise and the will to do this. In budget 2016 the federal government announced that was making an initial investment to kick start this process and would over the coming year consult on a longer term investment plan. The province has reinforced these steps in its budget and in refreshing its own long-term affordable housing strategy. These allocations include $418 million in social and affordable housing investments, some $193 million to respond to the homelessness crisis within the GTHA from 2016 to 2018.

In 1989 an international housing finance expert asserted that Canada had the best social housing finance system in the world. Over the following two decades Canada lost this reputation. With strong federal leadership, it is now poised to earn back this reputation.