Is Emperor Nero Fiddling as Rome Burns? Assessing Risk when Federal Subsidies End

A brief prepared for:

The Federation of Canadian Municipalities (FCM), and the Canadian Housing and Renewal Association (CHRA)

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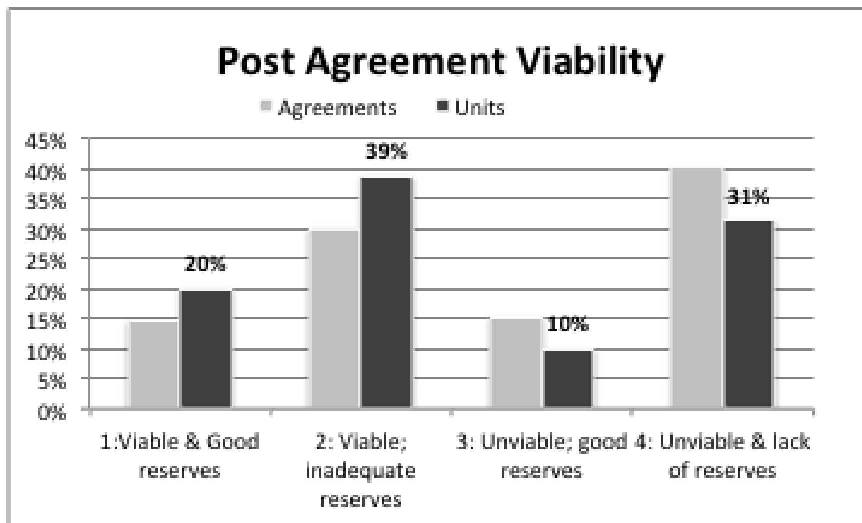
Summary

This research brief reviews the evolving status and implications of expiring federal social housing subsidies with a view to assessing the risk that units will be lost from service when federal subsidies expire.

A sample of over 200 agreements, covering some 8,600 units was examined. This is not a random sample and accordingly is not statistically representative. **Indeed the sample was selected to focus on portfolios that previous research suggested would be at greatest risk.**

The analysis found that **80% of this sample of units (85% of agreements) will be unviable** when federal subsidies terminate at mortgage maturity. The level of operating subsidy required will decline, but some ongoing funding will be still be critical to enable these social housing assets to continue to assist low income households.



In addition there is considerable uncertainty (and lack of sound information) on the adequacy of capital reserves and ability of providers to maintain assets. **Three-quarters of the sample are projected to have insufficient capital funding to sustain assets in good habitable condition beyond expiry.**

Existing social housing **will be viable only if provinces/territories (or municipalities in Ontario) sustain the provincial/municipal share of funding** currently flowing to these agreements.[1]

Even with continuing prov/terr/municipal operating support there will be insufficient funding to undertake necessary capital replacement and modernization.

To date the federal government has not indicated whether CMHC will sustain funding on those properties that were unilaterally federally funded. This includes an estimated 120,000 social housing units, including 35,000 in jurisdictions that have not signed a Social Housing Agreement transfer administration to the province/territory.

The unilateral federally funded properties include some 10,000 urban native units, most of which are unviable and will almost certainly be lost or diminished without extended operating support.

[1] Ontario is a unique situation because funding responsibility for the former provincial share of subsidy has been transferred to municipalities and specific legislation has replaced operating agreements governs the obligations of both the municipalities (as funders) and of providers.

In the absence of extended public subsidy, social housing providers will be forced to develop remedies that will include a shift in tenant selection to preclude lowest income households, so that rental revenues are increased to viable levels. They will also (and some have already done so) sell some assets to generate capital funds for modernization, similarly resulting in fewer units in service.

The analysis reveals that, where required, subsidy requirements will be quite modest, generally less than $200/units/month. As such extending subsidy to preserve these assets is far more cost effective than building replacement affordable units at current costs.

The analysis also notes that in addition to viability and reserve adequacy, a third category of risk is that providers may cease to maintain their mission (providing affordable housing to those in need), thereby wasting decades of public investment. Extended operating funding or a capital retrofit program can be effective ways to retain ongoing provider obligations and minimize this risk.

As a result of expiring federal agreements and subsidy, federal expenditures will substantially decline from roughly $1.7 billion in 2010 to under $1.2 billion by 2020, a growing reduction in federal annual expenditure reaching $500 million by 2020.

Drawing on this expenditure room, a federally funded capital replacement program combined with energy retrofit would complement ongoing provincial/territorial operating funding, sustaining the partnership and joint responsibility for social housing as established in the FPT housing ministers statement of principles (White Point 2009).

Based on this analysis, it appears that in the absence of ongoing operating subsidy and additional commitments to capital upgrading as much as one-third (200,000) social housing dwellings are potentially at risk.

Legend tells us of how Nero played his violin during the burning of Rome. We must learn the lessons of Nero and not watch idly while the foundations of Canada's social housing system are reduced to ashes. “

Introduction

This research brief reviews the evolving status and implications of expiring federal social housing subsidies. The brief first explains the issue of expiring subsidy and reviews previous research work on this issue. It then presents new case study data as the basis from which to assess the potential risk that existing social housing assets may be lost from service as a result of maturing subsidy agreements.

Historically in Canada, public and social housing was developed with financial assistance from either the federal government alone or more frequently under cost sharing arrangements between the federal and provincial/territorial housing departments (and in some cases with unilateral provincial funding, although such cases are not included here).

Social housing was facilitated through direct financing from the federal government or from CMHC insured mortgages, typically covering 100% of capital cost. Social housing dwellings are rented to low income households that in most cases pay rents based on 30% of income, which typically results in low rent revenues, insufficient to cover ongoing operating expenses and mortgage payments. Ongoing operating subsidy was then provided to ensure that properties could operate on a break-even basis.

The majority of this operating subsidy is related to servicing debt. Operating agreements that set out the conditions for subsidy were written to coincide with the amortization of the mortgage. It was assumed that, once the debt was retired, properties would generate sufficient rental revenues to cover ongoing operating costs. Generally the matched operating agreements and mortgage amortization periods were 35-50 years, although in some circumstances (such as acquisition of existing assets with shorter lifespan) shorter duration of 25 years was also used.

The agreements originated with the early development of public housing (through master agreements with provinces/territories) in the 1950's and extended through 1994 (at project level for non-profit and co-ops). A number of operating agreements and thus subsidy flows have already begun to expire with a peak in expiry occurring over the decade (2014-2024).

As noted, in these subsidy arrangements, there was an implicit assumption that, upon expiry, rental revenues would be sufficient to cover operating costs and create capacity to finance capital replacement and modernization. Over time, as social housing has been targeted to those most in need, revenues have stayed low, while operating costs have risen. As a consequence, the expectation of post agreement viability is called into question. This outcome places such properties at risk.

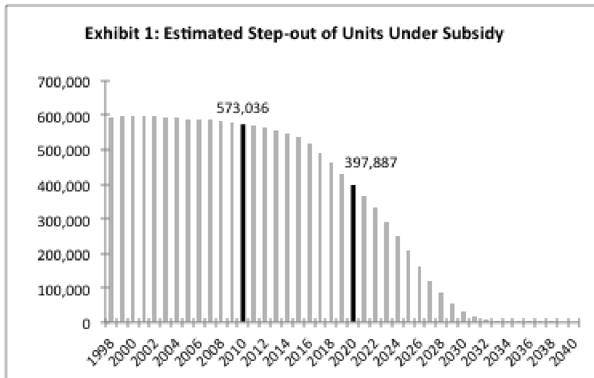
In the worst-case scenario, a property that is unable to break-even and has no source of ongoing financial-subsidy support will be bankrupt and may cease to operate. The stock of social housing available to help low-income individuals, families and seniors will potentially contract.

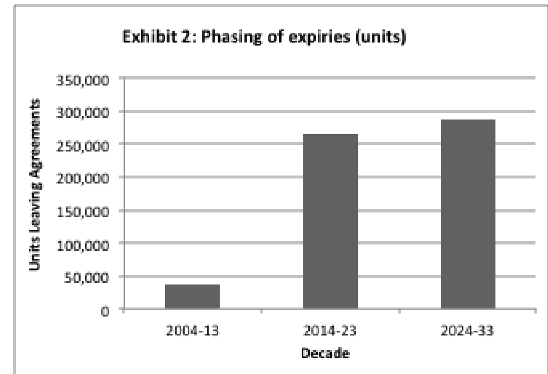
This report seeks to develop a risk assessment framework to help quantify the levels of risk as a way to alert and assist both social housing providers and funders to this potential risk with a view to mitigating such risk and preserving the important resource of social housing created with historic funding.

Previous Research

A number of studies have examined the issue of expiring federal subsidy including a 2003 analysis by Connolly Consulting (*Expiry of Operating Agreements* (CHRA 2003) and *Was Chicken Little Right: Case Studies on the Impact of Expiring Social Housing Operating Agreements* (2006) by a study team lead by the current author.

The 2003 work examined the original commitment data and schedules appended to federal-provincial Social Housing Agreements (which transferred administrative responsibility to the provinces and territories in all but 3 provinces and territories – Alberta, Quebec and PEI) in order to determine the timing of expiring federal subsidy. As illustrated in Exhibit 1 and 2 below, up to now, the number of expiring agreements has been small but the period when expiries will accelerate is just commencing. [2]





By the end of 2010 fewer than 15,000 units had reached expiry, and federal annual subsidy expenditure has declined by only $75 million compared to 1996 expenditure levels.[3] Over the next decade 2010 to 2020, a further 175,000 units will reach the end of agreements. Federal expenditure will decline annually, reaching a reduction of over $500 million in 2020, compared to 2010.

These charts reveal only the expiry of federal subsidy. In many programs subsidies are cost shared with provinces and territories. As a result of administrative transfer agreements, in all but 3 jurisdictions the province/territory is the active party at time of expiry and the provinces will need to continue spending their share in order to sustain these portfolios (in Ontario the provincial share is paid by municipalities).

The second report cited above (*Was Chicken Little Right*) sought to examine how the post expiry viability of existing properties. This was based on a cross section of case studies across all portfolios and from 5 provinces with a total of 81 operating agreements reviewed. Portfolios identified in the earlier research as being in greatest risk were targeted in this sampling.

The report identified two key tests of post expiry viability:

- The first was an assessment of positive cash flow (net operating income) – do rental revenues cover all operating expenses? This means that the property is able to continue operating with its current rgi mix and remains viable.
- The second test qualifies the first and determined if the property is able to undertake necessary capital replacement to keep the property in good condition. This examined the level of retained reserves as well as ongoing allocations for capital replacement. The availability of funds to meet capital replacement was compared to a proxy benchmark to determine minimal adequacy.

Using these two tests, properties can be categorized into any one of four possible outcomes:

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[2] The schedule by units is an estimate. Data provided was only for the reduction in expenditure. The unit based phasing was estimated by applying total units per portfolio and province to generate average per unit subsidy, which is then used across the phasing of expenditure deductions. So the phasing of unit expiries is not precise.

[3] There is little evidence of actual loss of the units in agreements that have expired to date. It is believed that most have either been viable based on rental income, or are being sustained with ongoing unilateral provincial subsidy. That said there is some evidence of loss, for example in scattered urban native portfolios with insufficient capital repair, some properties have been sold and proceeds invested in upgrading remaining dwellings. A separate exploration of such cases is being undertaken by Keith Ward for SHSC/CHRA, and should shed more light on these outcomes.

1. Project is viable, can maintain current RGI market mix and is in sound physical condition;
2. Project generates a cash flow surplus, but asset is under-maintained and has insufficient capital reserves. May be possible to use surplus to leverage new financing for capital investment and necessary upgrades;
3. The project is not viable and cannot sustain the current RGI/market mix. Some adjustment is necessary either to increase market rents or shift profile and mix of RGI units so that RGI revenues are higher. Building is in good condition, which may help in attracting/improving market revenue.

4. The project is not viable, and without capital reserves necessary to undertake capital replacement. Careful assessment of current revenues, relative to market may provide some potential to increase viability. Project may have difficulty without some form of assistance and capital infusion. Project is at risk

Exhibit 3 summarizes these four outcomes and also allocates case study properties across the categories. Only one quarter of the sample (80 agreements) were found to be viable at expiry; a further one quarter were at risk and require some remedial actions to avoid difficulty and sustain their service level. Finally, almost half were found to be unviable and without necessary capital reserves to sustain sound conditions.

5.

Exhibit 3: Outcomes in 2006 Sample

(n = 81)	**Fully Funded Capital Reserve**	**Under-funded Capital Reserve**
Positive NOI	(1) Project is viable. 25% agreements with 30% units	(2) Cash flow surplus, but under-maintained. 13% agreements with 19% units
Negative NOI	(3) Not viable but good reserves. 14% agreements with 10% units	**(4)** Not viable, insufficient reserves 48% Agreements and 41% of units

This was not a statistically valid sample, it was selected solely as an illustrative set of cases and therefore the percentage in each group does not necessarily apply across the entire portfolio. Examining the results, however, provide insight into the characteristics of less viable projects and these tend to align with certain programs.

Of the 39 agreements falling into the unviable category 4 (highest risk), all but two have 100% rgi levels and three-quarters are either Urban Native or Public Housing. The remaining quarter is mainly post-1985 non-profit and were single project agreements. Such small providers lack economies of scale, access to shared reserves and tend to have less experienced or qualified property managers and boards.

Those most viable (low risk, cat 1) were pre-1986 non-profit and co-operative, which had both lower levels of rgi tenants as well as a subsidy design where the total subsidy was always less than the total mortgage (so as expiry of subsidy and maturity of mortgage, additional cash flow is available). And in case of sec 27 they had no ongoing subsidy (although some had stacked rent supplements, but result is similar, without mortgage payments they remain viable).

The category (2) and (3) properties (moderate risk) covered a cross section of programs, pre and post 1985/86 but especially non-profit. Again, many are single project agreements, such that there is little opportunity to cross subsidize across projects (e.g. some with good reserves but negative NOI and

those with solid NOI but insufficient reserves). Those in category 3 (good reserves but not viable) again tend to be mainly 100% rgi. Those in category 2 may be able to offset insufficient reserves buy using surplus cash flow to finance capital replacement.

Updating the risk assessment

The 2006 *Chicken Little* suggested the potentially one-third of existing social housing, impacting some 200,000 units might be "at risk" when federal subsidy ends. The current research was commissioned to help better understand the degree to which this large portion of social housing is at risk.

The greatest concern is that units might be lost, seriously eroding an already insufficient stock of low rent and rgi social housing. This volume at risk (i.e. estimated at over 200,000 in 2006) far exceeds the quantum of affordable housing being created under new affordable housing funding programs (roughly 40,000 units over a decade, and these tend to have much higher "affordable rents" than existing older more deeply targeted social housing.

Drawing on insights from the earlier work a new set of data was assembled with a focus on three particular portfolios identified as being at greatest risk: Urban Native, Public Housing and single project NP providers. Co-ops were also added as a variant of single project provider. Case studies have been undertaken as follows:

- Two Public housing portfolios – in Saskatoon and Kitchener-Waterloo
- Two Urban Native Portfolios – Ottawa and Saskatoon.
- All single project NP providers in BC (excluding those with care for frail elderly)
- All co-ops in London Ontario

These six cases are used to help refine degrees of risk and to determine if risk is manageable versus catastrophic (re units might be lost from the affordable housing stock).

In addition, interviews were conducted with provincial officials in regard to provincial owned/managed public housing portfolios.

These six portfolios cover over 200 operating agreements and almost 9,000 social housing units.

As before (2006) the key variables are operating expenses (excluding mortgage) and rental income from rgi and where applicable market and other. The analysis ignores actual subsidy and mortgage payments, because the focus in on the projected situation when both mortgage and federal subsidy have expired. Data was collected and some consideration was given to sufficiency of provincial (and in Ontario, municipal) subsidy in non-viable situations.

Assumptions Used in Analysis

Revenue and operating data for the most recent fiscal year (in most cases 2010) was assembled for each agreement. RGI revenues were projected with a 1% annual increase; market and other revenues at 2% p.a. Operating expenses were also projected to increase at 2% for remainder of agreement. Current replacement reserve allocations are assumed to remain constant (not inflated). This set of assumptions presumes that generally rental revenues of RGI households will lag increases in expenses. Thus over the remaining years of agreements, any negative gap between revenue and expenses will widen.

To test the impact of these different inflators a separate test was conducted to assess if the projects would be viable today (i.e. assume the mortgage payment and subsidy terminated this year). This

removes assumptions on inflators. On this basis 16% of the units would have switched from unviable to viable. These are projects that were not in deep deficit based on the projected NOI at expiry. The majority still lacks sufficient reserves (so would remain as category 2). Those that had sufficient capital reserves would result in only 5% of all units moving up to category 1 (viable and with reserves).

The same proxy measure was used to assess adequacy of capital reserves, as that used in the 2006 report. This assumes projects will have sufficient funds, from cumulative reserves plus ongoing allocations at current level, to invest on average $750 per unit in capital replacement for the remainder of the original agreement period. This is a proxy and relatively conservative estimate of capital need. It means that all capital funds will be fully depleted at expiry, although ongoing capital requirements will persist.[4] The proxy is irrelevant in the two public housing cases, as annual allocation were not used, modernization and improvement was managed through a centralized budget and expenses annually. The analysis ignores any existing capital replacement budget held by provincial (or in Ontario, municipal managers).

The analysis does not seek to calculate how much could be leveraged from positive NOI for purpose of capital replacement following expiry, although for those with positive NOI, this may be an option.

Results of Updated Case Studies

Using the four-quadrant matrix developed previously, the overall results of these six cases are presented in Exhibit 4. These results are slightly less favourable than the sample examined in 2006, although the current sample is more heavily weighted to single project non-profit providers and public housing (portfolios predicted to be more at risk).

Because the sample was not statistically representative and is deliberately selected to examine portfolios expected to be more at risk, caution should be exercised in extrapolating from this sample to the full universe of just over 600,000 units.

Overall, just over half of units but a minority (45%) of agreements have positive cash flow – although 60% of all units will face serious shortfall in capital replacement capacity. In this sample 80% of the units agreements are found to be "at risk" at least to some degree.

Exhibit 4: Outcomes in 2011 Sample

(n = 217 agree; 8646 units)	**Fully Funded Capital Reserve**	**Under-funded Capital Reserve**
Positive NOI	**(1)** Project is viable. 15% agreements with 20% units	**(2)** Cash flow surplus, but insufficient reserves 30% agreements with 39% units
Negative NOI	**(3)** Not viable but good reserves. 15% agreements with 10% units	**(4)** Not viable, insufficient reserves 40% Agreements and 31% of units

[4] See Pomeroy et al 2006 for more detailed discussion on deriving this proxy.

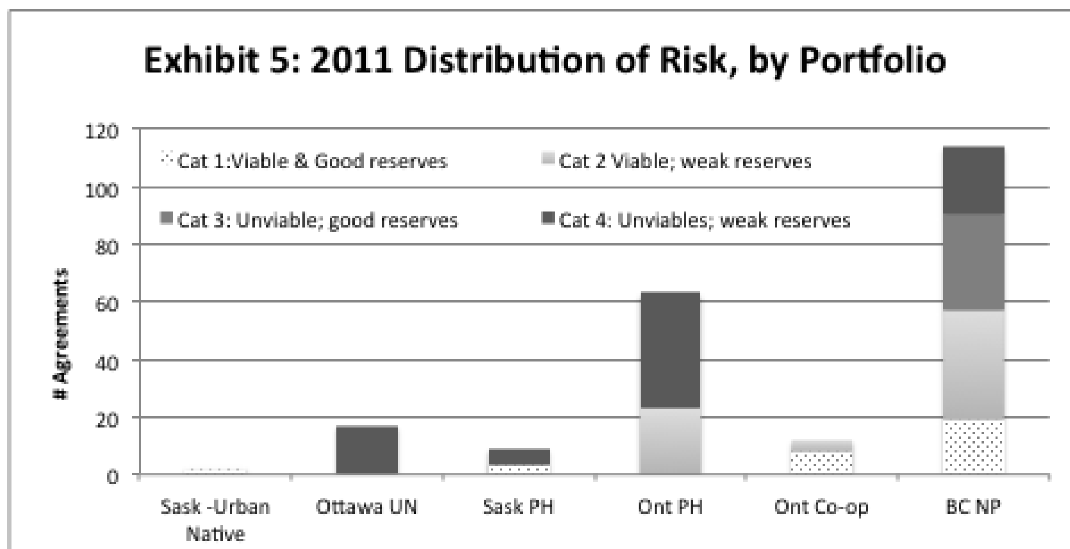

Exhibit 5 identifies the outcomes across the six different portfolios. Portfolio type (and inherent subsidy design), are not alone a predictor. All three types of portfolio (NP, PH, UN and Co-ops) have agreements/properties in category 1 (viable and sufficient capital reserves), although this category covers only one-fifth of the sample.

Equally, all programs, except co-ops have unviable projects in category three and four and these constitute over half of agreements and 41% of units.

Category 2 (positive income but insufficient reserves), with 1/3 of agreements and 39% of units pose the most complex challenge – potentially they can use surplus cash to refinance and fund improvements. Ideally this should be undertaken before expiry, but CMHC policies have been quite restrictive and typically preclude refinancing prior to mortgage maturity – a policy that may exacerbate risk.

Four-fifths (80%) of the sample is at risk. In many cases the degree is risk may not be severe and the risks may be manageable and resolvable – however this requires ongoing financial support from some level of government as well as significant infusion of capital funds for modernization and improvements of aging assets.

Other highlights from the analysis are:

- When examining projected case flows, most of the category 2 projects have substantial per unit surpluses and will likely have sufficient capacity to finance capital replacement and overcome weak reserves, **provided that** lenders and CMHC, as a mortgage insurer, implement appropriate policies to facilitate such financing.
- The category 3 projects have reasonable reserves and thus can maintain good conditions. This can help to attract market rent, or higher income rgi tenants and resolve insufficient cash flows – although this will reduce number of deep subsidy units. The amount of negative cash flow in the category 3 projects (all single project NP agreements in BC) is, on average less than $100 unit/month, so the cost of ongoing subsidy would be minimal (a handful of properties have more significant shortfall, the worse roughly $300/month).
- While the category 4 properties are the single largest category, representing almost one-third of all units, the risks here are also manageable in most cases, if the P/T's (and municipalities in Ontario) sustain their share of funding. The operating deficit in the BC Non-Profit samples is

estimated at under $500/yr; $1,000/yr. in the public housing in Saskatoon; and roughly $2,400/yr. in the Waterloo Public housing.

- The one portfolio that has a much more serious challenge is the urban native portfolio in Ottawa, where the ongoing annual subsidy per unit will continue to exceed $6,000 (includes additional assistance for tenant counseling and support workers). This is 100% federal subsidy and the units are outside of the SHRA obligation of the municipality.

Potentially, providers may be able to implement remedies without additional government funding, but this will require a shift in tenant profile – to less needy tenants able to pay higher rents; and may involve sale of some assets to generate capital for upgrading and improvements to other units**. Both of these remedies will result in fewer low-income people being assisted.**

This risk assessment addresses only operating viability. The matter of capital adequacy adds a more significant challenge, especially for any agreements that also experience negative income (category 3 and 4). Although, many properties were identified by sponsor organizations as being in good physical condition, these properties will continue to age and will require normal capital replacement – for which two-thirds of this sample have insufficient reserves or ongoing allocations.

Special funding allocations along the lines of the one time social housing rehabilitation and retrofit grants provided under the recent CEAP funding could enable these properties to continue to provide safe and sound housing, in addition to being affordable to low income tenants.

Portfolio summaries

1. Somewhat surprisingly the Saskatoon Urban Native case demonstrates remarkable viability. The two agreements reviewed involved a scattered portfolio of detached dwellings. Both agreements have already expired, but the properties (in aggregate) are very viable with healthy capital reserves, somewhat at odds with expectations for an Urban Native portfolio. The key factor here, however is that while urban native, it is owned and managed by a tribal council and as such was not transferred to provincial administration. It appears that CMHC has sustained a level of subsidy and permitted surpluses to be allocated to the capital reserves rather than returned (such that accumulated reserves allow spending upwards of $5,000 per unit). While now off of agreement, the Tribal council agency continues to operate at low rent, with rents for these detached homes average roughly $600/month, well below market rates, but substantially higher than rents before expiry (under $200).

2. Conversely, the Ottawa Urban Native portfolio is at serious risk. Although this risk is deferred, as agreements do not begin to mature until after 2020.This portfolio is well maintained, but has low reserve balance and insufficient levels of annual allocation to rebuild reserves to an appropriate level. The portfolio currently requires high subsidy levels and at expiry will continue to require subsidy in excess of $5,000 per unit. Moreover, this was a federal portfolio (100% federally funded) so while the city administers the subsidy on behalf of the province and CMHC, it is unclear whether any of these parties will be willing to extend subsidy beyond expiry. There is a risk that the sponsor may have to sell some of the assets in order to generate revenues for capital renewal and thus some portion of the portfolio may be lost.

3. The Public Housing portfolio operated by the Saskatoon Housing Authority has a mixed outcome, with three of nine agreements having positive cash flow). These are family projects). The other six (all seniors) are unviable. The degree of viability is however not deep – on average deficits of $700/unit/year on these six agreements. With continuation of the provincial share of subsidy it should be possible to cover this shortfall. While data on capital budgets was

not available, funding from the province to date has allowed these properties to be maintained in a good condition.

4. In Waterloo former OHC public housing, just over half of the units have negative income and current rgi levels are unsustainable without renewal and extension of subsidy. Due to legislation in Ontario (SHRA, 2000, now replaced by the Housing Services Act 2011) that imposes an ongoing obligation on the municipality, it is anticipated that such subsidy will be forthcoming. The physical condition of this stock is mixed, with substantial levels of deferred capital replacement. While having a legislative obligation to sustain the number of households assisted, the municipal resources to undertake necessary modernization may be strained, thereby placing this (and other similar public housing portfolios in Ontario) at risk. Some dispossession of poor condition properties may result (with rgi targeting obligations addressed separately via rent supplements elsewhere).

5. The BC portfolio of non-profit agreements (Pre 86 and post 85 Sec 95) covers only single project agreements, operated by small societies. One-third of units are unviable and a further half of all units have positive income, but have underfunded capital reserves and may be unable to maintain assets in sound habitable condition. These single project providers often lack the professional in-house management and sophistication of portfolio providers. As such many may have governance and management challenges, which may be exacerbated by lack of viability. While the extent of operating deficits is relatively small and with ongoing provincial subsidy can be readily managed, there is a need to establish a monitoring and support capacity to ensure that units in this portfolio are not lost through a combination of weak management and poor viability.

6. The London co-op portfolio includes all but three co-ops in London (data issues excluded 1 other, and insufficient data was available for 2 Urban Native co-ops). The sample examined was found to be fully viable, although in one-third of the agreements (4) the coops have insufficient reserves. This may not be a serious concern as all have healthy operating surpluses and plenty of capacity to refinance to fund capital replacement – providing technical assistance and supportive lending policies are made available to these co-ops. While there appears to be no serious risk of loss due to lack of viability, these properties may face an entirely different form of risk – the risk that the co-op boards may abandon the affordable housing mission, and thus units might no longer be available to meet ongoing affordable need and waiting list requirements.

Consolidation and Implications for Advocacy Activities

This research was conceived in response to a concern that with terminating federal subsidies, some parts of social housing stock may be lost, thereby undermining efforts to respond to persisting levels of core need and long waiting lists in many communities across Canada.

This analysis has concluded that massive loss of existing stock is unlikely, however there remains considerable uncertainty and a not insignificant degree of risk that some properties will absolutely be lost and in other cases the number of deeply targeted units may be reduced (as providers seek to improve revenues and viability by selecting less needy tenants).

Without renewal or extension of subsidy 80% of this sample will not be able to continue operating on a viable basis or to maintain properties in habitable condition.

This updated analysis does confirm that the potential for sound viability and sustainability of these very affordable units is highly contingent on active participation and ongoing funding from the provinces and territories (and in Ontario the municipalities).

For agreements that had 100% federal subsidy support, and particularly those in provinces that have not executed Social Housing Agreements (Alberta, Quebec and PEI) it remains uncertain if CMHC will offer any ongoing assistance to ensure post agreement viability.[5] Similarly, do provinces that signed transfer agreements have any ongoing obligations for those 100% federally funded portfolios beyond the terms of the project operating agreements? Is there a risk that these properties might become "orphaned" and thus at risk? Does CMHC have and mandate or willingness to continue funding such properties?

There is considerable uncertainty (and lack of clear information) on the adequacy of capital reserves and ability of providers to maintain assets well. **Three quarters of the sample are projected to have insufficient capital funding to sustain assets in good habitable condition beyond expiry.**

While many are projected to have positive cash flow and theoretically some capacity to refinance for capital replacement, many providers lack expertise, and may experience constraints in securing refinancing. To date CMHC has been reluctant to permit refinancing on properties with existing CMHC insured mortgages, so it is difficult to refinance in advance of maturing agreements and mortgages. CMHC has resisted efforts by CHF to extend its direct lending and associated low rate financing for this purpose.

While provincial ownership of public housing assets establishes a greater likelihood that provinces/territories will sustain their share of funding and keep properties viable, there is no similar safety net for the 10,000 units of urban native housing.

Although some cases have been found where Urban Native properties have remained viable, the vast majority of Urban Native in both the 2006 research and in this update appear to have serious viability problems. Some Urban Native Corporations have already experienced expiries and have sold some assets as part of a stock rationalization process as well as a way to generate funds for capital improvement on remaining stock. A similar process was also used in a public housing portfolio in one

[5] In total some 120,000 units, one-fifth of total social housing are estimated to be exclusively federally funded and roughly 35,000 of these are in provinces that have not signed transfer agreements. Thus CMHC intensions at expiry have a direct bearing on the future viability of these properties.

of the smaller provinces. So there is already evidence of absolute loss of social housing assets and a reduction in the number of assisted households.

The review of case studies has noted the potential to remedy viability issues at the project level (and such remedies were enumerated in the 2006 report). This may however involve less deep targeting and slightly higher rents – thereby lessening the use of social housing for those most in need.

Consultation with senior provincial officials in five provinces has confirmed that provincial housing departments/agencies have undertaken some risk assessment and most have concluded that if they continue to commit the provincial share of the current cost shared subsidies this will be sufficient to *sustain operating viability* across provincially owned and managed portfolios.[6] However there is concern that they may not have sufficient resources to fund necessary capital replacement and modernization.

Assessing and managing risk

This analysis suggests three broad categories of risk:

1. Operating Viability – insufficient rental income to cover operating expenses
2. Physical Condition – insufficient reserves to property main homes in sound condition
3. Mission Abortment – the risk that providers may abandon their original mission and purpose and either sell assets once constraints of operating agreements have ended; or fail to continue providing units to households in need.

In order to minimize risk of losing social/affordable stock it would be appropriate for funders (prov/terr and municipalities in Ontario) to develop and operational a more formal process of risk management. This would use annually reported operating data to undertake the type of high level analysis conducted in this report, and by identifying properties at risk, engaging proactive intervention to offer assistance in developing remedies.

In many cases appropriate interventions can ensure that stock remains viable, in good condition and on mission. The Agency for Co-operative Housing has developed and implemented extensive risk management practice and now pro-actively intervenes to assist co-ops requiring some help and guidance. Similar practice should be developed and extended across the non-profit portfolios – especially with single project providers, who may represent the greatest risk.

Risk of loss is not limited to viability and – the concern of mission risk may occur among providers that have strong positive viability, so risk management practice must also embrace this issue.

The single greatest risk is related to deteriorating physical condition and the need for substantial levels of capital investment to modernize and improve the existing stock. Prov/territories appear willing to commit to sustaining rgi related subsidy to ensure affordability and mission, but have constrained resources to fund the necessary levels of capital repair.

The Federal government has on the one hand pursued a policy of extricating itself from long term funding arrangements in social housing, but at the same time, via communiqués from F/P/T Minister's meetings has acknowledged the principle that housing is a joint responsibility.

[6] The capacity for existing provincial shares to sustain viability may also vary nationally. Historically for Public Housing, smaller Prairie and Atlantic provinces utilized the F/P sec 40/79 program that involved 75/25 F/P cost sharing, rather than the 50/50 under sec 44/82. Similarly in post 85, most smaller provinces and territories used 75/25 ratios. Thus the termination of the federal share has a larger impact in those jurisdictions.

While premised on economic recovery and job creation, the federally funded CEAP social housing retrofit funding has proven to be an effective way to assist in updating and preserving social housing. It would be appropriate to seek a federal commitment to an ongoing capital program specific for this purpose, and funded from part of the emerging substantial reductions in federal social housing expenditure.

Such retrofit funding could and should be expanded to encompass energy retrofit to help lower the utility costs that exacerbate affordability for low-income tenants.

Such a capital replacement program can also tie this retrofit funding to extended compliance agreements to help manage risk of mission abortment. That is, in exchange for retrofit funding, and possible extended operating subsidy, when required, providers would sign on to continued obligation to provide affordable housing targeted to those in need).