



REPORT FOR ACTION

Implementing Tenants First: A New Funding Model for Toronto Community Housing

Date: November 5, 2019

To: Executive Committee

From: Deputy City Manager, Community and Social Services

Wards: All

SUMMARY

In February 2018, through the annual budget approval process, City Council approved an interim funding model for Toronto Community Housing Corporation covering the 2018 and 2019 budget years, directing City staff to report on a recommended permanent funding model prior to the 2020 budget process. This report recommends a new, permanent funding model for Toronto Community Housing Corporation.

When Toronto Community Housing Corporation was created in 2002, City Council approved a block subsidy funding model based upon actual operating costs at that point in time. The block funding model was not formally reviewed or updated until 2016 when the Mayor's Task Force on Toronto Community Housing Corporation, in their final report titled "Transformative Change for Toronto Community Housing", highlighted that the funding model was unsustainable and inadequate, and did not provide a sufficient level of funding to allow Toronto Community Housing to manage and maintain safe and good quality homes in a state of good repair. This position was reinforced by an independent review undertaken by City staff, with the support of an external third party financial consultant.

Since the interim funding model was approved, staff from the Tenants First team, Shelter, Support and Housing Administration, and Toronto Community Housing Corporation have developed a recommended permanent funding model based on extensive research and analysis.

Staff are recommending a rent supplement-based model to be implemented for the 2020 budget year establishing a baseline subsidy for annual consideration, comparable to what Toronto Community Housing received through the interim funding model in 2018 and 2019, that will allow the corporation to meet its landlord obligations and maintain its buildings in a state of good repair. In future years, an inflationary cost factor will also be applied to this baseline to calculate the subsidy to be considered.

A rent supplement-based model will provide Toronto Community Housing Corporation with consistent, predictable funding each year as the City's subsidy will cover the difference between the baseline revenue requirement and actual tenant rental payments within Toronto Community Housing's subsidized portfolio. The City subsidy will be used to support both operating and capital costs as follows:

Operating - Supplements revenue generated by the Toronto Community Housing Corporation to fund operational requirements (day-to-day expenses) as well as supporting interest and principle payments on mortgages; and loans such as the Federal Co-Investment program.

Capital - Subject to annual review and Council approval, a portion of the recommended rent supplement-based subsidy, will be directly allocated to Toronto Community Housing's 10-year capital plan and funded through the City's capital budget. It is recommended that \$160 million of the rent supplement based subsidy be directed to capital on an annual basis over the 10-year capital plan.

It is critical that Toronto Community Housing Corporation have predictable annual capital funding to plan and execute their capital program. \$160 million of annual capital funding from the City, combined with funding secured through the National Housing Strategy, allows Toronto Community Housing Corporation to bring their portfolio to a state of good repair and ensures no units are closed. It is estimated that 25 units would be subject to closure for every \$10 million deviation from the proposed capital funding over the next three year.

Council approval will demonstrate to Toronto Community Housing Corporation's residents and other orders of government that the City is committed to operating and maintaining the Toronto Community Housing Corporation housing portfolio. \$160 million per year is also the estimated amount required annually, beyond the current 10 year capital plan, to ensure that the buildings continue to be maintained in a state of good repair for all future years.

The recommended funding model follows the guiding principles adopted by City Council in 2018 (see 2018.EX34.3 "Implementing Tenants First - Creating a Seniors Housing Unit at Toronto Community Housing Corporation and Transitioning towards a Seniors Housing and Services Entity at the City") as baseline funding is predictable for Toronto Community Housing Corporation, easy to administer and allows for an inflationary increase. This funding model will also apply to the to-be-established Seniors Housing Corporation, which will operate Toronto Community Housing's seniors-designated portfolio.

The recommended funding model fulfills the City's commitment to adequately fund its Local Housing Corporation. City staff will review the model regularly to ensure its continued relevance, adequacy and potential impacts associated with any annual surpluses or additional funding sources. Additionally, Council will approve Toronto Community Housing Corporation's subsidy on an annual basis through the City's budget process as the subsidy amount will form part of Shelter, Support and Housing Administration's annual budget submission.

RECOMMENDATIONS

The Deputy City Manager, Community and Social Services, recommends that:

1. City Council adopt the rent supplement-based funding model, described in Attachment 1 of this report, as the new funding model for the Toronto Community Housing Corporation, with funding allocation to be subject to annual review and consideration through the budget process.
2. City Council direct the General Manager, Shelter, Support and Housing Administration, working in collaboration with Financial Planning, the future City Housing Corporation Relationship Unit approved by Council in 2019.EX7.1 and Toronto Community Housing, to review the adequacy of the new funding model at regular intervals according to the schedule listed in Table 1 in Attachment 1 of this report.
3. City Council direct the General Manager, Shelter, Support and Housing Administration to develop an updated Operating Agreement and new accountability mechanisms for Toronto Community Housing Corporation based on the guidelines contained in Attachment 1 of this report.
4. City Council request the General Manager, Shelter, Support and Housing Administration, in collaboration with the future City Housing Corporation Relationship Unit, to review the City's accountability and oversight resource requirements for Toronto Community Housing Corporation and incorporate any changes into future City operating and capital budgets.

FINANCIAL IMPACT

There are no financial impacts in 2019 from the proposed funding model, as the new model will be initiated through the 2020 budget year, subject to Council's review and approval of the 2020 City budget. Financial impacts in 2020 and beyond will be included in Shelter, Support and Housing Administration's operating and capital budget submission for consideration in concert with other City priorities through the budget process.

The objective of the proposed funding model is to adequately and consistently fund the City-owned social housing portfolio. This model enables Toronto Community Housing Corporation to maintain approved levels of service through an operating subsidy and address state of good repair backlog requirements to avoid additional permanent unit closures through a portion of the annual subsidy (\$160 million) being dedicated to capital. The proposed methodology uses a rent-supplement funding model similar to those employed in setting the funding provided to other non-profit housing providers with a rent supplement agreement. The model establishes a level of funding for the first year of implementation based on 75 percent of average market rent and annual increases to be applied in future years using a cost factor issued annually by the Ministry of Municipal Affairs and Housing. The cost factor is measured and adjusted by the year-over-year change in the All-items Consumer Price Index for the region for costs of housing operations (e.g. utilities and insurance).

Table 1, below, outlines the City subsidies to Toronto Community Housing Corporation from 2016 to 2019. Through the 2017 budget process, Council added \$37.2 million to the City's subsidy to Toronto Community Housing Corporation and in 2018 Council approved an interim funding model for 2018 and 2019 to ensure they could deliver on their mandate as a social housing landlord as well as invest in ongoing capital repairs.

Table 1 also details annual Toronto Community Housing Corporation operating surpluses from 2016 to 2018. Consistent with Council direction, operating surpluses were retained by the Corporation and utilized to fund building capital repairs, which were required prior to the establishment of a permanent funding model.

Table 2 also outlines the proposed 2020 subsidy to be provided to Toronto Community Housing Corporation under the recommended permanent funding model. The total proposed 2020 subsidy (subject to review), which forms the baseline revenue for the proposed funding model, is \$410.960 million (\$250.960 million to subsidize base operating expenses and \$160 million dedicated for capital requirements).

The proposed permanent funding model will provide the baseline for review in 2020 and future years to enable the City to adequately fund its Local Housing Corporation. During the annual budget process, consideration on recommended subsidy levels will also account for:

- 1) The allocation of any potential prior year surplus, while considering state of good repair and building capital repair needs addressed through established permanent funding model;
- 2) Submitted operating enhancements or new initiatives, which will be considered against other City priorities; and
- 3) Review of any new or additional funding sources.

2020 proposed funding model vs 2019 interim funding model

The calculated 2020 subsidy under the proposed model is \$410.960 million and includes \$250.960 million for operating and \$160 million for capital. When excluding the one-time provincial Social Housing Apartment Improvement Program funding (\$133.111 million), this represents an increase of \$132.741 million or 47.7% increase, of which \$12.741 million relates to an increase in operating subsidy and \$120 million represents an increase in the City's capital subsidy.

The proposed increases outlined above is subject to an annual review, while ensuring adequate funding is provided to the Toronto Community Housing Corporations. Through the 2020 budget process, Council can contemplate implementation plan options, including phasing in the funding model over time.

Through its own budget, Shelter, Support and Housing Administration as Service Manager administers City subsidies to Toronto Community Housing Corporation. As

such, the calculated subsidy under the proposed funding model for 2020 and beyond will be included in the operating budget and capital plan for Shelter, Support and Housing Administration. The operating subsidy will be funded from a mix of federal and provincial transfers but is mostly funded through the City's tax base. Should no further provincial funding be approved, the capital subsidy will be debt funded and serviced by the City, thereby increasing the City's overall direct financial contribution to Toronto Community Housing.

Any annual surpluses in Toronto Community Housing Corporation's operating budget will continue to be retained by the corporation. City Council will have an opportunity to provide input and direction on the use and possible allocation of the surplus through the annual budget process.

Table 1: Subsidy to Toronto Community Housing Corporation from 2016 to 2019

	2016 (actual) (\$ millions)	2017 (actual) (\$ millions)	2018 (actual) (\$ millions)	2019 (projected actual) (\$ millions)
Operating Subsidy	203.539	240.599	241.422	238.219
Capital Funding			160.000	40.000
One-time Provincial Funding (Social Housing Apartment Improvement Program)				133.111
Total:	203.539	240.599	401.422	411.330
Annual Operating Surplus prior to Allocation to Building Capital Repairs	29.657	35.146	40.032	TBD

Table 2: Estimated Subsidy to Toronto Community Housing for 2020 based on the Recommended Permanent Funding Model

		2020*1 (Baseline Subsidy Level estimate) (\$ millions)
Operating Subsidy	75% of Average Market Rent was calculated using 2019 actuals to determine the baseline subsidy level estimate for the 2020 budget.	250.960
Capital Funding		160.000
Total		410.960

*1: 2020 forms the baseline revenue for the proposed funding model.

The projected subsidy for 2021 and future years will apply a cost factor based on the All-items Consumer Price Index for the region for costs of housing operations currently estimated at 2.37% (e.g. utilities and insurance) towards the Operating Subsidy portion of funding.

Subject to Council approval, the 2020 and future year proposed City subsidy levels to the Toronto Community Housing Corporation will be informed by the permanent funding model, with added consideration given to any prior year surplus, operating requests for new/enhancement initiatives considered against other City priorities and any new or additional funding received or directed to the Toronto Community Housing Corporation.

The Chief Financial Officer and Treasurer has been provided the financial impacts associated with this plan for review as part of the 2020 budget process.

EQUITY IMPACT

Toronto Community Housing Corporation is home to many of the most vulnerable and marginalized people in the city. Toronto Community Housing Corporation tenants face a variety of complex and intersecting challenges, including racialized and gender-based poverty, physical and mental health issues, structural and systemic discrimination, social exclusion and unequal access to resources and opportunities. An adequately funded social housing system with an improved service delivery model is critical to the City's efforts to address poverty and will provide a foundation for improving social and economic outcomes for tenants of Toronto Community Housing Corporation as well as provide opportunities for tenants who have historically been marginalized to play more active and engaged roles in community and City building. This report recommends a funding model to stabilize Toronto Community Housing Corporation and improve the

quality of housing as well as the quality of life for social housing tenants living in Toronto Community Housing Corporation. This report is closely aligned with other key City strategic initiatives designed to strengthen communities in Toronto, including: Housing Opportunities Toronto, Toronto Seniors Strategy 2.0, TO Prosperity: Toronto Poverty Reduction Strategy, Toronto Youth Equity Strategy, Toronto Strong Neighbourhoods Strategy 2020, the Toronto Newcomer Strategy and the Toronto Action Plan to Confront Anti-Black Racism.

DECISION HISTORY

On January 28, 2016, the Mayor's Task Force on Toronto Community Housing Corporation tabled its Final Report, Transformative Change for Toronto Community Housing Corporation at Executive Committee. Executive Committee referred the Final Report to the City Manager with direction to report to Executive Committee recommending an overall approach and guiding principles for how best to move forward with the transformation of Toronto Community Housing Corporation.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX11.21>

On July 12, 2016, City Council adopted Tenants First: A Way Forward for Toronto Community Housing Corporation and Social Housing in Toronto and directed staff to develop an implementation plan.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.11>

On February 15, 2017, City Council adopted 2017 Capital and Operating Budget adding \$37.200 million to Toronto Community Housing Corporation's operating subsidy to stabilize its operations. In addition, pressures of \$72 million were identified and deferred to the 2018 budget process, including an \$18 million contribution to the sinking fund to retire public debentures and \$54 million towards the capital repair backlog.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2>

On July 4, 2017, City Council adopted Tenants First Phase One Implementation Plan and directed the Deputy City Manager, Cluster A to report on an interim operating and capital funding model for Toronto Community Housing Corporation to address operating and capital funding shortfalls for 2018 and 2019 as part of the 2018 budget process. Additionally, Council directed the Deputy City Manager to report to Council in 2019 on a permanent funding formula, including operating and capital, for both Toronto Community Housing Corporation and the new Seniors Housing entity.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX26.2>

On February 18, 2018, City Council adopted 2018 Capital and Operating Budgets which included approval of an interim funding model for Toronto Community Housing Corporation.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX31.2>

On January 31, 2018, City Council adopted Implementing Tenants First – Toronto Community Housing Corporation Scattered Portfolio Plan and an Interim Selection Process for Tenant Directors on the Toronto Community Housing Corporation Board directing Toronto Community Housing Corporation to work with the City on a process to

transfer ownership of the scattered, agency and rooming house portfolios to the non-profit sector.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.2>

On May 22, 2018, City Council adopted Implementing Tenants First - Creating a Seniors Housing Unit at Toronto Community Housing Corporation and Transitioning towards a Seniors Housing and Services Entity at the City which included additional principles for the permanent funding model.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX34.3>

On April 16, 2019, City Council adopted Accelerating the City's Tenants First Project which included a proposed timeframe of recommendations coming forward in 2019 including a recommendations on governance, accountability and mandate for Toronto Community Housing Corporation's key business areas.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX4.3>

On July 16, 2019, City Council adopted Implementing Tenants First – A New Seniors Housing Corporation and Proposed Changes to Toronto Community Housing Corporation's Governance which established approval in principle to create a Seniors Housing Corporation and to transfer Toronto Community Housing Corporation's development function to CreateTO and/or the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.1>

COMMENTS

1. Introduction - The Need for a New Funding Model

Toronto Community Housing Corporation is the City of Toronto's local housing corporation, which means it was established through provincial legislation and is managed by local government. Toronto Community Housing Corporation was created by the City of Toronto on January 1, 2002, with the amalgamation of the Metropolitan Toronto Housing Corporation (as transferee from Metro Toronto Housing Authority, which managed the provincial public housing units in the city) and the Toronto Housing Company (which was the resulting entity following a merger in 1999 of the Metropolitan Toronto Housing Company Ltd. and the City of Toronto Non Profit Housing Corporation, also known then as Cityhome.)

The 2003-revised operating agreement between Toronto Community Housing Corporation and the City prescribed a block subsidy model to fund the corporation. A block subsidy model was seen at that time as a way of providing stable, predictable funding, while minimizing administrative costs through a simplified model.

In its review of Toronto Community Housing Corporation, the Mayor's Task Force found that over time this block subsidy model resulted in the corporation not having the financial capacity to deliver on its mandate of being a good social housing landlord and providing quality housing in a good state-of-repair to low-income Torontonians. As stated in the 2016 report from the Mayor's Task Force on Toronto Community Housing, and confirmed by PricewaterhouseCoopers in a report attached to 2017.EX26.2

"Tenants First - Phase 1 Implementation Plan", Toronto Community Housing Corporation's funding model has been inadequate over the years, leading to poor service levels and a capital repair backlog.

Through the creation of Tenants First, the City has moved forward in developing strategic directions aimed at enhancing Toronto Community Housing Corporation's capacity to provide safe, well-maintained affordable homes for residents, enhance quality of life for tenants, and identify new service models to help improve services to tenants and its financial sustainability.

In 2017.EX26.2, as part of the Tenants First - Phase 1 Implementation Plan, City Council directed staff to develop a permanent funding model based on the following principles:

- Be predictable and stable to allow for strategic property and asset management;
- Encourage investments that reduce operating expenses (e.g. utility consumption);
- Allow for inflationary increases to operating expenses (e.g. utility rates);
- Be simpler to administer than the current model;
- Improve accountability; and
- Be sustainable and adequately fund building repair capital costs once Toronto Community Housing Corporation's backlog has been addressed to an appropriate facility condition index.

Further, Council in its consideration of 2018.EX34.4 "Implementing Tenants First - Creating a Seniors Housing Unit at Toronto Community Housing Corporation and Transitioning towards a Seniors Housing and Services Entity at the City" provided additional direction to ensure that the permanent funding model adequately funds the operating expenses and capital expenditures for Toronto Community Housing Corporation's entire portfolio:

- Adequately segment Toronto Community Housing Corporation's portfolio to identify costs associated with the Scattered Houses and Seniors' Buildings;
- Understand Toronto Community Housing Corporation's fixed costs and variable costs as well as direct costs and indirect costs;
- Revise Toronto Community Housing Corporation's operating budget to incorporate the elements of its new mandate; and
- Understand which lines of business are not core to Toronto Community Housing Corporation's mandate, and what the impact of these activities are on the overall budget.

In other words, the City intends for the new funding model to fund activities within Toronto Community Housing Corporation's social housing mandate. This principle also extends to the to-be-created Seniors Housing Corporation, which will operate Toronto Community Housing Corporation's 83 seniors-designated buildings. A sustainable funding model is critical for both organizations to successfully deliver housing to vulnerable Torontonians.

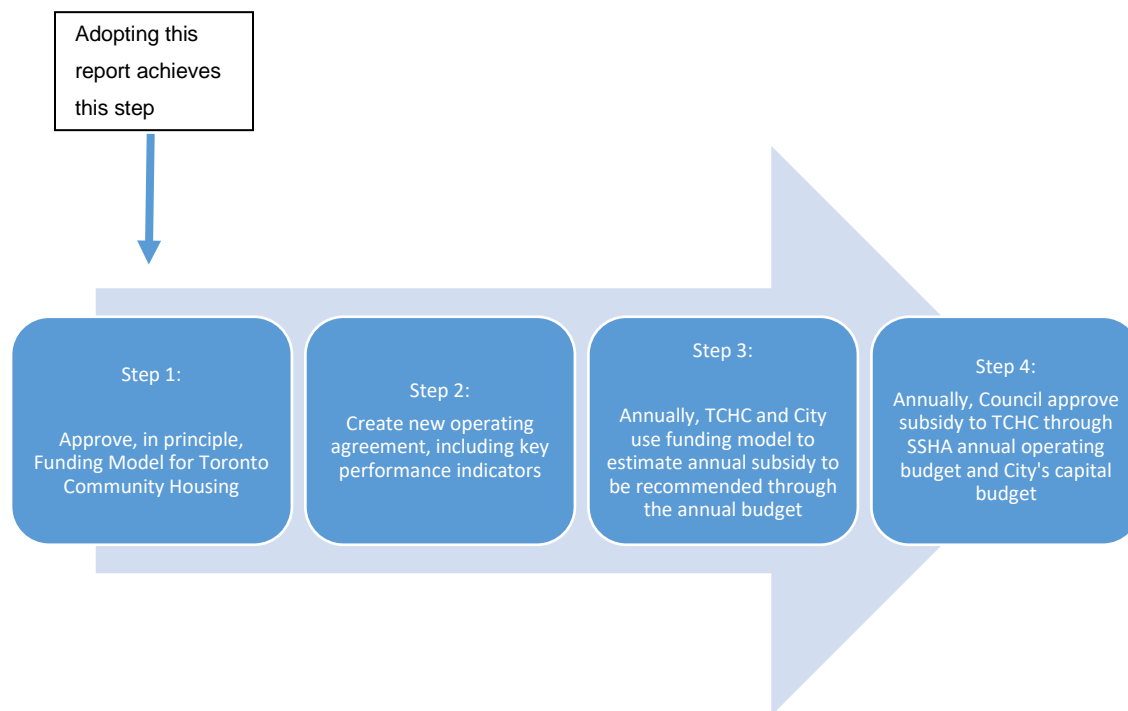
2. Implementing a New Funding Model

A new funding model is necessary to move forward on the City's legislated responsibility to appropriately fund Toronto Community Housing Corporation, and the objectives laid

out above. A new permanent funding model must provide the predictability required for Toronto Community Housing Corporation to maintain its properties in a state of good repair, to be a good social housing landlord, and to make organizational change that will support business transformation. By implementing a new operating agreement and increasing the City's oversight of Toronto Community Housing Corporation as Service Manager, the new funding model will ensure greater accountability.

Approval of the proposed permanent funding model is the first step of a multi-step process to implement a sustainable funding model for Toronto Community Housing Corporation. Figure 1 outlines the next steps in this process.

Figure 1: Proposed next steps to adequately funding Toronto Community Housing



3. 2018 Interim Funding Model

Through the 2017 budget process, \$37.200 million was added to Toronto Community Housing Corporation's operating subsidy to stabilize its operations, with over \$35 million in operating surplus ultimately allocated to building capital repairs. In addition, pressures of \$72 million were identified and deferred to the 2018 budget process, including an \$18 million contribution to the sinking fund¹ to meet its loan covenants and \$54 million towards its capital repair backlog.

Further, in 2017 City Council adopted the Tenants First - Phase 1 Implementation Plan (EX26.1), which directed the development of an interim funding model for Toronto Community Housing Corporation as part of the 2018 budget process to address the current and short-term operating and capital funding shortfalls in 2018 and 2019 while the permanent funding model was being developed. Through the 2018 budget process,

¹ A sinking fund is similar to a savings account and is used to build up funds to repay debt when it matures.

Council approved the implementation of the interim funding model which provided a direct capital subsidy to fund Toronto Community Housing's state of good repair backlog requirements.

Prior to 2018, Toronto Community Housing Corporation received a City subsidy for its operating budget with no dedicated capital funding. Toronto Community Housing Corporation was expected to fund its capital program through its operating subsidy. In 2017, Toronto Community Housing Corporation advised that without adequate funding, it would be forced to close over 750 units during 2018 and 2019.

With the interim funding model, Council not only increased Toronto Community Housing's operating subsidy but for the first time, the City also provided a new capital subsidy to allow Toronto Community Housing to adequately plan for and deliver capital repairs at a larger scale than had been previously possible. After the implementation of the interim funding model in 2018, no units at Toronto Community Housing Corporation were permanently closed due to underfunding.

4. Options for a New Funding Model for Toronto Community Housing Corporation

Tenants First reviewed several different social housing funding models as part of the work to develop a new funding model for Toronto Community Housing Corporation.

Of the models reviewed, two consistently met most of the principles and criteria approved by City Council in its adoption of 2017.EX26.2 "Tenants First - Phase 1 Implementation Plan" and 2018.EX34.4 "Implementing Tenants First - Creating a Seniors Housing Unit at Toronto Community Housing Corporation and Transitioning towards a Seniors Housing and Services Entity at the City":

1. Benchmarked Model
2. Rent Supplement-Based Model

Tenants First also engaged a consultant, Medow Consulting, to complete an independent review of different social housing funding models across a variety of different jurisdictions including other Ontario Service Manager areas, British Columbia, Australia, the United Kingdom, and the United States to determine which model would best meet the objectives for Toronto Community Housing Corporation's permanent funding model. Please see Attachment 4 for a full copy of the consultant's report.

a) Benchmarked Model

Benchmarking is a methodology that compares performance metrics against industry averages or best practices. In social housing, it was used to establish expected revenues and costs. These benchmarks then formed the basis of funding.

After social housing was devolved from the Province to municipalities, the Province undertook a benchmarking exercise to develop a legislated funding model for social housing providers prescribed under provincial legislation. Local housing corporations were not included in this process, as the legislation did not require Service Managers to fund them using the legislated funding model.

Benchmarks for social housing revenues and operating costs were introduced in 2005. In subsequent years, the benchmarks were indexed annually for use in the funding formula to reflect changes in operating costs from year to year.

Costs benchmarks used in the social housing funding formula (and the index used to adjust them annually) include:

- Administration and maintenance costs and capital reserve contributions - Statistics Canada Consumer Price Index
- Insurance - Statistics Canada Consumer Price Index sub-index for homeowners' home and mortgage insurance, and;
- Electricity, water, natural gas, oil and other fuels being each linked to other distinct Statistics Canada Consumer Price Index sub-indices.

b) Rent Supplement-Based Model

Rent supplement-based models bridge the gap between what tenants pay in rent and a defined measure reflecting market rent.

Through a rent supplement-based funding model, housing providers receive a predictable amount of revenue for each unit whether it is through tenant rents or government subsidy. Most rent-supplement models include annual increases that are based on indexing the market rent.

c) Options Analysis

The independent review completed by Medow Consulting confirmed that, when compared to other funding models, a rent supplement-based funding model best meets the City's objectives for Toronto Community Housing Corporation. Additionally, this model offers a more innovative and flexible approach to funding Toronto Community Housing Corporation.

A rent supplement-based model also avoids the key drawbacks for a legislated benchmarked model including:

- The additional work required to benchmark the funding model
- The challenges experienced by Service Managers across Ontario and housing providers in the ongoing adequacy of specific budget lines

In collaboration with Financial Planning and Shelter, Support and Housing Administration, Tenants First then modeled rent supplement-based funding using 2016, 2017 and 2018 actual costs and various funding options to determine the financial impact to the City between Toronto Community Housing's subsidy in prior years through the block subsidy model, the interim funding model, and the new proposed rent-supplement based model.

5. Recommended Funding Model: Rent Supplement-Based Model

City staff recommend that a rent supplement-based funding model be implemented as Toronto Community Housing's funding model starting in the 2020 budget year, and

subject to Council's annual budget review and approval process. Implementing a rent-supplement-based funding model will also be consistent with the funding approach employed by the City in funding other rent supplement programs administered by the City.

Through approving a rent supplement-based model, the annual funding will cover operational activities as they align with Toronto Community Housing's current mandate (which includes ensuring safe, well maintained social housing for tenants), while also providing a dedicated annual capital contribution of \$160 million funded through the City's 10-year capital plan.

The subsidy calculation for 2020 will be determined in the manner outlined in Attachment 1 which explains how a baseline revenue level was set using a function of average market rent. In future years, an inflationary cost factor will be applied to this baseline to calculate the subsidy amount.

Based on the analysis completed, staff recommend using 75% of average market rent to establish the baseline revenue requirement for the model. The subsidy is the difference between this baseline revenue requirement and actual tenant rents within Toronto Community Housing's subsidized portfolio. This will result in an increase to Toronto Community Housing's operating subsidy and introduce an annual \$160 million subsidy for capital funded through City funding/debt. The City's capital contribution to Toronto Community Housing Corporation was reduced from \$160 million in 2018 to \$40 million in 2019 due to the receipt of provincial funding through Social Housing Apartment Improvement Program.

The calculated 2020 subsidy under the proposed model (subject to review as part of the annual budget process) is \$410.960 million and includes \$250.960 million for operating and \$160 million for capital. This is an increase of \$132.741 million or 47.7% increase (\$12.741 million in operating subsidy and \$120 million in the City's capital subsidy) from 2019 City funding, when excluding one-time provincial Social Housing Apartment Improvement Program funding of \$133.111 million.

The proposed increases outlined above will be informed by the permanent funding model, with added consideration given to any prior year surplus, operating requests for new/enhancement initiatives considered against other annual City priorities and any new or additional funding received or directed to the Toronto Community Housing Corporation.

The recommended funding model is being brought forward at this time so it can be considered as part of the 2020 budget process.

Comparison of Funding Level to other Social Housing Providers

While this funding model increases Toronto Community Housing's funding compared to its historically underfunded level, it continues to receive less than other, smaller social housing providers that are administered and funded through the City. Toronto Community Housing's expertise and economies of scale will provide the City with good value for money in comparison to other social housing providers. Coupled with an

increased oversight through monitoring key performance indicators, this will be a sustainable plan for success into the future.

Average Per unit funding for other Social Housing providers funded by the City (Housing Services Act formula)	Per unit funding for Toronto Community Housing Corporation based on proposed funding model
\$11,106	\$7,025

Additionally, Toronto Community Housing Corporation experiences unique operating needs because of the size of its portfolio and the nature of the communities it serves. Some Toronto Community Housing Corporation communities experience a disproportionate level of serious violence when compared to the rest of Toronto. Toronto Community Housing Corporation has a responsibility as a landlord to maintain safe rental properties. This responsibility can include ensuring an appropriate level of security and evicting tenants for impairing the safety of the premises. The City also has a role in promoting safety in vulnerable communities through the Toronto Police Service, community violence reduction programs, and community development.

City staff are working on a jurisdictional review examining how different public housing organizations intersect with policing and community safety. Further work needs to be done to evaluate the methods currently used by Toronto Community Housing Corporation for delivering community safety services and to determine the accountabilities between the City and Toronto Community Housing.

Through updating the City's Shareholder Direction, the City will need to be clear about its expectations of Toronto Community Housing Corporation with respect to community safety. Through the annual budget process, the City will have the opportunity to review its overall subsidy to Toronto Community Housing Corporation.

Increased Oversight

In addition to providing an adequate level of funding to Toronto Community Housing, this report recommends that the City strategically enhance its oversight of Toronto Community Housing Corporation and the recommended new Seniors Housing Corporation, to ensure that these corporations are complying with their obligations under the *Housing Services Act* (HSA). 2019.EX7.1 approved the creation of a Relationship Unit to oversee the strategic relationship between the City and Toronto Community Housing, as well as with the Seniors Housing Corporation should it be created.

Enhanced Service Manager oversight will ensure Toronto Community Housing Corporation meets its legislated service level obligations under the *Housing Services Act* and the City's expected service delivery and budgetary targets. This enhanced oversight may require an increase in Shelter, Support and Housing Administration staffing resources. Shelter, Support and Housing Administration is reviewing its resources, business processes and systems to understand if enhanced oversight can

be achieved within existing resources. A business case for any new resources that may be required will be considered through the 2020 budget process.

How the Funding Model Accounts for Capital Funding

Under the recommended funding model, the City's full annual subsidy will be apportioned to Toronto Community Housing's operating expenses with \$160 million being dedicated to capital.

Toronto Community Housing Corporation's proposed 10-year Capital Financing Plan for building repairs requires \$3.070 billion. The plan focuses on achieving a target Facility Condition Index (FCI)² of 10% through a strategic and comprehensive approach to delivering repairs that will have the greatest impact on tenants and life-cycle value. Please see Attachments 2 and 3 for Toronto Community Housing Corporation's 10-year Capital Financing Plan. Attachment 2 shows the plan with current funding sources and Attachment 3 illustrates a fully funded plan, which includes \$160 million annual contribution from the City.

Successful completion of the plan is contingent on both funding from other orders of government and the City. Over the past several years, the City and Toronto Community Housing Corporation have advocated for funding to address Toronto Community Housing's significant capital repair backlog. In 2019, the City and Toronto Community Housing Corporation secured a federal commitment of \$1.34 billion over 9 years through the National Housing Strategy to assist in addressing the capital repair backlog.

Additionally, successfully completing Toronto Community Housing Corporation's 10-year capital financing plan requires an annual contribution of \$160 million from the City. This is a significant increase in the City contribution towards Toronto Community Housing's state of good repair backlog, as the City does not currently have capital funding for Toronto Community Housing Corporation in its capital plan beyond 2019.

The proposed annual City capital budget of \$160 million will complement the federal investment and leverage additional capital repairs required to complete Toronto Community Housing Corporation's capital plan. Once the current wave of incoming facility needs is addressed and the FCI is stabilized at 10% (by the end of 2027), Toronto Community Housing Corporation is forecasting that consistent funding of \$160M per year will be sufficient to maintain an acceptable base level of repair into the future, as well as for Toronto Community Housing Corporation to regularly contribute to a sinking fund.

Table 3: Comparison of Current Funding Levels and Proposed Funding Levels under the Permanent Funding Model

² The Facility Condition Index (FCI) is an industry standard to measure/rate the condition of buildings and physical infrastructure. A 10% FCI is considered to be fair.

(in millions)	2019 (existing interim funding model)	2020 (estimated - permanent funding model)
Operating Subsidy	238.219	250.960
Capital Funding	40.000	160.000
One-time provincial funding (Social Housing Apartment Improvement Program)	133.111	n/a
Total	411.330	410.960

Applying the Proposed Funding Model to the New Seniors Housing Corporation

As referenced above, the proposed permanent funding model will also apply to the new Seniors Housing Corporation which Council has directed to be created to take over operation of the 13,904 units in Toronto Community Housing's 83 seniors-designated buildings. Staff anticipate the Seniors Housing Corporation will take over operations in 2022, once Toronto Community Housing Corporation has implemented the Integrated Service Model³, which promotes ageing in place, better quality of life and successful tenancies.

As the rent supplement-based model calculates subsidy at a unit level, it can be easily applied to different segments of Toronto Community Housing's original portfolio should it transition to other service providers, as is planned for with the seniors-designated portfolio.

Council directed that Phase 1 of the Integrated Service Model be implemented in 2020 at an estimated net new cost of \$1.780 million. The Phase 1 costs will be covered under the proposed funding model as part of the increase over the existing 2019 operating subsidy.

6. Evaluating the Funding Model

Using current Toronto Community Housing Corporation budgets and an analysis of potential changes that come from future mandate decisions, it has been determined that the recommended funding model will offer Toronto Community Housing Corporation an adequate level of funding to successfully provide good, safe homes in a state of good repair. Successfully implementing the recommended funding model will require regular monitoring and evaluation, particularly in its beginning stages to ensure that any problems are expediently addressed.

The following features should be evaluated regularly:

³ Refer to EX7.1 - in which Council directs phased implementation of ISM starting in 2020

- a) adequacy of subsidy to support Toronto Community Housing's operating and capital activities, particularly as circumstances, demographics, and other factors change and evolve;
- b) successful oversight by the City of both operating and capital budgets;
- c) effectiveness of the cost factor.

The following schedule for assessing the model's adequacy is recommended:

Table 3: Funding Model Review Schedule

Trigger for review	Purpose of review	Anticipated date of review
Finalization of the mandate for Toronto Community Housing Corporation and Seniors Housing Corporation through the updated Shareholder Direction	Ensure that the funding model is appropriately aligned to support the core mandate of Toronto Community Housing Corporation and the seniors housing corporation as City-owned social housing providers.	2020
Transfer of operations of seniors portfolio	Ensure that removing the funding associated with the seniors housing portfolio and transferring that funding to a new corporation will not negatively impact the overall funding to Toronto Community Housing Corporation and will provide adequacy for the seniors housing corporation	2022
Annual review through the budget process	Annually review the operating and capital requirements and budget needs of Toronto Community Housing Corporation and the seniors housing corporation in relation to current funding model.	Annually

7. Impacts to the Permanent Funding Model from Ongoing Tenants First Work Streams

The permanent funding model is meant to fund the core mandate of both Toronto Community Housing Corporation and the new Seniors Housing Corporation, including capital program requirements. The work to clarify the mandate for both of these organizations is in process and will be finalized with the updated Shareholder Directions to be considered by City Council in 2020. The funding model will be reviewed at that time to ensure it continues to provide adequate operating and capital funding for Toronto Community Housing Corporation to manage and maintain safe and good quality homes in a state of good repair

The funding model has been developed to easily segment off parts of the portfolio with an anticipated net neutral impact on funding. If portions of the portfolio are transferred to other operators as part of other work streams within the Tenants First project, the funding associated with those units can easily be transferred to other organizations.

8. Next Steps and Future Benefits

This report recommends the approval of a rent supplement-based funding model for Toronto Community Housing Corporation to be implemented beginning in 2020 subject to City Council's annual budget review and approval process.

This new permanent funding model meets the objectives (approved by City Council in 2017) for the permanent funding model and provides Toronto Community Housing Corporation with an adequate amount of funding to provide good, safe homes in a good state of repair. There will be ongoing assessments as described in Table 3 to ensure that the level of funding remains adequate over time so Toronto Community Housing Corporation can continue to provide housing to over 100,000 low-income Torontonians.

A new Operating Agreement between Toronto Community Housing Corporation and the City will be developed and implemented in 2020. This Operating Agreement will include key outcome measures that align with the funding and mandate for Toronto Community Housing Corporation.

For many years, Toronto Community Housing Corporation was chronically underfunded, creating a number of challenges for its staff and tenants. Through the approval of the interim funding model, the City stepped up to better fund Toronto Community Housing. The permanent funding model recommended in this report fulfills the City's commitment to adequately fund its local housing corporation.

The federal and provincial governments still have important roles to play to ensure social housing is well funded in Toronto. The significant federal contribution through the National Housing Strategy is welcomed as Toronto Community Housing Corporation addresses its capital repair backlog. The City should advance its advocacy to the provincial government to secure additional funding resources to support maintaining and enhancing the housing owned by Toronto Community Housing Corporation and the people and communities they serve.

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SIGNATURE

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ATTACHMENTS

Attachment 1. Permanent Funding Model for Toronto Community Housing Corporation
Attachment 2. Toronto Community Housing Corporation's 10-year Capital Financing Plan with current funding sources
Attachment 3. Toronto Community Housing Corporation's 10-year Capital Financing Plan with annual City funding
Attachment 4. Medow Consulting Report - New Funding Model for Toronto Community Housing Corporation: Funding Model Comparator Assessment (May 2019)