Attachment 4

Medow

EX10.2

New Funding Model for Toronto Community Housing Corporation (TCHC): Funding Model Comparator Assessment

May 2019

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Table of Contents

Overview

To support development of a permanent funding model for TCHC, The Tenants First Team and a Working Group including City and TCHC staff have examined various funding models across jurisdictions in Canada and internationally. In December 2018, Medow Consulting was contracted to review and build upon this interjurisdictional work. Our goal was to consider interjurisdictional models in reference to Council-approved principles that are guiding the funding model's development, as well as a high-level description of a potential permanent funding model in development by City staff.

City staff have outlined a potential approach for the TCHC permanent funding model that is based on rent supplements for TCHC that close the gap between tenant income and a measure of private sector rents, the most likely candidate being AMR, or a percentage thereof. This would mean that TCHC's subsidy would be calculated so that its total income would reflect at proxy measure of income its units could generate on the private market.

We approached this work with a core research question: Are there additional approaches to the permanent funding model, beyond that presently being designed by City staff, which should be considered in development of a permanent TCHC funding model that will achieve the goals reflected in Council-approved principles?

In this report, we consider social housing funding models employed in five comparator Ontario service manager areas as well as Australia, British Columbia, the United States and United Kingdom. To collect information, we sent a questionnaire to Local Housing Corporations (LHCs) and service managers in five Ontario service manager areas, in some cases conducting interviews by phone. We also conducted phone interviews with social housing experts in Australia, British Columbia, the United States and United Kingdom, and reviewed selected policy literature and government reports.

Limitations: This report does not contain financial or risk analysis. It is focused upon funding models at a level of structure and principle in comparator jurisdictions, considering whether alternative models to the rent supplement approach in development by City staff would be well-suited to achieving Council-approved principles.

This report begins with a discussion of the current policy context and the mandate of the Tenant's First Team. It then describes what a funding model is, identifying types of funding models. The current TCHC funding model is then described and a high-level description of the potential permanent TCHC funding model in development by City Staff is presented. From there, we consider funding models employed in comparator jurisdictions and based on this review, outline high-level conditions required for a funding model to achieve Council-approved principles. We analyze alignment between the potential permanent funding model for TCHC in development by City staff and these high-level conditions for success, reflecting on whether other approaches should be considered.

Key Findings

- A variety of funding models are in place in Ontario and comparable jurisdictions.
- We identify four types of funding models that can blend in practice: benchmarked, rent supplement-based, portable rent supplement-based, and break-even approaches.
- Among other key criteria reflected in Council-approved principles, funding models are successful when they predictably close the gap between total revenues and total costs (operating and capital).
- The rent supplement-based funding model in development by City staff can support achievement of Council-approved principles for the permanent TCHC funding model.
- Financial and risk analysis will be required to fully develop the model before its approval and implementation.

TCHC Context: From Transformative Change to Tenants First

In January 2015, an independent Task Force, led by Senator Eggleton was appointed by the Mayor to review the current operations of Toronto Community Housing Corporation (TCHC). The Task Force's mandate was to "make recommendations critical to delivering high quality housing to residents, improving the sustainability of TCHC, and providing value to residents across the City". The Task Force's report, *Transformative Change for TCHC* was presented to Executive Committee in January 2016.[1] The report identified five key problems:

1. Many tenants are dissatisfied with their homes and the services they receive.

2. TCHC does not have the mandate, expertise or funding to offer all the supports that tenants need.

3. TCHC is not financially sustainable in its present form.

4. TCHC's buildings need substantial new investment to replace aging mechanical systems, roof and other major capital features.

5. TCHC had a tumultuous five years from 2010 to 2015 with three Boards of Directors, four CEO's and a significant turnover in senior management.

In July 2016, in response to the Task Forces' report, City staff delivered *Tenants First – A Way Forward for Toronto Community Housing and Social Housing in Toronto*, a report outlining pathways to implementing changes envisioned by the Task Force for Council. Based on

[1] Final Report of the Task Force on Toronto Community Housing, EX11.21, January 28, 2016

recommendations in this report, Council directed City staff to develop a *Tenants First* implementation plan to:

> "a. transition a portion of the Toronto Community Housing Corporation portfolio to a new community-based non-profit corporation;
>
> b. transition a portion of the Toronto Community Housing Corporation portfolio to existing and interested community-based non-profit social housing providers;
>
> c. create more mixed-income communities within the social housing sector as a whole, including within Toronto Community Housing Corporation;
>
> d. create better buildings and more of them, including potential revitalization projects in the Etobicoke, York and Scarborough Community Council districts;
>
> e. decentralize operations including the creation of an innovation lab established on a lean management model, that actively engages with tenants and innovates in response to tenant feedback;
>
> f. strengthen partnerships, including detailed opportunities to work with community-based service providers, Local Health Integration Networks, the City, and other service providers to enhance capacity and quality of service delivery;
>
> g. reform the rent geared to income system, including opportunities to provide tenants with increased opportunities for choice within the social housing sector; and
>
> h. clarify Toronto Community Housing Corporation mandate and responsibilities within the shareholder direction."[2]

The *Tenants First* report to Council described the funding model for TCHC as "the most severely and substantially broken" across the social housing landscape in Toronto, emphasizing both the significant inadequacy of cash inflows relative to mounting costs and functional confusion regarding the operational objectives of TCHC, how activities to achieved these objectives should be funded, and who is accountable for outcomes.[3] Implementing *Tenants First* will require a new funding model that will structure the City of Toronto's financial relationship with TCHC.

In July 2017, building on July 2016 direction, Council considered the staff report, *Tenants First – Phase 1 Implementation Plan*. Among other key decisions made at this time, Council directed City staff to transfer management of TCHC's 83 seniors-designated buildings to a new Seniors Housing and Services entity and to "report to Council in 2019 on a permanent funding formula,

[2] Tenants first – A Way Forward for Toronto Community Housing and Social Housing in Toronto, EX16.11, July 12, 2016.

[3] *Tenants First: A Way Forward for Toronto Community Housing,* 2016, Pg. 4

including operating and capital, for the New Toronto Community Housing Corporation and the new Seniors Housing and Services entity, to launch in 2020".[4]

In May 2018, City staff provided an update to Council on work to develop the permanent TCHC funding model, noting that to adequately fund TCHC's operating expenses and capital expenditures, the new approach must:

• Adequately segment TCHC's portfolio to identify costs associated with the Scattered Houses and Seniors' Buildings;
• Understand TCHC's fixed costs and variable costs as well as direct costs and indirect costs;
• Revise TCHC's operating budget to incorporate the elements of its new mandate;
• Understand which lines of business are not core to TCHC's mandate, and what the impact of these activities are on the overall budget.[5]

The May 2018 staff report also clarified that the permanent funding formula must be future-looking. It cannot be the vehicle for addressing the very significant, current capital funding backlog facing TCHC, a solution for which may lie beyond the financing possibilities allowed by the City's debt ceiling, requiring provincial and federal intervention. Council approved the following principles for development of the permanent funding model:

• 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 TCHC's backlog has been addressed to an appropriate FCI."[6]

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[4] See: Tenants First – Phase 1 Implementation Plan, EX26.2, July 4, 2017. Subsequently, in January 2018, continuing implementation of the *Tenants First* agenda, Council directed city officials to execute the transfer of TCHC's scattered housing to non-profit housing providers, with Agency Houses and Rooming Houses to be transferred to non-profit housing operators with expertise in supporting vulnerable tenants (See: Implementing Tenants First – Toronto Community Housing Corporation (TCHC) Scattered Portfolio Plan and an Interim Selection Process for Tenant Directors on the Toronto community Housing Corporation Board, EX20.2, January 31, 2018). In May 2018, as a transitional measure toward implementation of the new Seniors Housing and Services entity authorized in July 2017, Council directed TCHC and city officials to create a dedicated seniors housing unit within TCHC reporting to the TCHC President and CEO and to design a new Integrated Service Model for seniors housing focused on quality of life and ageing in place, in cooperation with the Toronto Central – Local Health Integration Network and the Ministry of Health and Long Term Care. A temporary transition team was similarly authorized to review City services for seniors and recommend an approach to integrating the TCHC seniors housing portfolio into the new Seniors Housing and Services entity, with a mandate to report back to Council in 2020 (See: Implementing Tenants First: Creating a Seniors Housing Unit at TCHC, and Transition towards and Seniors Housing and Services Entity at the City, EX 24.3, May 22, 2018).

[5] *Implementing Tenants First: Creating a Seniors Housing Unit at TCHC, and Transition towards and Seniors Housing and Services Entity at the City,* May 2018, pg. 18.

[6] *Implementing Tenants First: Creating a Seniors Housing Unit at TCHC, and Transition towards and Seniors Housing and Services Entity at the City,* May 2018, pg. 18.

City staff are now developing a potential permanent funding model in reference to these principles.

Defining "Funding Model"

There is a difference between funding and financing. According to the Australian Housing and Urban Research Institute: "Funding describes the resources allocated by governments and the community to cover capital investment and operating costs. 'Financing' describes the instruments or arrangements which allows these costs, especially high up-front capital costs, to be spread over time as government surpluses and service charges allow."[7] For purposes of this report, a funding model is defined as the basis upon which subsidy is determined and delivered for on-going delivery of social housing (including maintenance). Our analysis is at the level of funding model types for existing social housing. We do not focus upon funding and financing mechanisms for development of new housing.

Types of Funding Models

We have identified the following high-level approaches to social housing funding models through interjurisdictional review. In practices, funding models frequently blend aspects of these categories.

Benchmarked

Benchmarked models increase subsidy annually at least in part based on defined escalators linked to specific funded costs. The most commonly used benchmarked model in Ontario is for transferred Section VII (former provincial non-profit) housing providers under the *Housing Services Act, 2011* (HSA). The benchmarks for this model are established in O. Reg. 369/11, under which administration and maintenance costs as well as capital reserve contributions are linked to the Statistics Canada Consumer Price Index (CPI), insurance costs are linked to the Statistics Canada CPI sub-index for homeowners' home and mortgage insurance, and electricity, water, natural gas, oil and other fuels are each linked to other distinct Statistics Canada CPI sub-indices.[8] Benchmarks lag by one year, for example, cost benchmarking for the 2019-2020 fiscal year would be determined by comparing price index changes between 2017 and 2018. In volatile cost areas like energy, this can result in sometimes significant gaps between subsidy and actual costs. Speaking to the generally blended nature of funding models, under Section VII, while some costs are benchmarked, others, such as mortgage costs, are directly reimbursed. Though LHCs under the HSA such as Toronto Community Housing Corporation are not part of Section VII, in practice, some service managers have adopted the Section VII benchmarks to determine subsidy for their LHCs (this will be discussed further).

Rent Supplement-Based

Rent supplement-based models close the gap between what tenants pay in rent and a defined measure reflecting rent in the private market. This measure is typically a percentage of Average Market Rent (AMR). For example, in a rent supplement-based model set to 100% of AMR, if

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[7] *Social Housing as Infrastructure: An Investment Pathway.* AHURI, 2016, pg. 2.

[8] These benchmarked operating costs and others are added to mortgage cost subsidy, property tax subsidy, and RGI subsidy, and then subtracted from benchmarked revenues and a typical 50% claw back on any surplus, to produce the final subsidy amount from the service manager to the housing provider.

tenant and other income equals 30% of AMR, then subsidy would equal an additional 70% of AMR.

Portable Rent Supplements

Under portable rent supplement models, subsidy is mobile with tenants as opposed to linked to units within a specific housing provider. Such models have been used extensively in the United States to move away from public housing toward subsidy deployed within privately owned housing (private sector landlords have to be pre-approved to be part of rent supplement programs). In the United Kingdom, portable rent supplements act as a flow-through subsidy for non-profit housing associations and Council housing, though tenants are also free to use them in the private market. In Australia, rent supplements are available to low-income households on an entitlement basis, but only for use outside of government-operated public housing. Though rent supplements exist in Ontario, they have been more limited with a lesser emphasis on tenant choice.[9] In Toronto, tenants access rent supplements through Housing Connections in the same manner as for social housing more generally.

Break-Even Models

Under break-even models, which are the default for LHCs in Ontario under O. Reg. 367/11, housing providers submit a funding request to their funder, in Ontario this means the Service Manager. The Service Manager covers all approved costs incurred and recovers surpluses. In this sense, the housing provider acts in a very similar fashion to a department or ministry participating in a government budgeting process. Multi-year planning sometimes occurs. Similarly, expectations and guidelines around expected and allowable funding increases are centrally communicated by the funder, as well as associated performance and accountability measures. Break-even models appear to be more common in Ontario when the LHC is "closer" in ownership and administrative terms to the service manager, more closely reflecting a department of the service manager municipality.

The Current TCHC Funding Formula

As noted, TCHC is an LHC under the *Housing Services Act, 2011* (the Act). Under Section IV of the Act, Service Managers can design local funding approaches for LHCs. The current TCHC funding model is based in the 2002 operating agreement signed between the then newly created TCHC and the amalgamated City of Toronto, as the City took on funding and administrative responsibility for social housing following its download from the federal government, to the province, to the City.[10] There are two principle funding models through which the City funds TCHC.

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[9] Woodhall, Julia (2011). *Exploring International Variations in Demand-Based Rental Subsidy Programs: Establishing Best Practices for Ontario's Rent Supplement.* Canadian Policy Network and the University of Western Ontario: London.

[10] The City's determination of a funding approach for TCHC has its roots in the download of social housing: "…the Canadian federal government has implemented a steady withdrawal from direct funding and prescription of social housing responsibilities, transferring its share of housing stock to provincial governments, making way for provincial program development and substantially reducing its expenditure on housing since the 1990s. Social Housing Agreements with most of the 13 provinces and territories now require these governments to become completely responsible for social housing by 2040, administering social housing programs, overseeing maintenance and setting targets. In most cases the provincial housing corporation plays a central role in this, except in Ontario

- For one portion of the TCHC portfolio, an operating subsidy is transferred to TCHC annually that is indexed to the Consumer Price Index (CPI), a simple benchmark. The initial size of this subsidy was set at the beginning of the operating agreement in 2002. In addition, designated expenses such as mortgage costs and tax expenses are covered by the City based on actual expenditures.
- A second, smaller portion of the TCHC portfolio is funded based on a rent supplement model, with the City closing the gap between the rents that tenants pay based on the Rent Geared to Income (RGI) formula and 100% of AMR. For these units, no other funding is provided by the City to TCHC. Year-over-year subsidy is increased by the standard private-market guidelines, but not exceeding a 100% AMR total.

As the mortgages and legacy agreements associated with properties in the first portion of the TCHC portfolio expire, the properties are switched into this second, rent supplement model.

An interim funding model was implemented in 2017-18 which roughly doubled City subsidy provided to TCHC. This change, through which the City is funding TCHC's annual deficit on top of existing funding arrangements discussed above, followed a PwC review of the TCHC operational budget. This review found that TCHC's projections were sound: operations were not sustainable in light of increasing expenses, leading to an inability to fund forecast capital improvements, causing a significant projected increase in uninhabitable units and subsequently, further reduced revenues. The interim funding model has been an important stopgap measure.

The Potential Permanent TCHC Funding Model

City staff are developing approaches for the future state of the TCHC funding model that are rent supplement-based. The model under consideration would use funding currently provided, following increases in the 2017-18 interim model, as the baseline for reviewing adequacy. Upon identification of a subsidy level that meets regular operation and capital budgetary needs, staff will calculate how this level of subsidization aligns with a rent supplement framework. This will mean expressing total required revenue to TCHC in relation to a measure of private sector rents: most likely AMR, or a percentage thereof. Subsidy would then close the gap between tenant income and a measure of private sector rents. For example, if 100% of AMR is identified as aligning to the level of funding that TCHC requires, then 100% of AMR becomes the reference point for defining subsidy. The City of Toronto would provide annual funding to TCHC that closes the gap between its income (from tenants and other sources) and theoretical revenues that units would generate if rented at AMR. One approach would be to reset subsidy based on current AMR at unit turnover and escalate subsidy annually based on Ontario rent increase guidelines. City staff plan to undertake financial and risk analysis to further develop the rent supplement-based model and identify an appropriate measure of private sector rents as the reference for defining subsidy.

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where it is delegated to designated municipal governments." (The transfer of responsibility to municipal government in Ontario means that, "overall planning and management of the social housing system must now be undertaken within the constraints of limited municipal fiscal capacity and their limited statutory powers". See: Lawson, Julie and Crustal Legacy et. al. (2016). *Transforming Public Housing in a Federal Context*. Australian Housing and Urban Research Institute: Melbourne. Pgs. 34 & 51.

Comparator Jurisdictions

In this section we explore the funding models used for social housing in selected jurisdictions. We have focused on five service manager areas in Ontario as well as four jurisdictions outside of Ontario: British Columbia, Australia, the United States, and the United Kingdom. The profiles contained in this section are high-level summaries based on survey-level engagement with each jurisdiction. More detailed portraits could be developed through further research.

Ontario Service Manager Areas

To build on information already organized by City of Toronto staff, we sent a questionnaire to five LHCs and Service Managers, conducting telephone interviews upon request. A summary of the results follows. We focused upon public housing funding, though in some cases LHCs are responsible for housing under other legacy housing programs (e.g. Section 95).

Table 1: Public Housing Funding Model Descriptions for Ontario Service Manager Areas

Service Manager Area	Funding Model
Ottawa	In 2009, an Operating Agreement was signed between Ottawa Community (OCH) and the City of Ottawa that moved to streamline and stabilize the funding arrangement for OCH and the City. The Operating Agreement determines subsidy for roughly 80% of the portfolio and supports OCH to manage its operations on a portfolio basis, with predictable and stable benchmark-based funding. The benchmarks employed are from the HSA Section VII funding model. To support implementation of the benchmarked model in 2009, significant analysis was undertaken of current expenditures at a line-item level to determine their adequacy. In some cases, based on this analysis, funding was increased from prior year actuals before benchmarks were applied in subsequent years. This supported on-going adequacy by identifying an appropriate baseline and not taking actuals to represent need. The approach allows operating and capital reserves, assisting OCH to address in-year expense fluctuations. There is no claw-back of surpluses.
Peel	Peel Housing is considerably integrated with Peel Region. Operating subsidy entitlement is determined based on program operations, mirroring a break-even model. When a project generates a surplus, it is repaid to the service manager. When a project generates a deficit, the service manager funds it. A set amount is given in subsidy for capital replacement reserve contribution. The LHC operates to a large extent as an “internal” division of the regional municipality.
Hamilton	In 2012, the City of Hamilton entered into an Operating Agreement with City Housing Hamilton (CHH) which benchmarked the Public Housing Portfolio under the same formula as the Provincial Reformed Portfolio (HSA Section VII). This approach mirrors Ottawa. CHH is treated differently form the Section VII portfolio only in the sense that it has a property tax exemption with a requirement that a portion of tax savings be invested in reserves.

London	London and Middlesex Housing Corporation (LMHC) is funded on a break-even model. Surpluses are given back to the Service Manager and any deficits are funded. LMHC does not hold reserves. The City of London works on a multiple year budget (four years) to better predict tax rate increase and funding and allows for annual amendments based on business case submissions. Similar to Peel, this is a more internal model.
Windsor	Windsor Essex Community Housing Corporation operates housing under three different programs with three different budgets. Public Housing units (our area of interest for this report) are funded yearly on a break-even basis, based on the Council-approved City of Windsor budget. Budget requests have to be made annually. WECHC is currently in the second stage of a Regeneration Study that has identified the need to review and determine if a standardized funding mechanism would be in the best interest of the corporation and the City of Windsor as the sole shareholder.

There is now fairly significant variation in the funding model approaches of comparator service managers. Ontario is unique in the high level of funding and operational responsibility centered at the municipal level. In the jurisdictions we have considered outside of Ontario, there is greater responsibility for funding and policy at the national and sub-national levels of government. The financial and policy responsibilities of the City of Toronto are particularly high for a municipal government, given the scale of TCHC.

British Columbia

The provincial government retains core responsibility for social housing following the download of social housing in the mid-1990s from the federal to provincial government. Each year, non-profit housing providers submit a budget for review and approval by BC Housing. Deficits are funded, and surpluses returned annually, reflecting a break-even model. An annual financial review process considers budget adequacy. Every three years, full operational reviews occur covering maintenance, governance, and tenant policies, among other areas. The model funds replacement reserves and on-going maintenance. Benchmarking is used for comparative and analytical purposes, but not for funding determination. The primary focus of benchmarking is on “manageable costs”, costs which non-profit housing providers may be able to control, as opposed to non-manageable costs (taxes, energy, etc.). British Columbia faces the same challenges experienced nationally regarding adequacy of funding to address repair and replacement need associated with ageing stock.

Australia

A significant majority of social housing is public housing directly owned and operated by state and territorial governments. Public housing is funded through tenant rents (set at 25-30% of income) and subsidy from central government though the Commonwealth Government National

Affordable Housing Agreement (NAHA).[11] It is challenging to determine on a dollar-for-dollar basis exactly how NAHA funds are spent by state and territorial governments on public housing. NAHA funds enter state and territorial general revenues and public housing spending is typically consolidated within the budgets of broader human service departments (this situation generally reflects that of Canadian intergovernmental transfers). The combination of tenant rental income and national funding to states and territories is generally insufficient to cover the cost of public housing. State and territorial governments close the gap through a combination of additional expenditure from their tax base, deferral of necessary spending (e.g. capital repair/replacement), and in some cases, incremental sale of public housing to raise funds.[12] Operating on a consolidated basis within government, the funding model for public housing in Australia most closely reflects a break-even model: whatever is spent is covered from within state and territorial budgets, with those same government determining subsidy levels. The federally delivered Commonwealth Rent Assistance program provides support to low income tenants living in private market housing. This is an entitlement social security benefit for the majority of low-income renters who reside outside of public housing. Parallel to state and territorial public housing, a community housing sector has emerged through the long-term transfer of operation, revenue collection (and less often ownership) of public housing to non-profit housing providers. Unlike in public housing, tenants in community housing do receive Commonwealth Rent Assistance and rents are as a result higher than in public housing. This rental assistance, flowing through tenants, is the primary financial support for non-profit housing providers in the community sector, reflecting a portable rent supplement approach. Note that the same system of subsidization would apply for private market landlords serving low income tenants.

United Kingdom

Historically, social housing was provided by local authorities. Local authorities borrowed money through a government intermediary for social housing development, then to keep rent down, government sent transfers to local authorities each year into segregated housing accounts. A long-term and on-going devolution process since the 1980s has transferred social housing away from local government authorities to non-profit Housing Associations, as well as to private individuals through right-to-buy mechanisms for tenants (which transfer social housing units to private tenure). Housing Associations now deliver over half of social housing and are large, sophisticated corporations, some being national. Their stock is mostly transferred local authority housing, with some newer development. Low income tenants receive a housing allowance from government, which was also introduced in the late 1980s, as direct subsidy to local authority housing ended and transfer to Housing Associations proceeded. Support for tenants in relation to their income level is addressed within this housing allowance, rather than at the level of local rent setting. Government has a continued role in regulating rent-setting overall, with social housing rents set in relation to local market/income factors. On-going subsidy, in effect, flows through tenants who directly receive housing allowance from government, supporting their rent

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[11] Martin, Chris, Hal Lawson, and Ryan van den Nouwelant (June 2016). *Housing policy and the housing system in Australia: an overview.* City Futures Research Centre, Faculty of Built Environment, University of New South Wales Australia.

[12] "Like the US and Canada, Australian public housing's financial predicament stems from a narrowing revenue base from increased targeting coupled with rising operating costs, amidst stagnant social benefits and insufficient rent rebates." See: Lawons, Julie and Crustal Legacy et. al. (2016). *Transforming Public Housing in a Federal Context.* Australian Housing and Urban Research Institute: Melbourne. Pg. 5

payments. Housing allowance is also received by low income tenants renting in the private market, reflecting a portable rent supplement model. Capital funds, beyond government programs for new development and periodic capital repair programs, are raised by accessing financing against the value of tenant income. This is particularly the case for Housing Associations.[13]

United States

Public Housing Authorities (PHAs) are funded by the U.S. Department of Housing and Urban Development. State and local governments in some cases add their own investment. HUD funds PHAs to directly operate public housing and to administer housing vouchers that tenants use in the private market. The relative balance between public housing and voucher distribution varies greatly across PHAs. PHAs often contend with ageing stock in a poor state of repair. Programs are in place to transfer public housing to new ownership structures to attract capital investment, while supporting tenants through rent supplements, or to simply demolish public housing and convert to housing vouchers used in the private market. Some PHAs have transferred significant portions of their portfolios to limited liability corporations for this purpose. Overall, there are many more vouchers distributed nationally than there are public housing units.[14] Many PHAs operate under the long-term "moving to work" demonstration program which allows substantial authority to operate outside program structures.

Overtime, the capacity of tenant income to support operation of public housing has declined as PHAs have been mandated to house increasingly lower income tenants within a federally mandated income-based rent model: tenants pay 30% of income and PHAs have a mandate to house tenant households with varying percentages of Area Median Income (AMI). HUD operating and capital subsidy for public housing itself is determined through a benchmarked funding model with inflationary cost factors that consider building type and age. PHAs annually submit data through a national system for subsidy calculation. The benchmarks themselves are considered very outdated, especially for capital needs. In addition, the outcomes of the formula are not guaranteed, but rather subject to annual congressional appropriation decisions, which can lead to "proration" of total funding, e.g. funding at 89 or 94 cent-dollars on formula outcomes, depending on congressional appropriation decisions of the year. Fluctuations in this regard are politically-contingent with no predictability. In general, PHAs have to be extremely entrepreneurial and use all tools available to them to serve tenants.

Achieving Council-Approved Principles

In this section we consider Council-approved principles for development of a permanent TCHC funding formula, high-level conditions for achieving these principles, and alignment with the potential rent supplement funding model in development by City staff. We believe that the proposed model has the potential to achieve conditions necessary for successfully meeting

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[13] The tragic Grenfell Tower fire in June 2017 has sparked a national conversation about social housing safety, state of good repair, supply, and accountability. See: Ministry of Housing, Communities & Local Government (August 2018). *A new deal of social housing.* https://www.gov.uk/government/consultations/a-new-deal-for-social-housing

[14] Relevant, but not directly to social housing funding models, is the federal Low-Income Housing Tax Credit which stimulates private market development of below market cost housing. Some states have additional tax credits.

Council-approved principles, though further financial and risk analysis is still required to more precisely develop the approach.

Table 2: Council-Approved Principles, Conditions for Success, Alignment of Proposed Model

Principles	High-Level Conditions to Achieve Principles and Observations	Alignment of Proposed Rent Supplement-Based Funding Model
Be predictable and stable to allow for strategic property and asset management	• A credible, agreed upon funding baseline that adequately meets present costs. • An approach to increasing funding over time that aligns with cost increases. • Flexibility to manage expenditure across the portfolio based on sufficient analysis and data at a project level (e.g. from building condition audits), allowing for the housing provider to follow asset management best practice. • Along with regular re-evaluation, a review process for addressing instances when the agreed upon approach to increasing funding is seen by the housing provider as not aligning with cost increases, which may be unforeseen.	• The model would begin with financial analysis validating adequacy of funding flowed through the interim 2017-18 model, making adjustments to establish a new baseline. • Linking funding increases overtime to changes in the private rental market would link resources available to TCHC to resources that private landlords have available to address market-driven cost increases. • The approach would support portfolio management. • A review process should be incorporated to address unforeseen circumstances.
Encourage investments that reduce operating expenses (e.g. utility consumption)	• A specific line-item can encourage such investments. • More effective in the long-term is allowing the housing provider to retain the net-benefit of reduced operating expenses in reserves. If savings are clawed back, as in break-even models, there is lesser incentive to invest.	• The proposed model would allow TCHC to retain the net-benefit of investments which reduce operating costs, incentivizing investment to reduce operating costs.
Allow for inflationary increases to operating expenses (e.g. utility rates)	• Alignment of subsidy to operating expense increases can be achieved through direct benchmarking of specific areas of expenditure or aligning funding growth to another credible escalator or reference point. • For example, benchmarked models directly escalate costs	• Linking funding increases overtime to changes in AMR would link resources available to TCHC, to those available to private landlords to address market-driven cost increases. • TCHC would not have its subsidy increased against a direct measure of costs, but rather would see its funding escalate in

	based on specific CPI indicators linked to areas of expenditure. Rent-supplement based approaches close the gap between tenant income and a proxy for the income that private sector landlords would generate from a similar portfolio to cover on-going operating expenses.	tandem with increases in tenant income received by private market landlords.
Simple to Administer	• Significant work can be required upfront to achieve on-going simplicity. • The ingredients required are an agreed upon formula and available formula inputs (data).	• There is upfront work required to validate the funding baseline through financial analysis, determining adequacy and identifying the reference measure of market rent. On an ongoing basis, administration would be simplified.
Support Accountability	• Accountability can be achieved through two main mechanisms that can blend: 1) shareholder direction, reporting and key performance indicators which can impact funding; and 2) Establishing conditions that allow the housing provider to benefit from good management practices (allowing reserves - not clawing back savings). • Break-even models with claw backs create incentives to spend every available dollar. • Shareholder direction, reporting and key performance indicators are particularly important to establishing accountability for implementation of good practices that do not generate financial returns, such as those linked to social objectives, e.g. adherence to vulnerable tenant protocols.	• The rent supplement-based model would allow TCHC to retain its savings in reserves, incentivizing good management. • The rent supplement-based model also establishes a framework in which TCHC will see its revenues increase in tandem with private sector landlords: TCHC will be responsible for achieving success with comparable resources. • Clear shareholder direction is required to define TCHC's role and objects, which should be linked to performance indicators. This is especially important in establishing transparency of objectives and accountability for adhering to practices that achieve social objectives.
Sustainable and Adequately fund capital repair costs (excluding	• On-going capital repair needs are best met when subsidy is aligned to support defined needs of an asset management plan. This can be achieved within multiple funding model approaches. The	• The financial analysis validating the subsidy baseline and market rent reference point would need to incorporate capital repair needs. This would exclude major backlogs that must be addressed

major backlogs)	key is determining the appropriate subsidy outcome and designing the model to produce this outcome.	with large-scale investment external to the funding model.

Conclusion: Should other Models be Considered?

In the previous section we outlined how the rent supplement-based model in development by City staff is well-positioned to achieve high level conditions required to successfully fulfill Council-approved principles. As noted, City staff plan to undertake financial and risk analysis to fully develop the model.

With respect to the possibility of adopting a benchmarked model, City staff have outlined serious practical concerns with appropriately establishing baseline costs for specific budget line-items at a project level. This would be required to begin a benchmarking approach across the TCHC portfolio. The OCH benchmarked approach appears to be successful, however, key informants emphasized that establishing appropriate baseline costs before applying benchmarks was an extremely labour intensive process, the feasibility of which could be challenged given the size of the TCHC portfolio. In order to implement the rent supplement-based model that City staff are proposing, the City will have to undertake financial analysis to determine adequacy of the current baseline and define an appropriate market rent-linked reference point, most likely in relation to AMR. However, a benchmarked model would require a deeper project-level line-item analysis that would be a very large-scale exercise in the TCHC context, and potentially infeasible. Additionally, benchmarked models are also affected by one-year lags in cost indexation. This can cause ups and downs in available resources that do not align with sometimes volatile costs, causing instability.

A break-even model would not be appropriate. A housing provider the size of TCHC requires its own strategic leadership and funding certainty and autonomy. A break-even model would bring TCHC closer into direct management by the city, reflecting a departmental approach in which available funds become contingent on budget cycle and surpluses are recovered, disincentivizing smart management and investment to reduce operating costs and reducing accountability. This would not align with key Council-approved principles or broader policy direction for TCHC covered in this report.

Portable rent supplement models in international jurisdictions examined in this analysis were each enabled by national government subsidy frameworks for low-income tenants. Such a system could not be unilaterally inaugurated by the City and to be successful, would also require private sector affordable housing development incentives like the federal Low-Income Housing Tax Credit in the United States, the effectiveness of which would require federal and/or provincial government action.