Addressing the expiry challenge: Using Post 1985 expiry to transform the community housing sector in Manitoba

Prepared for the Manitoba Non-Profit Housing Association

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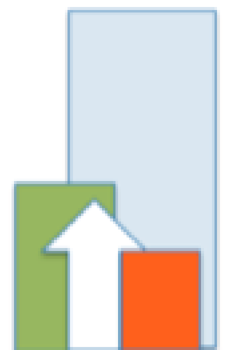

Executive summary

This brief was commissioned by the Manitoba Non-Profit Housing Association (MNPHA) to examine the impact of expiring Operating Agreements in social housing developed under the federal-Provincial post 1985 non-profit program

This analysis collected project level data across the post 85 portfolio to identify the impact of expiries and to estimate the viability gap. It also examines potential remedies to ensure that these legacy projects are preserved in sound condition and continue to provide affordable housing to those in need.

An assessment tool was utilized to explore both operating viability (positive cash flow) following expiry of both the mortgage payments and the subsidy, and the adequacy of capital replacement reserves.

This confirmed that at expiry of the post 85 subsidy agreements the entire portfolio is at risk and will require renewed subsidy assistance and/or access to capital funds to complete necessary capital replacement to maintain assets in sound condition.

Given this situation various potential remedies were explored:

- Utilize the Canada Community Housing Initiative (CCHI) cost shared funding stream under the NHS to extend current subsidy mechanism;
- Review and reform rent setting practices;
- Replace RGI project-based subsidy with person (household) based subsidy emulating Rent Assist; and
- Identifying capital funding to preserve and improve building condition

It was determined that adopting Manitoba's Rent Assist mechanism could provide the required client focused assistance necessary to address affordability need for low income tenants of the post 85 stock, and could also facilitate funding and financing of capital repairs.

The brief concludes with the following recommendations. It is recommended that the province, through Manitoba Housing pursue the following directions:

- In the short term, utilize the CCHI to temporarily extend Operating Agreement expiring in 2021-22;
- Undertake a detailed financial review and building condition assessments (BCAs) across the post 85 portfolio to model future subsidy need, including sufficient funding to facilitate pro-active asset renewal and management;
- Design a reformed funding mechanism to replace RGI subsidy with Rent Assist directly targeting households in need as a parallel mechanism to Rent Assist, but framed and funded under CCHI;
- Facilitate and encourage a transformation in provider operating practice embracing the concept of self-sustaining social enterprise organizations;

- Establish or link to capital funding programs to enable providers to undertake necessary ongoing capital renewal to preserve and improve the existing stock;
- Establish either a sector based or Manitoba housing regulatory framework, that can monitor for risk (poorly performing non-viable projects), while minimizing the degree of administrative oversight and cost.

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Introduction

This brief was commissioned by the Manitoba Non-Profit Housing Association (MNPHA) to examine the impact of expiring Operating Agreements in social housing developed under the federal-provincial post 1985 non-profit program.

Non-profit and co-op projects were historically funded with long term Operating Agreements extending for 35 years, coinciding with the mortgage amortization. When the agreements end, both mortgage payments and subsidy cease.[1]

- In projects committed between 1978 and 1985, which were mixed income, the subsidy formula resulted in the annual mortgage payments being larger than the annual subsidy. So at expiry, the project should have a small increase in operating net cash flow and thus be financially viable. Most of these agreements should have already expired, since the last were committed in 1985 with 35-year agreements suggested expiry ending in and around 2020.
- For post 85 projects, these were targeted to households in need, usually 100% RGI and as a result the rent revenues tend to be lower than in the preceding pre 86 portfolio. Typically, the annual mortgage payments are less than the annual subsidy amount. So at expiry there is likely to be a shortfall in net operating income, creating viability problems.

Based on the program design, following the end of agreements, post 85 projects are not expected to be viable without renewed subsidy. But because there is no longer a mortgage payment, the operating and debt service expenditures will be reduced. So the required subsidy will be less than when required to cover debt. Some subsidy will nonetheless still be required if projects are to sustain RGI levels, and to maintain buildings well.

Under the National Housing Strategy (NHS), a specific funding initiative, the Canada Community Housing Initiative (CCHI) provides funding to Manitoba Housing specifically to help manage this issue. However provincial officials have suggested that they believe post 85 projects will be financially viable without additional or new subsidy. This analysis was commissioned to clarify the impact.

This analysis collected project level data across the post 85 portfolio to identify the impact of expiries and to estimate the viability gap. It also examines potential remedies to ensure that

[1] Earlier public housing, built and operated by Manitoba Housing between 1949 and 1987, similarly had ongoing subsidy corresponding to the duration of debt repayment (in this case secured by debenture, rather than a mortgage, amortized over 50 years). At expiry, the federal share of this ongoing subsidy terminated, leaving the province to unilaterally fund ongoing operating shortfall and any capital replacement/renewal expenses. The federal subsidies on this portfolio gradually phased on and most have already ended, although around 2,000 public housing units still receive federal subsidy. Because public housing is more deeply targeted and properties are older in greater need for repair, this is a significant liability for the province.

these legacy projects are preserved in sound condition and continue to provide affordable housing to those in need.

Methodology and coverage

MNPHA surveyed its members to collect key operating data on the post 1985 portfolio.

Administrative data identified a total universe of 80 projects (11 co-ops and 69 non-profits) with post 85 agreements, representing 1,815 units. The survey collected data on 49 projects with 1,157 units. This generates a sample covering two-thirds of the universe (62% of projects/64% of units).

The data show that the vast majority (93%) of the units in this sample are 100% rent -geared to income (RGI). Only four projects include some market rent units and these total only 107 units (7% of total sample).

The data collected are very basic and readily available in annual financial statements and data reports. For each project (agreement), for the most recent fiscal year end the following information was collected.

- Last fiscal year end (data year)
- Year Operating Agreement terminates (year only)
- Total RGI units
- Total market (no RGI subsidy) units
- Total units
- Total revenues
- Total operating expenses (excl mortgage and reserve contribution)
- Balance in Capital replacement reserve (end last fiscal year.)
- Annual allocation to Capital Replace Reserve
- Total annual mortgage payments (principal and interest)
- Total annual subsidy received from Manitoba Housing

Using this data, two tests were undertaken for each project/agreement:

1. Excluding any subsidy or mortgage payment does the project have positive Net Operating Income (NOI)?
2. Does the project have sufficient capital reserves and annual contributions to build reserves to be able to maintain the property in sound condition?

Two viability (NOI) tests are performed. The first assuming that the agreement expired this year; and second as of the date of agreement expiry.

For the second test, the analysis projects rent revenue and operating expenses to the expiry year, but uses different factors. Operating expenses are projected at an assumed 2% rate of inflation; but revenues are projected at only 1% to reflect the fact that incomes and thus RGI rents for lower income tenants, some on income assistance, may lag inflation. With this

differential, and expenses growing faster than revenues, the projected scenario at year of expiry is worse than the hypothetical current comparison.

Another quick assessment is to examine whether the current annual subsidy amount is greater than the amount of annual mortgage payments. Since both expire concurrently, if the subsidy is larger, the project will have negative NOI at expiry.

The capital adequacy test uses a proxy, derived from analysis of lifetime replacement costs. It simply determines if the project has current reserves and ongoing annual contributions sufficient to be able to expend over $1,000 per unit each year until expiry.

The analysis uses this Simplified Assessment Tool (SAT) created collectively for Canadian Housing Renewal Association (CHRA) and a group of provincial associations including MNPHA in 2015. Using the viability and capital adequacy tests a project will fit in to one of four cells in the analysis matrix.

Assessment output		
Overall Assessment Matrix		
	Capital reserves	
	Sufficient	**Insufficient**
Positive NOI	(1) Project is viable, can maintain current RGI market mix and has sufficient capital reserve	(2) Project generates a cash flow surplus, but asset is under-maintained.
Negative NOI	(3) Project is not viable but has good reserves	(4) The project is not viable and replacement reserve is insufficient. Project is at risk

Cell one is a positive outcome with both positive NOI and sufficient reserves. There are three other potential outcomes reflecting cells 2-4 in the outcomes matrix:

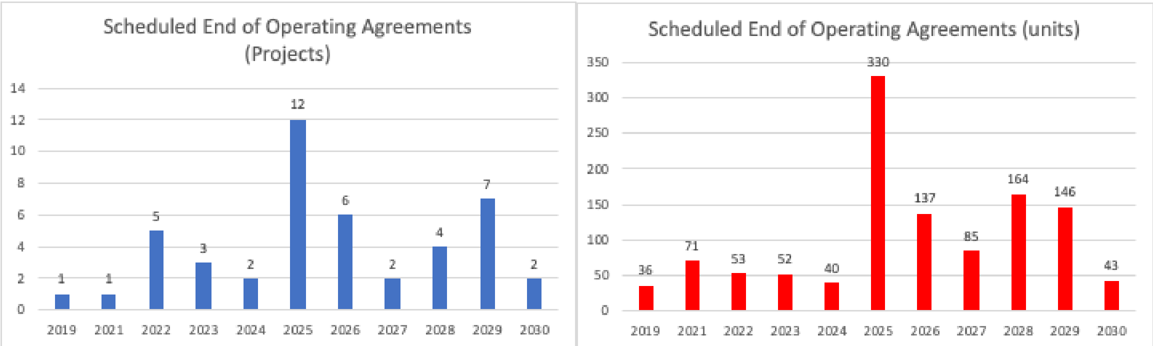
(2) Financially viable but insufficient reserves;
(3) Sufficient reserves but not financially viable;
(4) Insufficient reserves and financially unviable.

For each there are potential remedies involving repositioning the property with a gradual change in the mix of RGI and market units (improves NOI) as well as seeking new or extended subsidy.

Outcomes for the portfolio of Manitoba post 85 projects

Phasing of expiries

Because this portfolio of projects was developed and put into operation commencing in 1986, expiries commence in 2021. And immediately 5 projects end in 2021, followed by 2-3 per year in next 3 years. There is then a substantial increase in 2025, when 12 projects with 330 units are scheduled to expire.[2] With imminent expiries it is important to develop a policy on managing the impacts at expiry to avoid loss of these important affordable units.



Quick assessment

The post 85 program uses a deficit subsidy formula. This means that subsidy is paid (and adjusted following annual financial reporting) based on the deficit between total operating expenses, including debt service and contribution to capital reserves and the total revenues collected. Except for a small surplus subsidy reserve, no surpluses or retained earnings are permitted.

As a result, we can readily identify project viability at expiry by comparing the amount of the annual mortgage payment to annual subsidy. Since both expire concurrently where the subsidy is larger than the mortgage, the project is unviable without new subsidy.

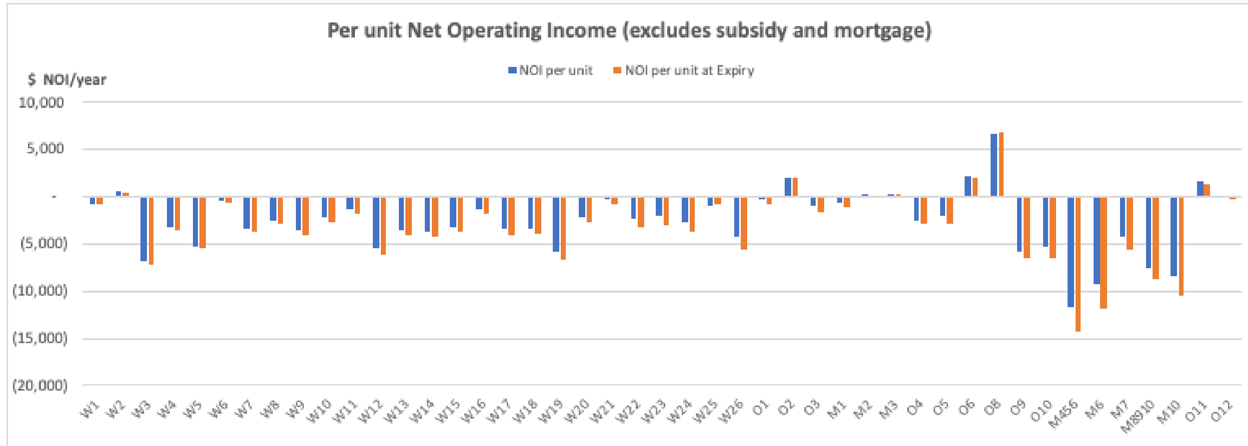
Across the sample of 49 projects all but 2 projects fail this test – both are senior projects with high average monthly rents and no debt.

Applying the SAT viability test

The SAT tool includes two viability assessments: setting aside mortgage payments and subsidy, does the project have positive net operating income (NOI) in the latest fiscal year reported; and projecting to the year of expiry, is NOI positive?

[2] As shown one project has already expired but was a special agreement with the province and subsidy continues.

The analysis reveals that 43 of 49 projects have negative NOI in both timeframes, and that because the rate of revenue increase lags the rate of increase in expenses, the extent of negative NOI increases over time to expiry. Across the sample the average amount of negative NOI per unit is $2,008 per year.



The five projects that are viable – i.e., would not require subsidy to continue operating at current rent levels are somewhat unique. This includes a very small (2 unit) family project with solid rent (over $800 per unit per month) and 4 seniors or mixed senior/special needs projects which also have strong rent revenues – i.e., they are not targeted to extreme low income.

Looking at projects that are not viable, and which will require renewed subsidy to continue operating at current RGI rent levels, this includes all but one family project as well as a small number of mixed tenant, seniors and some seniors plus special need projects.

A key characteristic of non-viable projects and more particularly those with the largest deficits is the rent revenue collected. RGI can include a mix of deep and shallow subsidy, and those targeting very low income will generate very low rents. This is more typical in family projects where the monthly rent collected is on average $405. This compares to higher average rents in the projects occupied by seniors. This likely reflects that reality that seniors' incomes are higher due to CPP, OAS and GIS.

Average monthly rent by client type	
Family	$405
Mixed senior and family	$500
Senior	$590
Special needs	$379

For those whose main income is from income assistance programs, including non-seniors and those on long term disability, a quirk in the benefit regulations results in extremely low rents paid and higher subsidy need. This is discussed later.

Applying the SAT Capital adequacy test

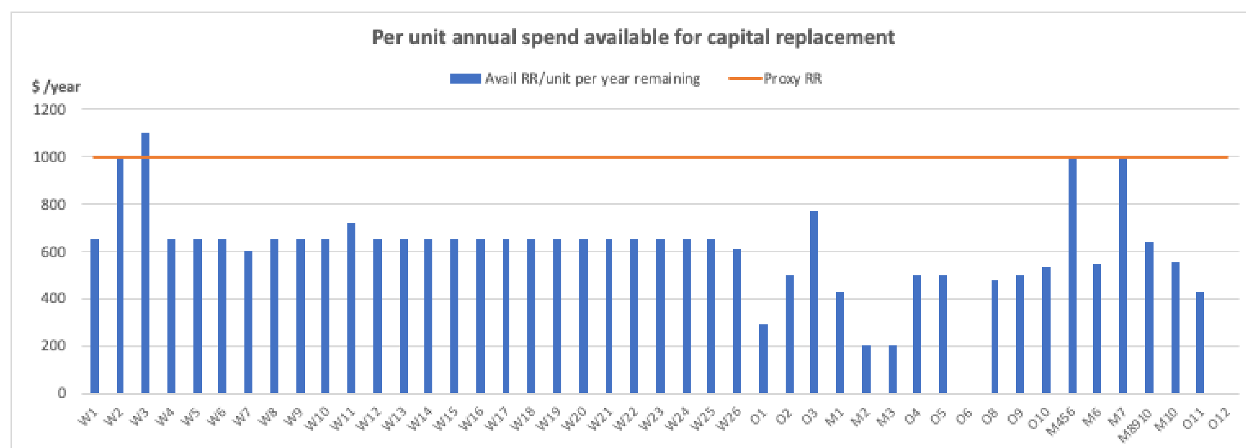
In addition to ongoing operating viability a second important consideration is the financial capacity to maintain properties in sound condition. As these properties approach 35 years in age there is a need to replace major capital items, such as roofs, boilers, and other mechanical features. And many social housing projects built originally with price constraints are not energy efficient and in need of energy retrofits.

In anticipation of future capital replacement need, all social housing is mandated to create and fund a replacement reserve, and this is an eligible cost for subsidy purposes. However, the mandated annual contribution was historically set quite low, and many providers have already expended some of the reserves to address replacement need.

Going forward, it is important that the reserves are well funded and renewed. Using lifecycle costing data engineering studies have determined typical replacement costs and schedules. Based on a typical project it is estimated that projects should have at minimum $1,000 per unit per year available in each of the remaining years of the operating agreement. This $1,000 amount is used here as a proxy to determine capital fund adequacy.

The SAT assessment determines how much the current balance of the replacement reserve plus ongoing annual contributions can provide to support capital replacement. Specifically, does the project have capacity to exceed the proxy benchmark of $1,000 per unit per year for the remainder of the agreement?

Only four of the projects meet this criteria. Most have capacity to spend just over $600 per year, likely insufficient to meet replacement need.



Combined outcomes

The two tests also work in tandem – where a project has insufficient capital reserves but has an operating surplus (cell 2 in SAT) it will have capacity to use this surplus cash flow to lever borrowing to fund replacement. However, if a project has both under-funded reserves plus

negative NOI, it has no recourse to borrowing to fund replacement (i.e., it is in cell 4 of the SAT assessment matrix).

Overall Assessment Matrix		
	Capital reserves	
	Sufficient	**Insufficient**
Positive NOI	(1) Project is viable, can maintain current RGI market mix and has sufficient capital reserve	(2) Project generates a cash flow surplus, but asset is under-maintained.
	none	**7**
Negative NOI	(3) Project is not viable but has good reserves	(4) The project is not viable and replacement reserve is insufficient. Project is at risk
	1	**41**

This assessment confirms that almost all the projects (41/49) are unviable and underfunded. Meanwhile one has positive NOI but insufficient reserves and seven have just sufficient reserves but an operating deficit (negative NOI).

This confirms that at expiry of the post 85 subsidy agreements the entire portfolio is at risk and will required renewed subsidy assistance and/or access to capital funds to complete necessary capital replacement to maintain assets in sound condition.

Reduced subsidy need

While renewal of subsidy is critical to the ongoing viability of these post 85 projects, the quantum of subsidy is substantially reduced from pre-expiry levels since there is no longer any debt service expenditure (unless financing is used to fund capital renewal).

Across this sample the aggregate annual subsidy expenditure (for last fiscal year, which for most is 2020) was $7.1 million; Estimating subsidy requirements after maturing of all mortgages the new aggregate subsidy required would be reduced by almost $5 million to only $2.4 million.

This does not capture any requirement to make up for insufficient funding in capital reserves, but it does include subsidy to sustain the current annual contributions to the capital replacement reserves.

Estimating current vs. future annual subsidy needed*	
Compare to current annual subsidy	$2,408,162
Required to be viable	$7,132,696
Current	$ (4,724,534)

* For sample representing one-third of projects/units

Note that this estimate assumes that all agreements ended in 2020. As illustrated earlier, these agreements and their subsidy gradually phase out so initially the amount required for expiring agreements would be much lower.

This operating subsidy requirement should be augmented by a detailed analysis of capital needs, which would require completion of building condition assessment (BCA) reports and preparation of capital renewal plans for each project. These more detailed capital plans can then be compared to current and annual incremental growth in reserves to determine any net shortfall for each project and in aggregate.[3]

NHS funding to help address this issue

The Canada Community Housing Initiative (CCHI) in the National Housing Strategy is a cost matched initiative designed "*to protect, regenerate and expand Social Housing and Community Housing and to reduce Housing Need in Social Housing and Community Housing, having regard to regional needs and priorities*". In short it was designed and included in the NHS specifically to address the issues associated with expiring operating agreements and the associated subsidy.

The bilateral agreement between CHMC and Manitoba details the annual subsidy to be provided by CMHC to assist in managing expiring subsidy issues (including insufficient capital funds). The bilateral agreement currently identifies funding over the first three years 2019-20 through 2021-22 – a period when 10 agreements with 220 units will reach the end of agreement.

The annual maximum amounts of CMHC funding for CCHI commenced at $2,160,600 million in 2019-20 and rise substantially to $6,010,300 (2020-21) and then $8,608,100 (2021-22). This is to be cost matched by Manitoba so total annual funding is double these amounts.

It is noted that this applies to all cost shared portfolios, including public housing (where deficits are greatest).[4]

Nonetheless this suggests that there is considerable funding to enable Manitoba Housing to renew and extend subsidy as appropriate in the post 85 projects where agreements are expiring. Estimates presented later in this brief suggest that the subsidy required to sustain and rehabilitate the post 85 portfolio would total roughly $8.5million annually, once all 1815 units expire. This compares to the 2022-23 annual CCHI funding of $17.2 million (matching Manitoba and CMHC contributions, as per bilateral agreement).

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[3] The building condition assessments should also be used to identified opportunities to redevelop and intensify sites – this may be a better option in sites where there is a large need for capital renewal, the property is in poor condition and the location (planning and zoning context) is in an area where intensification may be appropriate.

[4] The risk for the non-profit and co-op sector is that given large deficits and substantial capital renewal need, with no capital reserves for Public Housing, the province may seek to direct a disproportionate share to this portfolio, while leaving the community non-profit/co-op sectors under-funded.

How income assistance contributes to the problem

The previous analysis highlighted the impact of low rent revenues on operating viability. The average monthly rent revenues collected are lowest in the family portfolio while operating expenses tend to be higher due to larger units (vs. seniors and special needs portfolio). This in turn results in higher subsidy need per unit in family vs senior or mixed projects.

Many low-income families seek assistance under the provincial Employment and Income Assistance (EIA) programs and for many this is their primary source of income. Provider data reveal that in projects targeting families just over one-third (35%) of residents primary source of income is from EIA.

In cases where recipients of EIA are tenants in social housing there is an administrative conundrum in the process of calculating benefits and rents.

The issue is that the calculation of benefits in EIA and the calculation of rent in rent-geared to income (RGI) social housing are both formulae based, and the formulas are in conflict. EIA establishes the maximum benefit amount by adding basic income assistance and shelter assistance less any recipient earnings.

- The shelter component of EIA is set by regulation, based on household size and composition and is a variable with a maximum – the amount assessed is the lesser of actual rent paid or the maximum shelter component. Thus, it is necessary to know the actual rent charged.
- In social housing RGI rents are set as a percentage of gross income (less prescribed adjustments), so it is necessary to know gross income.

Thus, these two formula-based calculations are insolveable (if this was a spreadsheet it would generate a “circular reference error”).

To resolve this conundrum one of the variables (actual shelter cost, or gross income) must be set at a fixed rate. The process used is to formally regulate the shelter component at a specified amount, which like the EIA benefit varies by household composition.

Table 1: Comparing administrative RGI rents and EIA shelter maximums ($/month)			
Example Household	EIA Shelter Max	Social Housing Rent	Difference
Single	576	285	291
Lone parent 1 child (age 7-12)	896	387	509
Couple 2 children (age 7-12)	896	471	425
Sources:			
Social Rents https://www.gov.mb.ca/housing/rtr/portfolio-management/qc-and-pcd/mh-info-key-guide-2018.pdf; Social housing rent includes water, heat, electricity.			
EIA Max shelter: https://web2.gov.mb.ca/laws/regs/current/_pdf-regs.php?reg=404/88%20R			

In setting the rent amount by regulation (Table 1) the province has established rent amounts that are well below average market levels and considerably lower than the maximum shelter component, which would be payable to an EIA tenant living in private housing (i.e., not social housing and paying more than the maximum shelter component).

There are a number of consequences:

- First, the rent revenues collected for EIA beneficiaries living in social housing is substantially below what they would pay in private rentals and receive in the form of shelter benefit. This effectively means that the housing subsidy is large, and that Manitoba Housing is effectively cross-subsidizing the EIA budget.
- Second, these lower rent revenues undermine the financial capability of the social housing provider to generate sufficient rent revenue to cover operating costs.
- The low rents leave providers with insufficient revenue and thus requiring a project subsidy.
- The low rents create a disincentive to work where income is "taxed" at 30% under the RGI scale. A household exiting EIA to work may see a substantial increase in their rent, depending on wage level.[5]
- The appearance of low rent for EIA tenants adds to this disincentive – even though benefits cover the change, they perceive the higher rents based on earned income as a large rent increase, and thus disincentive to work.

If the project is receiving assistance from MHRC, the EIA regulation exempts the tenant from the EIA shelter amounts (that is, EIA Rent assist) and imposes the much lower administratively set rents. There is uncertainty about what happens at expiry if no further subsidy is paid. The implications and options at this juncture are discussed below, under potential remedies.

Potential remedies and options at expiry of operating agreements

This review has revealed that most of the projects under post 85 Operating Agreements will be at risk when they reach the maturity date of their agreements. Most will not be financially viable (negative operating income). In addition, the properties are aging and in need of capital renewal, but almost all projects have insufficient capital reserves to undertake minimal renewal.

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[5] For example, a single (or lone parent) working at minimum wage would have a gross monthly income of roughly $1,800 per month and be assessed a rent of $540, substantially higher than their rent while on EIA. Non-EIA Rent Assist may partially address this issue, however MNPHA research *Assisting Renters* (https://www.policyalternatives.ca/publications/reports/assisting-renters) found that the transition between EIA and non-EIA Rent Assist is not smooth or consistent, so some improvements in communications and awareness is needed.

In the absence of a policy response and asset preservation strategy from the Province, this entire portfolio of over 1,800 units is potentially at risk. The properties will continue to fall into disrepair, and rents charged to low-income residents will need to increase to cover operating shortfalls – pushing existing tenants into core need. Any reduction in the availability of low rent units may also impact efforts to reduce homelessness, as Housing First approaches depend on finding suitable housing at rents manageable within the income assisted benefit levels of those seeking to exit homeless shelters.

Several remedies are available to the Province and community housing sector. In exploring these it is acknowledged that both providers and their residents and Manitoba Housing seek a remedy that prioritizes preserving a stock able to serve lower income households. Ideally this can be achieved while also transforming to a more sustainable and simplified system:

- Utilize the CCHI funding stream under the NHS to extend current subsidy mechanism
- Review and reform rent setting practices
- Replace RGI project-based subsidy with person (household) based subsidy
- Capital funding to preserve and improve building condition

To illustrate how each might work, an average or an illustrative case can be used (Table 2). This is a family project in Winnipeg. As the label suggests, the average is that for this sample; the illustrative case is an actual project, with rents, operating costs, and capital reserve data. As noted above, many projects have insufficient capital reserves plus annual contribution, so the shortfall required is calculated based on being able to expend $1,200 per unit per year. [6] The operating deficit, plus this increased reserve contribution are added to generate the breakeven rent. This is assessed when the project has just reached expiry, and no longer has any mortgage payment nor subsidy. Adding the reserve shortfall to the operating loss determines the break-even rent.

New (extended) subsidy would be equal to the difference between break-even and aggregate rent (which is effectively the RGI rent, as 100% of units are RGI in the illustrative case).

Table 2: Illustrative case study ($ per month)

	Ave unit in sample	Illustrative case
Avg rent	459	385
Avg O/E	633	685
Annual Replace contribution	52	54
Replace Reserve shortfall	50	46
Breakeven rent	735	785
Required subsidy/unit	276	400

This data is now used to quantify the impact of each of the remedies discussed below.

[6] The SAT assessment used $1,000 as the amount of required annual expenditure for capital renewal; with rising replacement costs, a value of $1,200 is used here as a more current estimate of amount needed.

1. Utilize the CCHI funding stream under the NHS to extend current subsidy mechanism

The most obvious remedy is to draw on the CCHI funding that was included in the NHS specifically to manage the issue of end of subsidy. As suggested above, aligning expiry dates with the rising trajectory of this funding should enable the design and negotiation of new subsidy agreements, ensuring both capacity to sustain existing RGI levels as well as funding shortfalls in capital reserves (as quantified through a rigorous process of building condition assessments).

The committed funding quantum in the NHS bilateral agreement is configured to increase as current agreements expire. And with no more mortgage payments this existing legacy stock can be preserved, improved (and where appropriate expanded through redevelopment and intensification) with much lower subsidies than prior to expiry (when most of the subsidy was flowing to cover debt servicing costs). As shown in table 2, in the illustrative case the breakeven rent is $785, which RGI rent covers only $385, so monthly subsidy of $400 is required. The average across the sample is a monthly subsidy of $276.

While workable, this option perpetuates the need for ongoing project subsidy, and effectively just sustains the status quo; It is not transformational.

2. Review and reform rent setting practices

As identified (Table 1 earlier) low rent revenue, and associated non-financial viability is associated with unrealistically low rents set for EIA recipients. These very low rents undermine capacity of providers to operate viable sustainable portfolios. Such very low rent (compared to a notionally higher rent plus rental assistance) also create perverse disincentives to seek work for EIA beneficiaries able to work. It is noted that in family projects upwards of 35% of tenants depend on EIA and thus pay these very low, administratively set, rents.

Setting rents low is effectively a form of income assistance – it is reserving more of income for non-shelter expenditure – but shifts the subsidy obligation from the social security (EIA) budget to the housing budget. And more critically at the cost of undermining sound asset management.

To strengthen viability and enable providers to become more financially sustainable, and to strengthen work incentive in EIA, the rent regulations associated with MHRC subsidized housing should be reformed. Ideally the rent for EIA recipients should be set at the maximum shelter rate, based on household composition. This can be designed to ensure no impact on low-income tenants – it simply shifts the assistance expenditure from housing to the income assistance budget, where it more appropriately belongs).

Data provided estimate that tenants whose income is EIA, and therefore pay minimal rents, make up roughly 35% of family properties. If the rents in 35% of units (in portfolio and in the illustrative case) were increased to maximum shelter component this would improve total revenue and reduce the subsidy required from $400 down to $242 (the average across the

sample would be down to $208). This would lower housing subsidy, while increasing EIA costs, but be revenue neutral for the provincial budget. Tenants would receive an increased amount of EIA and pay the higher rent with no net impact on their after shelter benefit level.

It is notable that at expiry of the operating agreement, and the associated subsidy, if the project is no longer receiving subsidy from the province they are no longer "social housing". While still not-for-profit, providers can operate with rents at a break-even or low end of market level.[7] EIA tenants would be fully protected as outlined above; for non-EIA, resident affordability can be protected by replacing RGI assistance with Manitoba Rent Assist to address their affordability challenges.

Again using the data in Table 2: The breakeven rent is $785, we can assume market rent might be close to or slightly higher (although in some cases- poor condition and location, rents may be lower). Meanwhile the median market rent (MMR) used in Rent Assist for a family in a 2-bed unit is $1,149. Rent Assist now (effective June 2021) pays the difference between 80% MMR (i.e., $919) and 30% net income (here we use actual RGI rent as a proxy for this amount). So, in this case a non-EIA tenant paying rent at $385, would be eligible for $534 ($919-$385).[8]

This would substantially improve revenues for providers and, depending on the number of EIA recipients, substantially improve viability. And existing RGI tenants are fully protected under the new Rent Assist subsidy.

3. Replace RGI project-based subsidy with person (household) based subsidy

Building on option 2, with the view to evolving the community housing sector into a sustainable interdependent sector, the replacement of RGI social rents with Rent Assist would enable providers to operate with greater flexibility and ability to make decisions based on their individual business model and their organizational values (i.e., no project-based subsidy). Low-income tenant affordability would be transitioned from project-based subsidy to household-based subsidy, Rent Assist, which would directly address household affordability need.[9]

With rents set at a realistic near market level (as appropriate for that location and condition of property), the project would have sufficient revenues to operate as a viable enterprise. Non-profits would transition into social enterprise organizations – retaining their affordability

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[7] Some reviewers have noted a concern that charging market rents in many of their buildings would be very difficult because of the locations, desirability, current vacancy rates in Winnipeg, and size/design/upkeep of units. It is important to assess realistic rent – and if location and condition are poor, this should be reflected in a lower rent. The intent here is not to simply apply a median market rent; it is to incorporate adjustment for the specific property. Meanwhile since Rent Assist does use the market median, so the level of assistance would be calculated on that basis.

[8] The sample portfolio has a mix of unit sizes and household sizes. The majority are family units, so assuming an average is a 2-bed unit the average Rent Assist amount across the portfolio would be 80% MMR less 30% Net Income (average RGI) = $919-459 =$460.

[9] While household-based, it will be important for Manitoba to support direct rent payments from Rent Assist to housing providers as both tenants and landlords in the *Assisting Renters* research project agreed this prevents evictions and maintains good relationships between tenant and property manager.

mission, generating revenues to sustain assets in sound condition, using surpluses to build capital replacement reserves and/or to lever financing for major retrofits. Meanwhile tenant affordability is directly addressed by providing access to Rent Assist, an established and proven affordability mechanism in Manitoba.

The Province can draw on the Canada Housing Benefit (and potentially also the CCHI) to provide federal cost sharing for a broader Rent Assist program. An expansion of Rent Assist across all renters to deal with expiring social housing may create budgetary concerns for the province. An alternative is to design a Rent Assist sub-program, emulating Rent Assist but specifically for social housing, and to use cost match CCHI funding to fund this initiative in parallel to Rent Assist. This separate funding arrangement would be invisible to tenants, enabling seamless transition out of social housing for those wishing to move; [10] but would provide the province with a revenue source to avoid inflating the Rent Assist budget.

4. Capital funding to preserve and improve building condition

Generating realistic rent revenues would enable providers to continually add to existing capital reserves, as well as utilize financing to fund major capital replacement, levering the surplus rent revenues. The illustrative case has shown that a modest increase (on average adding $50/month) in monthly contributions to the replacement reserve can be readily accommodated in the breakeven rent.

This could also be augmented, especially in the short term, with a targeted retrofit program to fund capital renewal. This can draw on a range of funding sources including the NHS cost shared CCHI, the federal National Housing Co-investment Fund (NHCF) and the FCM social housing green retrofit fund.

Conclusions and recommendations

The imminent maturing of post 1985 social housing Operating Agreements presents an existential risk to affordable housing and to the large number of low-income core need households seeking help in Manitoba.

While new social housing will be needed to address demand, it is demonstrated here that compared to the cost to build new affordable homes, it is far more cost effective to sustain support to existing community housing, preserve and improve assets and ensure ongoing affordability for households in need and at risk.

The remedies described here assume phasing in as specific projects reach the expiry of their agreement so the fiscal impact would be gradual. That said, it would also be possible to convert the entire portfolio to this new subsidy model.

[10] Effectively, this would be like the US sec 8 voucher, with a parallel project-based and tenant-based streams, with CCHI effectively creating a project-based Rent Assist mechanism.

One option is to simply use the CCHI to extend or renew Operating Agreements (albeit with lower quantum of subsidy as projects at expiry become debt free). A better option however is to use this expiry context to transition and transform the way social-affordable housing is delivered and managed, including sound asset management.

As suggested above, rather than extend Operating Agreements and RGI subsidy, perpetuating an unsustainable funding model, once a social housing provider has reached the end of their agreement they could transition into a financially sustainable social enterprise and steward of a low-rent affordable housing stock.

This can best be achieved by levering off the established and effective Manitoba Rent Assist program to direct subsidy specifically to address affordability challenges at the household level. Preliminary modelling suggests that Rent Assist should provide, on average, sufficient subsidy (via the tenants) to fully offset any operating losses – in part because in most projects the break-even rents will most likely be below the 80% MMR benchmark in the Rent Assist formula. This would eliminate project-based subsidy, and in doing so eliminate the considerable administrative cost of financial accountability and reconciliation of project subsidy.

Housing this new mechanism under CCHI would both ensure federal cost matching and manage any impact on provincial budgets, as well as creating the option to create a supplementary fund in a case that the Rent Assist benefit level negatively impacts current tenants net (out of pocket) rent level.

Housing providers would be strengthened by realistic rent revenues as well as access where appropriate to retrofit finding as they complete asset management and renewal plans. As social entrepreneurs, they would remain bound to the social mission, to provide well managed affordable housing, but would operate in a new more sustainable way.

Meanwhile the province can target its financial resources to directly address to affordability challenges of low-income households, reduce and streamline its administrative activity and costs, and maximize leverage from NHS programs toward to shared goal of the National Housing Strategy – to reduce affordable housing need and end homelessness.

An ancillary issue is that as operating and subsidy agreements end, there is no ongoing regulatory framework or oversight over expired project providers besides the Residential Tenancies Act. It may be desirable to implement some form of regulatory regime to support providers as a risk management mechanism. This could be sector based, as in the Netherlands, or retained as a role for Manitoba Housing to protect historic investment. One option could be to adopt or emulate the administrative and performance management model developed by the Agency for Co-operatives, which collects annual financial and performance data to monitor performance and assess potential risk of unviable providers. This identification can trigger intervention to protect against loss of affordable projects, while maintain a "light-touch" approach for viable providers. A sound regulatory framework is also important as a form of credit enhancement, providing assurance to lenders (financing rehabilitation) of the operating performance of the provider.

Recommendations

It is recommended that the Province, through Manitoba Housing, pursue the following directions:

- In short term, utilize the CCHI to temporarily extend Operating Agreements expiring in 2021-22;
- Undertake a detailed financial review and building condition assessments (BCAs) across the post 85 portfolio to model future subsidy need, including sufficient funding to facilitate pro-active asset renewal and management;
- Design a reformed funding mechanism to replace RGI subsidy with Rent Assist directly targeting households in need as a parallel mechanism to Rent Assist, but framed and funded under CCHI;
- Facilitate and encourage a transformation in provider operating practice embracing the concept of social enterprise organizations;
- Establish or link to capital funding programs to enable providers to undertake necessary ongoing capital renewal to preserve and improve the existing stock; and
- Establish either a sector based or Manitoba housing regulatory framework, that can monitor for risk (poorly performing non-viable projects), while minimizing the degree of administrative oversight and cost.