Context matters: TCHC policy issues and options

A discussion paper for Councillor Ana Bailao and City of Toronto's working group on proposed sale of TCHC homes

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Toronto's affordable housing wait list reached an all-time record in May 2012 of 85,088 households. The previous record was set in April. Every month since the recession of 2008, the wait list has set a new record. The relentless upward climb of the wait list is a clear signal of the desperate shortage of affordable homes in the City of Toronto.

Toronto Community Housing Corporation's proposal to sell-off 674 affordable homes (including 65 recently approved by the province) will not only make the years-long wait even longer, but the TCHC proposal is contrary to actions in Chicago, New York City and other municipalities – which are adding to their scattered site affordable housing portfolios to meet the diverse needs of their communities.

Context matters in affordable housing, as in other complex social and health issues. Wellesley Institute analyst Steve Barnes' review of selected practices in the management of scattered site housing offers important insights from New York City, Chicago and other jurisdictions – where increasing the amount of scattered site housing within the overall affordable housing stock is an important public policy goal.

The Wellesley Institute's housing practice, which includes research and policy, local, national and international partnerships at the local, national and multi-sectoral collaborations, confirms the value of understanding and adapting good practices from other communities.

TCHC is concerned about its large and growing unfunded capital repair bill downloaded from the federal and provincial governments when they downloaded social housing a decade ago. But in its haste to generate funds, TCHC risks creating even greater, long-term costs for its tenants and for the City of Toronto through a rapid sell-off of a scarce resource – scattered site housing. Once the housing is sold into the private markets, it cannot easily be recovered as affordable housing.

The TCHC proposal to sell-off almost all of its scattered site housing will, in the most optimistic scenario, provide less than 12% of the annual capital repair funding shortfall estimated by TCHC. By shrinking the supply of affordable housing, the proposed sell-off will force the more than 85,000 households waiting for affordable housing to wait even longer.

Selling off the scattered site homes will make worse the devastating trend in Toronto towards increasing neighbourhood-based segregation by income and race – a trend that has profound consequences on the health and well-being of low and moderate income households, and also on the population health of the entire city.

In this paper, the Wellesley Institute sets out the equity and financial context that is critical to framing the best set of solutions for TCHC and Toronto. We offer a series of recommendations to the City of Toronto's working group on the TCHC stand-along portfolio.

Equity context

Toronto, along with other urban areas, faces a deep and persistent crisis in affordable housing. Precarious housing and homelessness are linked to a heavy burden of poor health and premature death. The city's central affordable housing wait list has set a new record every month since the onset of the recession in 2008. As of May 2012, the wait list was 85,088 households – an increase of 16% in one year, and up 27% since 2008. In May of 2012, Toronto received 2,515 new applications for affordable housing, while 287 applicants were housed. The numbers underline the urgent need to maintain existing affordable housing stock while adding new affordable homes.

Toronto is also experiencing a disturbing trend similar to many other cities – the increasing segregation of neighbourhoods by income and race. The *Three Cities* research from Dr David Hulchanski, along with *Poverty by Postal Code* from the United Way of Toronto, document this growing segregation over the past 35 years. Toronto Public Health's *Unequal City* report sets out the negative impact on health and well-being from neighbourhood inequality and segregation.

There is a human rights dimension to the neighbourhood-based segregation as low and moderate-income households, including those protected under the Ontario Human Rights Code, are increasingly excluded from a number of Toronto neighbourhoods. Ontario Human Rights Commission Chief Commissioner Barbara Hall, a former Mayor of Toronto, has written:

> "The OHRC has also been clear that affordable and supportive housing should be integrated throughout Ontario's communities to avoid 'ghettoization'. When designing housing projects, steps should be taken to integrate more affordable forms of housing into the broader community. In 2009, the OHRC presented this position in a deputation to the City of Toronto's Affordable Housing Committee. Since then, we have worked with the Ministry of Municipal Affairs and Housing and municipalities, including the City of Toronto, to address discriminatory neighbourhood opposition (also known as "Not in My Backyard" attitudes or "NIMBYism") to affordable and supportive housing projects. It is the OHRC's position that, to the greatest extent possible, people should be able to live in the community of their choice."
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> "The plan to sell TCHC's scattered housing units will further decrease the already limited stock of affordable housing in Toronto. These units were created deliberately to ensure that affordable housing options were integrated throughout the city, so that people of all income levels could live together in the same neighbourhoods. Eliminating these units will lead to a concentration of affordable housing options in specific parts of the city, thus increasing segregation or ghettoization of the individuals who live there, many of whom are identified and protected by the *Code."*
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> "I would urge you to seriously consider the potential negative impact of the sale of these units before allowing such a plan to proceed."

There is widespread recognition of the social, equity and health values that underpin inclusive neighbourhoods. Scattered site housing – affordable homes that would otherwise be out-of-reach for low-income people or those who require housing supports – plays a key role in meeting these equity goals.

After the sub-prime mortgage meltdown and subsequent recession in the United States, many homes were abandoned by owners. These abandoned homes are available at a very low cost to affordable housing providers and, in some communities, are being integrated into the city's affordable housing portfolio.

Some US initiatives to preserve affordable housing in scattered sites pre-date the 2008 recession. Pittsburgh's Northside Coalition for Fair Housing manages more than 300 single family homes that were acquired in 1998 when the previous landlord threatened to withdraw from a US affordable housing program.

Toronto doesn't face the same bleak landscape of abandoned housing. While housing experts debate the potential impact of a "correction" in ownership markets, no one is expecting a catastrophic US-style meltdown. The continuing high costs in Toronto's markets underlines the urgent need to preserve and maintain existing affordable homes in the scattered site portfolio. If the 700+ buildings in the TCHC stand-alone portfolio are sold into the private housing markets, they will be lost to the city as a source of affordable housing.

The Ontario government, in its Housing Policy Statement, requires that the City of Toronto (along with every other municipality in the province) develop a comprehensive plan to end homelessness and ensure a range of housing to meet the diverse housing needs of each community. The scattered site portfolio of TCHC represents an important resource in meeting the city's obligations under the provincial HPS.

Recommendation 1: Recognizing the social, health and equity values of scattered site housing, and the urgent need to reverse the growing segregation of Toronto neighbourhoods by income and race, the City of Toronto should ensure that existing affordable housing is preserved and maintained.

Recommendation 2: The Toronto Community Housing Corporation's 'stand alone' portfolio, much of it located in neighbourhoods that otherwise exclude low and moderate-income households, including persons protected under the Ontario Human Rights Code, should be preserved as affordable housing.

Recommendation 3: The City of Toronto, as part of its process to comply by 2014 with the Government of Ontario's Housing Policy Statement, should set out a strategy to increase scattered site housing throughout the city, including targets, timelines and funding.

Financial context: Funding cuts

Toronto Community Housing Corporation, like other public housing authorities in North America, faces uncertain finances. Almost all of its tenants are low-income and cannot afford to pay rent increases. Provincial rules set most of the rents in TCHC homes. Revenues from other sources are minimal (TCHC recently sold its interest in a laundry business, though it has preserved a revenue stream). TCHC has set in place plans to contain and reduce energy and other costs (though more work could be done in this area).

In addition to covering operating costs, public housing landlords face challenges in ensuring adequate capital reserve to maintain existing housing in a good state of repair over time. Much of TCHC's affordable housing was funded under federal and provincial housing programs, including the former Ontario Housing Corporation public housing stock. The cost of this housing was downloaded to the city a decade ago, without adequate capital reserves.

Massive cuts in funding, and cancellation of housing programs in the 1980s and 1990s has left Canada as the only major country without a national housing plan. Toronto will never be able to solve its housing woes as long as the federal and provincial governments are missing in action.

The provincial government in 2008 and the federal government in 2009 allocated some funding for repairs. However, the overall amount on offer was far short of the estimated unfunded capital repair shortfall that the senior levels of government downloaded to Toronto.

TCHC's government partners have been unreliable in providing adequate and stable revenues. The City of Toronto's 2012 budget notes that combined federal and provincial housing transfers were $559 million in 2010 (a high-water mark as the 2009 federal budget's stimulus dollars, plus matching provincial funding, were passed down) and are scheduled to drop to $467 million by 2014. The federal and provincial housing dollars are divided among all affordable housing providers in Toronto, with TCHC getting a significant share.

The Ontario Auditor General, in his 2009 report on provincial affordable housing, noted that federal investments will drop after 2014 and will shrink to zero in about 20 years.

In its 2012 budget, the City of Toronto cut $6 million from the TCHC subsidy. More recently, the City of Toronto has claimed an annual budgetary surplus of $292 million, but none of those funds have been earmarked for TCHC's unfunded capital repair shortfall.

The City of Toronto's Land Transfer Tax raises substantial revenues through a progressive tax on land and buildings, but none of the this tax is dedicated to housing purposes.

US public housing authorities face major financial issues in both maintaining existing stock and in funding new housing supply. They have access to a wider mix of funding options (though not necessarily to more funding) that include governmental grants and subsidies, tax credits, and financing through affordable housing funds at the national, state and local levels. There are an emerging number of social finance options ranging from social impact bonds to other financial instruments that remain relatively small in number, but hold a promising future.

The Commission on the Reform of Ontario's Public Services (the Drummond Commission) reported earlier this year. Many of its recommendations focused on health spending, but the commission did point to the financial challenges facing municipalities in maintaining existing affordable housing and building new homes. The Commission noted:

> "Social and affordable housing is provided by Ontario's municipalities. However, Ontario is responsible for setting rules and standards, flowing federal dollars to municipalities, and directly funding various housing and related support programs. Much of Ontario's social housing was constructed over 30 years ago, resulting in a need to invest in repair and rehabilitation work. At the same time, Ontario's population continues to grow and to age, which requires specialized affordable housing. In July 2011, the province signed a three-year bilateral agreement with the federal government for investment in affordable housing. The agreement will provide $480.6 million, cost-shared 50/50 between the federal and provincial governments, to fund the creation or repair of about 6,000 affordable housing units. There is currently no federal funding commitment beyond the end of the current agreement. The absence of an agreement with the federal government for affordable housing would impact both capital programs (repair and construction) as well as operating programs (rental supplements)."

The Drummond commission recommended:

> **"Recommendation 19-14:** Ontario should negotiate with the federal government to commit to a housing framework for Canada that includes adequate, stable, long-term federal funding and encourages its housing partners and stakeholders,

> including municipal governments, to work with the federal government to secure this commitment."

In addition, the Drummond commission noted that affordable homes are a vital part of the social infrastructure of municipalities, and that the provincial government has an obligation to work with municipalities to ensure that the social infrastructure is well-maintained:

> "About 40 per cent of public infrastructure in Ontario is owned by the province's 444 municipalities. Assets include roads and bridges, water and wastewater infrastructure, transit systems, affordable/social housing, solid waste facilities, public buildings, Conservation Authority infrastructure, and land. Since the 1950s, municipalities' share of public infrastructure has grown significantly."
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> "Municipalities are responsible for maintaining their infrastructure — a responsibility clearly defined through policies that govern municipalities. The province also has an ongoing obligation to help ensure the safety and sustainability of municipal infrastructure. The province accomplishes this through a variety of policy instruments (e.g., standards and inspections) as well as funding programs that support municipal infrastructure priorities. Despite these efforts, there are continual calls on senior governments to ensure adequate investment in municipal infrastructure."
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> "In recent years, there have been numerous efforts to quantify the need for investment in municipal infrastructure and develop provincial policies and funding programs in response. While policies have rightly focused on specific issues (such as drinking water safety), there is a need for a more comprehensive plan that points the province, municipalities and the federal government in the same direction as efforts are made to address the ongoing challenge of under-investment in the sector. While probably part of the solution, this challenge cannot be resolved through funding alone."

Recommendation 3: The City of Toronto should take up the Drummond recommendations for adequate, stable and long-term funding from senior levels of government for affordable housing in Toronto.

A significant part of the financial pressure on TCHC is caused by the provincial rules that set rent subsidies in social housing lower than those in private rental housing. These rules discriminate against social housing as the amount of subsidy per household is less in public housing than the equivalent amount for a tenant in a similar private rental unit.

In November of 2007, City of Toronto staff estimated that this provincial discrimination is shortchanging the city by about $77 million annually. Five years later, the number is likely much higher.

Recommendation 4: The City of Toronto should negotiate with the province to eliminate the funding shortfall created by discriminatory provincial rules for subsidies in social housing.

Financing tools and options

Affordable housing requires various forms of financing including funding to acquire land, finance construction, cover operating costs, and create capital reserves for future maintenance.

Affordable housing providers generate substantial revenues, but the revenues alone are not enough to cover all the costs, so affordable housing providers receive substantial subsidies – either directly in the form of grants or indirectly through payments that are made to tenants to help them pay a full market rent. With shrinking government investments, and a growing need both to properly maintain existing housing and also provide new affordable homes, Toronto – along with most other major cities in North America – is facing an deep and persistent affordable housing deficit.

There is an emerging interest, especially in the UK and US, in innovative social finance options. TCHC has some experience in issuing housing bonds in previous years.

Financing options used in other jurisdictions include a variety of tools such as inclusionary housing policies (which use planning and zoning tools to cross-subsidize housing).

There are specialized housing entities in the non-profit sector (such as the Canadian Alternative Investment Co-operative, which helps fund new housing) and the public sector (Infrastructure Ontario's affordable housing loan program and the Housing Services Corporation), but Toronto and Ontario do not have robust housing finance intermediaries such as housing finance corporations or community development financial institutions that have been created in the UK and US. As a result, TCHC and other affordable housing providers are left to manage complicated financial issues mostly on their own.

Recommendation 5: The City of Toronto should convene a process with willing partners, including those in the financial sector, to create a dedicated housing finance entity to generate a fund to finance existing housing and new supply.

Among the financing tools that could generate funds for TCHC and other housing providers:

1. ***Debt finance.*** TCHC has already issued bonds and, given a sufficient revenue stream, could issue new bonds. The City of Toronto could consider a bond issue or, with the participation of the federal government, a tax-exempt housing bond could be issued to help capitalize an affordable housing trust fund. Many US cities and states have housing funds financed with bonds or other instruments.

2. ***Equity finance.*** Affordable housing providers have substantial equity in buildings and land. This can be leveraged for new investments.

3. ***Direct subsidies.*** Grants were a foundation of Canada's national housing program from 1973 to 1993. Subsidies can be paid to housing providers or to tenants to cover the gap between the economic rent that a landlord needs to charge to cover costs, and the affordable rent that a tenant can afford to pay.

4. ***Social finance.*** Social impact bonds and other innovative financing mechanisms are being positioned for use in US and UK to finance affordable housing.

5. ***Inclusionary housing.*** Hundreds of US cities and several states use a variety of mechanisms to require a portion of affordable housing be included in all new developments. The mechanisms are structured to ensure that the private developer continues to realize a profit, while density increases or other incentives are used to cross-subsidize the affordable homes.

6. ***Affordable ownership housing.*** The UK and Ireland have used 'right-to-buy' schemes to transfer ownership of affordable homes to low and moderate-income households. There are several successful models of affordable ownership housing in Canada, including Habitat for Humanity.

7. ***'Non-profitization' of TCHC housing.*** TCHC has, in the past, transferred management or ownership of certain of its properties to non-profit, including co-op, management or ownership. The Wellesley Institute's survey of selected practices in managing scattered site housing showed that management of scattered

site locations by community-based non-profits is the preferred option in New York City, Chicago and other public housing authorities.

Recommendation 6: The City of Toronto should invite willing partners, including those in the financial sector, to examine the range of financing options available to fund Toronto's existing affordable housing stock, and also new affordable homes, and identify the most appropriate mix of funding instruments.

Recommendation 7: The City of Toronto, as part of its process to comply with the obligations set out in the Ontario Housing Policy Statement, should create a city-wide inclusionary housing strategy with appropriate zoning and planning rules, to ensure a healthy and equitable mix of housing in all parts of the city.

Calculating dollars + cents of sell-off

Toronto City Council's working group has a specific mandate to consider the proposed sell-off of the stand-alone portfolio of TCHC. There are substantial health, social and equity reasons for maintaining and enhancing scattered site affordable housing. However, the main rationale offered by proponents of the sell-off is that the sale of the scattered site housing to the highest bidder in private ownership markets would generate some funds which, after a variety of costs are deducted, would cover part of the overall capital repair shortfall claimed by TCHC.

In an October 2011 report to the TCHC Board of Directors, the interim Chief Executive Officer reported that TCHC spends about $50 million a year in operating funding on capital repairs. The CEO estimates that TCHC needs to spend about $150 million annually to ensure that its buildings are in a state of good repair – which leaves an annual capital repair shortfall of $100 million.

The TCHC report projects that the sale of the scattered site homes could generate as much as $336 million. Investing that money at an annual rate of 5% would generate an annual income of $16.8 million. However, after TCHC takes into account all the revenue gains and losses from the sale of the homes, the net gain is $12 million (or less, if the homes sell for less, or the annual income is under 5%).

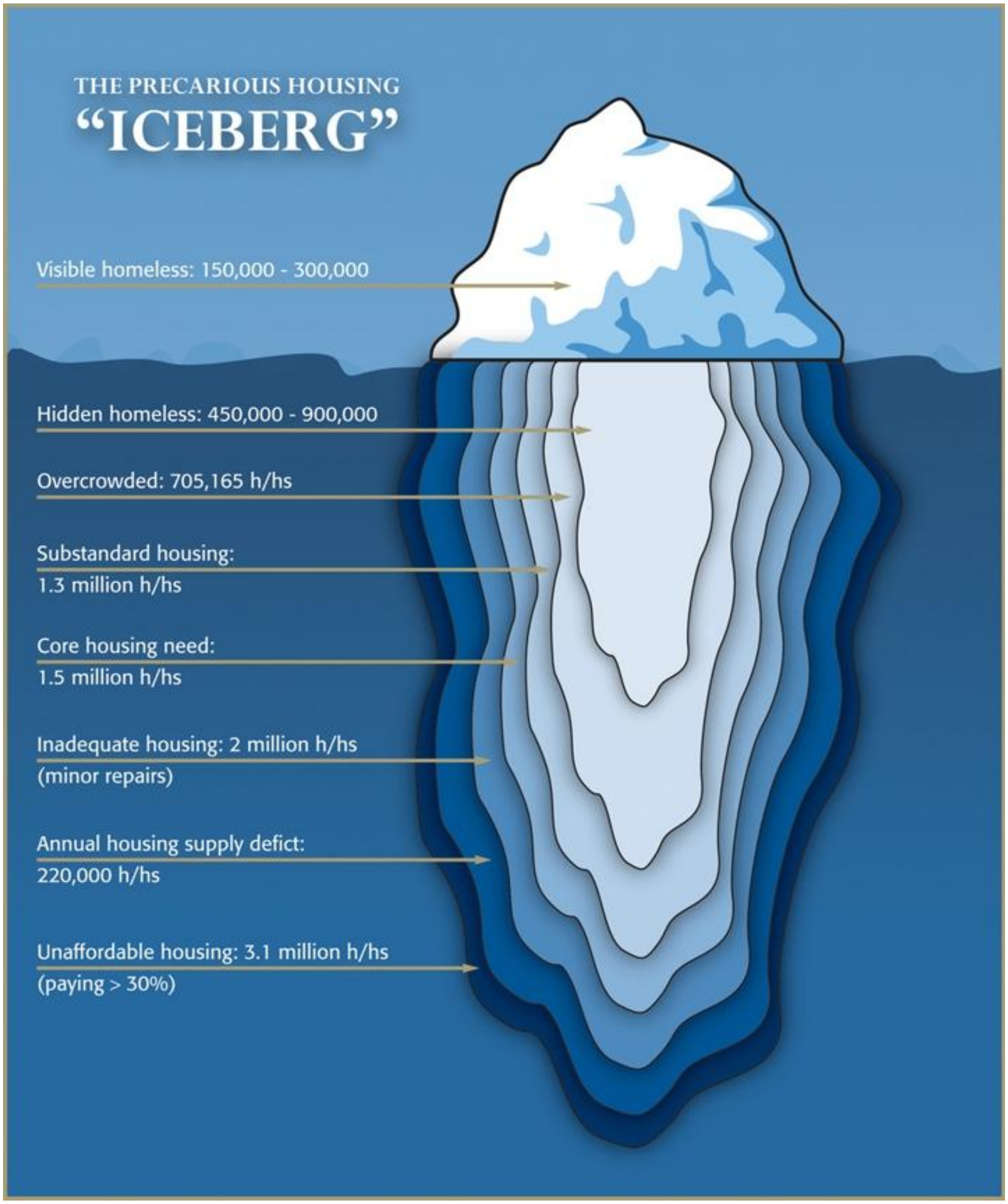
Using TCHC's most optimistic scenario, the wholesale sell-off of the scattered site homes would still leave TCHC with an annual capital repair shortfall of $88 million. The proposed sell-off makes hardly a dent in the TCHC's reported unfunded capital repair needs.

If any of the projections fall short (the sales generate a lower value; the annual return on investment is less than 5%), then the net annual gain from the sell-off of the TCHC homes slips even closer to zero.

The City of Toronto and TCHC have other practical options to address the annual structural operating shortfall in a way that doesn't damage the social well-being or population health of the city's neighbourhoods. Several options are noted in the previous section.

In addition, the City of Toronto's budget process always generates an annual surplus. The Wellesley Institute's Countdown to Zero report in November of 2011 noted that the average annual municipal surplus was $181 million in each of the five years up to 2011. The city's latest report of its surplus in the most recent fiscal year is $292 million.

Recommendation 8: The proposed sell-off of TCHC homes will create significant social, equity and health impacts and will generate only 12% (or less) of the annual funds required to meet TCHC's reported repair costs. TCHC and the City of Toronto should develop a detailed cost-benefit analysis and a health equity impact assessment to identify the better set of financing options to meet TCHC's repair needs.



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