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A Terrific Loss

The Expiring Social Housing Operating Agreements in Manitoba

By Sarah Cooper

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A Terrific Loss: The Expiring Social Housing Operating Agreements in Manitoba

For decades, social housing has been an integral part of Canadian housing and social policy. Between the 1950s and 1990s, the federal government played a leading role in housing policy by entering into long-term operating agreements with social housing providers. Through co-operatives, non-profit housing organizations, and municipal and provincial public housing corporations, almost 550,000 low-income individuals and families — about five percent of Canadian households — live in good quality, affordable housing. The expiry of these social housing operating agreements, which provide mortgage and rent subsidies, threatens the affordability of these homes and puts the stability of the low-income households who live in them at risk. This is a significant change in the landscape of Canadian housing.

The expiry of social housing operating agreements ends subsidies for social housing, affecting all social housing units.[1] In Manitoba, the capacity of the provincial government to support social housing will be reduced as federal funding for these subsidies is reduced. Non-profit organizations and co-operatives will no longer be required to provide subsidized housing, and many face financial challenges as their buildings age and require repairs. They will have to make decisions that, at least in some cases, are likely to adversely affect the low-income tenants currently living in the subsidized units. As a result, the overall number of subsidized housing units is dropping, making it even more difficult for low-income households to find good-quality affordable housing than is already the case.

To better understand the challenges and implications of this issue for social housing providers in Manitoba, interviews were conducted with key informants from the Province of Manitoba and from the non-profit housing organization and housing co-operative communities. These key informants included those well-versed in the policy issues affecting social housing in Mani-

1 Social housing is housing that receives ongoing government subsidies through an operating agreement, enabling the housing provider to offer affordable rents to low-income households on a long-term basis. It is different from affordable housing, which may receive a one-time government subsidy and may be more affordable than market housing, but which is usually not affordable to low-income households. For example, rental housing in Manitoba is considered affordable if the rent is the median market rent or less.

toba, as well as practitioners and managers of social housing who are working to address the immediate and imminent impacts of the end of their organizations' operating agreement(s).

In examining this issue, one challenge became immediately apparent: the lack of data. There is limited information about how these changes are affecting low income tenants. Once an agreement ends, the provincial government no longer has any formal relationship with the organization and there is no systematic way to track whether the housing charges or rents for a unit continue to be low. Units have been lost, as some organizations have stated, but information about the extent to which this is happening is unavailable. How many providers are reducing or eliminating their low-income and RGI units, whether as a result of financial difficulty or otherwise? How many households are in core housing need, and how is this number changing over time as agreements expire? This information will be difficult to gather, particularly as the data from the National Household Survey are not as accurate as previous Census data have been. Nevertheless, it is clear that the number of subsidized housing units will decline, reducing access to social housing for low-income households. It is also very difficult to find data about how housing providers are responding as their operating agreements expire. As social housing policy changes, so will the social housing sector, but to what extent and how remains to be seen.

This chapter begins with some background on social housing policy in Canada and Manitoba. It goes on to describe the challenges that emerge for housing providers as their agreements end, and then offers an analysis of the situation and some policy solutions.

Social Housing in Canada

In the past, Canada's social housing system was well-regarded around the world. Initially through public housing and later through the non-profit and co-operative housing programs, a nationwide system of subsidized housing was created, funded through public dollars at the federal and provincial levels. This approach relied heavily on federal tax powers to raise the required funds, and spread the cost of subsidized housing across Canadian society.

As social housing was built from the 1950s through the early 1990s, provinces, co-operatives and non-profit housing organizations signed operating agreements with the federal government. Earlier projects tended to be large-scale public housing complexes developed through partnerships between the provinces and the federal governments. After 1973, the agreements were often between a non-profit or co-operative, and the federal and provincial governments. This transition shifted provision of social housing from a centralized to a more local approach that relied on non-profits and co-operatives (Skelton 1996).

The operating agreements provided two main types of subsidy. The first was a "rent geared to income," or RGI, subsidy, which enabled tenants to pay a certain percentage of their income (usually 25–30 percent) as rent. The difference between that and the costs of managing the unit was provided by the government as a subsidy. The second was a fixed subsidy amount, which could be an upfront capital grant or an ongoing contribution toward mortgage payments. This reduced the initial capital costs, enabling the organization to charge a "break-even" rent which would be lower than the market rent for an equivalent unit.

The operating agreements also laid out terms for how the housing would be managed, including details about reserve funds, subsidies and eligibility requirements for the subsidized units. In most cases these agreements were set for the term of the mortgage, usually 35–50 years. Across the country, these agreements are now beginning to expire. Many already have and the majority will be expiring in the next two decades.

There is a lack of clarity about the plan for what was to happen after expiry. According to Steve Pomeroy (2011), the assumption behind the operating agreements was that once the mortgage was paid off, the operating costs would be covered by rents. The Government of Canada has made it clear that it considers its obligation fulfilled once the agreements expire (Government of Canada 2014). From the perspective of the non-profit housing providers and co-operatives, however, the matter is not so clear. The agreements are silent on this matter: they do not indicate what would happen once the agreements expire, and do not say that it is the responsibility of the housing provider to plan for the end of the agreements (Co-operative Housing Federation of Canada 2014). Moreover, many social housing projects—especially, but not only, those that are 100 percent RGI—were designed to rely on the subsidies to bridge the gap between rents and operating expenses. Without the subsidies, they cannot continue to provide rents affordable to their target populations (Canadian Housing Renewal Association 2014).

In Manitoba, since the late 1940s, social housing has been built under 52 different programs. Some programs were exclusively federal; others were offered by the federal government in partnership with provincial governments. For public housing, the operating agreements were signed by the provincial and federal governments. For co-operatives and non-profits, operating agreements were signed with the non-profit or co-operative, the Province (if it was involved in the program) and the federal government. In each case, the operating agreement included an expiry date based on the individual program but usually tied to the mortgage of the building. In most cases, the operating agreement expires when the mortgage is paid off. The social housing operating agreements in Manitoba have already begun to expire, and all will have expired by the end of 2032.

Although at first the federal and provincial governments both held responsibility for providing social housing, the 1998 Social Housing Agreement (SHA) transferred responsibility to the Province. This was part of broader shift in the 1990s by the federal government to freeze funding for new social housing development and devolve many social policy areas to the provincial level (Weaver et al. 2010). Prior to the signing of the SHA, housing programs were provided on a cost-shared basis between the federal and provincial governments. The Province contributed about 30 percent, while the federal government contributed about 70 percent of the funds. In recent years the amount the Province has allocated to housing has increased significantly; for example, the annual transfer payment to Manitoba Housing and Renewal Corporation has more than doubled, from $25,577,700 in 2002/3 to $63,469,000 in 2012/13 (Manitoba Family Services and Housing 2004; Manitoba Housing and Community Development 2013).

The SHA reduced bureaucracy and simplified the funding structure for social housing provision. Federal monies for housing continue to flow through the SHA, based on the existing operating agreements, but the federal government no longer has any responsibility for funding housing policy in Manitoba (though it still plays a role with some First Nation housing programs). However, SHA funds are fixed to a particular base year, and thus do not increase with inflation, limiting the value of federal dollars that are available. In recent years, federal transfers to provinces have stagnated, leaving provinces scrambling to make up the difference for healthcare, post-secondary education and social spending, including housing (Canadian Centre for Policy Alternatives 2014). As well, the transition to the provincial level has reduced the role of the federal government in promoting national standards for social housing across the country.

Social housing addresses the issue that low-income households cannot afford quality housing — that housing for low-income households does not generate enough revenue to sustain itself (Skelton 1996, following Lithwick). According to the 2011 National Household Survey, about 19 percent of Manitoba households spend 30 percent or more of their household income on housing, and about 35 percent of renter households spent 30 percent or more of their household income on housing (Statistics Canada 2011). The 2006 Census showed that in 2005, about 12 percent of all

Manitoba households, including 24 percent of Manitoba renter households, lived in core housing need (Canada Mortgage and Housing Corporation 2009). These figures point to a significant proportion of Manitoba households that cannot afford good quality housing.

Today, Manitoba has about 35,000 units of social housing, which include non-profit housing, co-operative housing and public housing. About 20–30 percent of the 17,500 non-profit and co-operative social housing units are RGI, while about 98 percent of Manitoba Housing's 17,500 units are RGI. Each of these types of housing faces its own challenges as the operating agreements end, and each housing provider is responding in its own way.

The Implications for Housing Providers

The social housing operating agreements started to expire in 1999 in Manitoba. By 2014, the agreements governing about 5000 units had expired, including about half the rural and Urban Native housing in Manitoba.

For housing providers, the end of the operating agreements can be an opportunity that provides increased flexibility. An organization is released from the constraints of its agreement, and is now free to move in new directions that are no longer constrained by the agreement's rules. Both co-operatives and non-profit organizations will be able to use the equity in their buildings to refinance and renovate their buildings, or to build new housing. Organizations with other sources of revenue, such as churches, can begin to think about starting new programs as they continue to provide subsidized housing. Co-operatives can create new programs and activities using the co-operative's space and resources both within the co-operative's community and in the broader community. Some organizations are considering new directions, such as creating economic development projects, to bring in funding for the subsidized units. They are still guided by their own internal processes and incorporation agreements (and in the case of co-operatives, by provincial regulations), but will be able to make new choices about programming, funding, and tenant selection.

Many non-profits and co-operatives have a mix of RGI and lower end of market (LEM) units. Once their agreement has ended, they are free to play with the RGI balance among the units. For example, an organization might raise some units to market or just below market rents, and use the surplus from those rents to subsidize RGI or LEM rents in other units. It also has the option of selling some units and reinvesting the proceeds in its programs, and could use the surplus to boost its reserve fund or to finance capital projects. It is possible that an organization could increase the number of subsidized units it offers, though without ongoing funding this is very unlikely. It is more likely that an organization will reduce the number of RGI units it offers to balance its budget.

The main challenge facing social housing providers — and the challenge that will have the biggest impact on the social housing system — is the end of the subsidies themselves. All the RGI units whose agreements have expired are facing financial difficulties, because they require some form of subsidy to continue to provide housing to the same low-income household demographic. For example, the tenants at one non-profit organization pay about $350–400 per month for their RGI rent — this is the amount provided by social assistance. However, it costs the non-profit an additional $400–450 per month to manage the unit, including ongoing maintenance and contributions to the reserve fund. This amount is the subsidy currently provided through the operating agreement. Once the subsidy is no longer provided by federal or provincial funds, this significant cost will have to come from the organization's own budget.

At the same time, non-profit organizations and co-operatives face the challenge of maintaining aging buildings. In many cases, the expiry of the operating agreements at the 25 to 50 year mark coincides with buildings that are just beginning to need what may be significant renovations and upgrading. In other cases, where the non-profit or co-operative bought existing buildings at the start of its agreement, the buildings may be quite old and need even more significant upgrades. The reserve fund was intended to provide funds for capital improvements to the buildings.

The challenge is that some non-profits and co-operatives do not have adequate reserve funds in place. Some co-operatives and non-profits say that their operating agreements limited their contributions to the operating fund, and that once the fund reached a certain amount it was capped. The Province argues that the operating agreements offered suggestions for how big the reserves should be, and that organizations were free to save beyond that amount. At the same time, however, Manitoba's historically slow housing market kept rents low. In some cases, expenses increased faster than rents, resulting in deferred maintenance or smaller reserve fund contributions. Some non-profits and co-operatives tried to keep rents as low as possible by paying their fixed expenses and reducing contributions to the reserve fund. Although this may have benefitted the tenants in the immediate term, over the long term it has resulted in significant amounts of deferred maintenance and the likelihood of increased capital costs. These organizations now find themselves in dire straits as the end of their agreement nears, their buildings age and their reserve funds are low. While an older unit may be rentable at a low rental rate, it is unlikely that many people would want to rent it at market rate unless it is upgraded; for some organizations, this upgrading may not be affordable.

Refinancing is one way to address this issue. However, many financial institutions are not familiar with how co-operatives or non-profits work, and may need education on the kinds of financing that are needed. More importantly, after expiry, the actual amount of subsidy required to bridge the gap between the RGI rent and the operating cost should be lower than the original subsidy, because the mortgage has now been paid off. For example, in the case of Urban Native housing, the mortgage principal and interest payments are about 32 percent of the subsidy provided. Once the agreement expires — and the mortgage matures — the unit should only require two-thirds of its current subsidy to continue to provide RGI housing. If organizations refinance, the "savings" from paying off the first mortgage disappear.

100 Percent RGI and Public Housing

For non-profits and co-operatives that offer 100 percent RGI housing, the challenges posed by the end of operating agreements are particularly significant. If 100 percent of the units are subsidized, there are no extra funds that can be moved around to adjust rents or create subsidies. When the operating agreements end and the subsidy disappears, there is nowhere for the non-profit to find the additional money needed to bridge the gap between what the low-income household pays in rent, and what it costs to manage the unit. In these cases, rents/housing charges will not be sufficient to cover the costs of managing and maintaining the buildings over the long term.

To cover its ongoing operating costs, the organization will most likely have to sell or raise rents/housing charges beyond RGI levels in at least some units to offset the subsidies it provides. This would mean the displacement of low-income tenants and the permanent loss of RGI units. Another option is to refinance the buildings to cover capital costs, though, as noted above, that would increase the monthly cost of providing the units and negate the benefit of having paid off the mortgage.

All of the Urban Native[2] organizations are 100 percent RGI; they will all require assistance to maintain their current level of RGI subsidy. Some have already lost units as their agreements have expired. The Province has made a five-year commitment to assist the Urban Native organizations to continue to provide the subsidized units.

Like the non-profit and co-operative housing, public housing — housing owned and operated by Manitoba Housing — is also facing the expiry of its operating agreements. Almost 100 percent of the public housing in Manitoba is RGI, and without additional funds, Manitoba Housing faces a significant challenge in continuing to deliver housing subsidies and maintain and manage its units as agreements expire.

Although in some ways Manitoba Housing can draw on a larger pool of resources than any single non-profit or co-operative, it is competing with the many other demands and needs in the overall Manitoba budget process. It also has a broader mandate of supporting housing for all of Manitoba — including through non-profit and co-operative housing providers — and is subject to public opinion in a way that other non-profits and co-operatives are not. There is public debate and discussion about how Manitoba Housing operates, as well as pressure from advocacy groups. In addition, there is a broader policy framework, stretching beyond housing to include other social welfare and economic priorities, that directs how Manitoba Housing operates.

These factors affect Manitoba Housing's ability to continue to provide RGI public housing and to carry out its broader mandate of delivering housing programs across Manitoba as its agreements expire. When combined with increasingly limited funds, they put pressure on Manitoba Housing to focus on meeting immediate basic needs for those who would be unable to find affordable housing in the private market. These factors also limit Manitoba Housing's ability to try new things, to modify its programs and develop new strategies to provide low-income housing (e.g. providing a mix of lower-end of market and RGI housing, rather than just RGI). The focus on meeting basic needs reduces the Province's capacity to offer more cost-effective homelessness prevention programming, such as renovation programs which help people keep their houses in good repair, and supports for families and seniors that build individual and community capacity at a broader level.

Over the short term, most housing providers are not facing the same challenges as the 100 percent RGI providers. The Province of Manitoba has determined that, of the 26 Manitoba non-profit organizations and co-operatives with agreements expiring before 2016/17, only five will require assistance. These five are non-profits and co-operatives with a mix of RGI and lower end of market units. Only two of those five face significant challenges with their reserves and capital expenses; the other three will be able to address their operating deficits with small changes to their revenues and expenses. Where necessary, the Province has also made a five-year commitment to these organizations to continue to provide the subsidy as they work to get their finances in order.

2 There are two types of housing providers in the Urban Native portfolio. After the Social Housing Agreement transferred responsibility for social housing to the Province in 1998, housing providers affiliated with First Nations kept their relationship with CMHC, and do not have a relationship with the Province. The others, that did not have a First Nation affiliation, moved to the Province. In this chapter, the Urban Native portfolio refers to those organizations that have a relationship with the Province of Manitoba.

Analysis

As the situation now stands, the expiry of social housing operating agreements will have a significant impact on the housing system in Manitoba. Non-profit housing providers and co-operatives will be freed from the restrictions and obligations imposed by the operating agreements. The end of operating agreements may enable them to be more flexible and creative in how they administer and manage their housing.

On the other hand, as organizations are no longer bound by their operating agreements, they may have little option but to change the type or level of subsidy they offer. While many non-profits and co-operatives were established with a mandate to provide affordable housing, and will continue to do so, the number of units they offer and how affordable those units are may change. It may be that offering as many or as deep subsidies as previously is not financially possible. As expenses rise, the need to balance budgets is likely to push housing providers to reduce the extent of the subsidies they provide.

Non-profits and co-operatives may also change their target groups or prioritize higher income populations, once the tenant selection requirements in the operating agreements no longer apply. This is likely to adversely affect households at the lowest income levels, as organizations address the financial implications of the expiring agreements. As well, it is likely to negatively affect those considered ‘hard to house’ or otherwise undesirable as tenants, who are less likely to be selected. Some organizations have already moved in this direction, and see this as an opportunity. For others, the prospect of kicking low-income tenants out is a major concern, particularly when it is clear that there are few affordable units available elsewhere. While organizations are certainly free to make the best decisions for themselves to preserve their long-term viability, the overall result of these changes is that there will be a loss of units for the low-income households who rely on subsidized housing.

When their agreements end, co-operatives and non-profits face the challenge of addressing competing priorities. Should they continue to offer subsidies? Should they increase rents/housing charges to cover the subsidies? Should they reduce rents/housing charges? Should they reduce the subsidies and use the funds instead for major capital repairs? Should they reduce the subsidies and have a small surplus, which can be invested in the reserve fund for future needs? Although it affects both non-profit and co-operative housing, this issue is particularly visible in the co-operative housing model, which depends on an actively engaged membership. In this model, co-operative members are engaged in the governance of their housing. They are the ones who will make decisions about how the co-operative will be run, who will live there, and how much their housing charges will be. Key informants from the co-operative housing community note that while many members are undoubtedly committed to continuing to provide housing subsidies, others may not want to pay a higher rent/housing charge than their neighbours each month if it is seen as subsidising others.

The gradual shifting of responsibility for social housing from the federal government to the Province and now, as operating agreements end, to the housing providers themselves, began in the 1970s. This process is directly connected to the off-loading of federal fiscal responsibility, putting increasing pressure on provinces and municipalities to provide services without increased capacity to raise revenues to pay for these services. It results in a patchwork of uneven benefits across the country, varying with the capacity and political will in different areas. Rather than addressing housing need at a holistic, societal level, the end of operating agreements — and more precisely, the lack of ongoing subsidy and support — puts the onus of providing social housing on much smaller organizations and groups of people.

This shift atomizes social housing provision and reduces the role of the government. For a non-profit or co-operative to provide subsidised rents, particularly if deep subsidies are needed, places a disproportionate burden on the organization and its relatively small number of members, and reduces broader society's contribution. It becomes a question of individual decision-making and charity rather than collective, systemic responsibility for low-income housing provision. Further, the capacity of the sector to organize and advocate on behalf of its organizations and tenants is reduced. Ensuring that everyone has good quality, affordable housing benefits all of society (Glynn 2009); the responsibility for, and cost of, providing this housing for those who cannot afford housing in the market should be shared equally.

Solutions

There is no single solution to this emerging situation. A comprehensive, multi-level approach is needed, with input from local housing providers and financial commitments from the federal and provincial governments, to ensure that low-income people in Canada have access to good quality subsidized housing. In the immediate term, preserving the existing social housing is key; in the longer term, we must build more social housing.

The fundamental block to addressing the emerging social housing crisis is the lack of political will. High levels of housing need across Canada and in Manitoba combined with a shortage of affordable housing demonstrate a need for long-term, dedicated funding for housing subsidies and construction. Activists have been calling for a national housing strategy for years, with little success. The Canadian Housing Renewal Association is working to build a national campaign by uniting the many individuals across the country who are concerned about housing. By creating a loud and coherent voice across the country, it will raise the issue of social housing and put pressure on decision-makers.

As noted above, one of the biggest challenges in adequately responding to the issue of expiring operating agreements is the lack of data on the potential impact, and the magnitude of the loss of units. While it is good news that only five organizations in Manitoba are facing imminent financial difficulties, it is unclear whether the other organizations are continuing to offer subsidized lower end of market or RGI units, and whether they will be able to continue to offer those units into the future. To address the lack of data about loss of units, a database of current social housing providers should be created to track the numbers of RGI and lower end of market units available, their location and the amount of subsidy required. The database could be housed with the Manitoba Non-profit Housing Association. These data can then be compared with statistics on core housing need and income (available from the National Household Survey and Canada Revenue Agency) to identify how much social housing is needed and where.

The Government of Canada's newly adopted Housing First approach is intended to provide permanent, rather than transitional, housing for homeless people. This approach highlights the need for (and lack of federal commitment to) long-term subsidies and supports for social housing as well as for measures to prevent homelessness rather than simply addressing it after the fact. The federal government should work with the provinces and territories to ensure that sufficient funds are available to enable them to address their housing needs. Currently, the federal government spends about $1.7 billion dollars per year on the social housing subsidies (Government of Canada 2014). As the agreements expire, these funds should be reinvested in long-term RGI and operating subsidies, and in new social housing construction. This is in addition to the funding provided through both the short-term Investment in Affordable Housing, and the Homelessness Partnering Strategy, each of which has recently been renewed through 2019.

The Province of Manitoba has taken a leadership role in responding to the end of operating agreements. It is working with the Manitoba Non-profit Housing Association and with housing providers to ensure that they are aware of and developing strategies to deal with the end of their operating agreements. It also participates in a federal-provincial-territorial working group focused on the sustainability of the social housing stock, and continues to raise the issue of funds for social housing with the federal government. Although the Province understands the need, it is unwilling and, at this point, unable to make a long-term commitment to funding social housing. It must continue to raise the issue of funding for social housing with the federal government. It must also maintain its commitment to social housing, and its ongoing commitments to increase the amount of social housing available in the province.

Finally, housing providers and their networks must continue to build relationships and to lobby for a solution to the social housing crisis that the end of operating agreements has created for many low-income households. They should also continue to develop creative solutions to reduce the cost of providing social housing (e.g. bulk purchasing), to work with financial institutions to reinvest in and maintain their buildings, and to support non-profit organizations and co-operatives through programs that will help them develop strategic plans and goals to deal with the end of their operating agreement.

Conclusion

While most housing providers will not face significant financial challenges at the end of their operating agreements, they may survive at the cost of reducing the number of subsidized or heavily subsidized units that they provide. This will have significant implications for the tenants who live in those units today, for low-income households who may need subsidized housing into the future, and for the social housing sector as a whole.

Two questions emerge from this situation: "what is the impact on low-income households when they have to move or reduce essential spending because their rents increase beyond what they can afford?" and "what is the impact on the social housing sector as capacity to provide social housing is reduced?" Further research is needed to understand the full impact of the end of the operating agreements. While many challenges and opportunities across Manitoba and across the country are shared, others may be different, particularly for those in rural or Northern areas. Understanding the scope of the issue, and how co-operatives and non-profits are responding, will help to clarify the impact on different regions and populations, as well as on the sector as a whole.

As the capacity and role of non-profits, co-operatives and Manitoba Housing to deliver subsidies is reduced, and as the policies and decision-making about how subsidies are made available are localized to individual housing providers, the policy framework and social directive to ensure that everyone in Canada has good quality, affordable housing is weakened. In a context of shrinking social programs and spending, social housing is at the forefront of the fight to save the social safety net.

Awareness of this new reality is growing across Canada. The Big City Mayors' Caucus of the Federation of Canadian Municipalities has identified the current state of housing, including the ongoing loss of social housing, as a crisis (Federation of Canadian Municipalities 2013). The Canadian Housing Renewal Association, along with non-profit housing associations and housing providers across the country, is calling for greater investment in social housing (Canadian Housing Renewal Association 2013). Many other organizations and individuals have also raised their voices to demand that social housing be protected.

Despite these expressions of public concern, social housing agreements continue to expire without an adequate strategy in place to address the need for ongoing subsidies. Many organizations and co-operatives whose agreements have not yet expired are beginning to discuss how they might address the end of their operating agreements, but many are also waiting and hoping that the situation will change. There is a persistent hope and belief that the government will not let social housing units be lost and people be displaced.

However, for the tenants of the 100 percent RGI housing organizations that have already experienced the loss of subsidies and units, it is already a reality — and one that seems unlikely to be remedied in the near future. As one key informant described it, "the biggest threat is that [housing providers] will not continue to provide the kind of accommodation for low-income people that they currently do, which would be a terrific loss, and I don't know where those people would go." The full implications of this transformation of Canada's social housing system, which is already underway, remain to be seen.

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