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**REPORT TITLE: Housing State of Good Repair Needs and Funding Gaps**

**FROM: Sean Baird, Commissioner of Human Services**

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## **RECOMMENDATION**

- 1. That a commitment to the state of good repair needs across the community housing system in Peel, as outlined in the report from the Commissioner of Human Services, listed on the June 22, 2023 Regional Council agenda titled “Housing State of Good Repair Needs and Funding Gaps” be supported; and**
- 2. That it is recommended that Peel Housing Corporation request grants to fund future capital repair requirements through the annual Peel Region Housing Support budget.**

## **REPORT HIGHLIGHTS**

- As the service manager for the community housing system, Peel is responsible for monitoring, and in most cases maintaining, the condition of housing stock from emergency shelters to affordable housing.
- Over the next 10 years, the projected gross capital repair needs for Peel Housing Corporation, the 46 external community housing providers and Peel owned housing is \$872 million. After factoring in \$194 million in reserve contributions over the same 10-year period, the unfunded gap is \$678 million.
- The recommended long-term financing plan for the housing state of good repair liability was through Peel’s 1 per cent Infrastructure Levy. As the implications of Bill 112 are unknown, requests for funding will be subject to 2024 Budget approval.
- Staff recommend that Regional Council commit to supporting state of good repair needs across the community housing system in Peel.
- Staff also recommend that PHC request capital repair funding grants through the Housing Services annual budget, as PHC is wholly owned by Peel.

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## **DISCUSSION**

### **1. Background**

#### **a) Devolution of Community Housing**

In 2000, the Government of Ontario devolved the responsibility for community housing (formerly referred to as social housing) to 47 Service Managers. This responsibility was downloaded without adequate funding to maintain the stock over the long-term, as buildings aged, capital repair requirements grew, and the demand for affordable housing increased.

## Housing State of Good Repair Needs and Funding Gaps

Unlike all other provinces in Canada, municipalities in Ontario are the primary funders of community housing. It is estimated that 77 per cent of community housing expenditures are funded by municipal governments in Ontario, even though municipalities lack progressive revenue tools such as income taxes to secure funding. Peel's investment is even greater, with the municipality funding over 85 per cent of community housing.

### b) State of Good Repair Responsibilities & Challenges

An important component of the Service Manager role is monitoring the condition of community housing assets. In Peel, this includes the assets owned by Peel Housing Corporation (PHC) and the 46 external community housing providers governed by the *Housing Services Act, 2011*. PHC is the largest community housing provider in the region and is wholly owned by Peel.

Peel works with these providers to plan the investments needed to maintain a state of good repair. Providers are required to contribute annually to their respective capital reserves:

- PHC contributes on average \$9 million per year (under the Act, PHC is mandated to contribute approximately \$2.3 million per year). Reaching this contribution level is a balance between state of good repair and operational pressures.
- The external housing providers contribute approximately \$3.2 million per year.
- Over a 10-year period, the total reserve contributions are \$138 million.

These amounts alone are insufficient to fund capital requirements, and provincial and federal funding for repairs has been limited. Since 2009, Peel has received approximately \$72 million from other levels of government to support state of good repair needs across the community housing system.

In response, Peel implemented the Capital Infrastructure Loan (CIL) Program in 2011 to provide financial assistance for repairs to these providers, including PHC. Peel contributes approximately \$2.8 million per year to the program, but the current need has outpaced the available funding.

The CIL Program was suspended in 2021 so that a review of the capital repair needs across the community housing providers could be completed.

Peel is also responsible for maintaining the state of good repair across its own housing assets, which include emergency shelters, transitional housing facilities and affordable housing. As such, these assets were included in the review to better understand the needs across the housing continuum, from emergency shelters to affordable housing. On average, Peel contributes approximately \$1.9 million per year to capital reserves for these assets (\$19 million over a 10-year period).

Overall, a total of \$194 million is projected to be contributed to capital reserves to fund the state of good repair over the next 10 years from the community housing providers and Peel.

The purpose of this report is to provide an overview of the findings from the state of good repair review, including the projected capital expenditures and funding gaps over the next 10 years, and the financial impacts to Peel. This report also recommends that Regional Council commit to supporting state of good repair needs across the community

## Housing State of Good Repair Needs and Funding Gaps

housing system in Peel, and that PHC be removed from the CIL Program and instead request capital repair grant funding through the annual budget process.

### 2. State of Good Repair Review

In November 2021, Housing Services partnered with KPMG to complete the state of good repair review across the community housing and Peel owned housing assets. The purpose was to:

- Assess the funding gap for the capital requirements needed to maintain a state of good repair.
- Complete a jurisdictional analysis of comparable municipalities to understand their capital funding approaches.
- Assess the effectiveness of the CIL Program.
- Assess funding options that support the long-term sustainability of the housing system.

Table 1 provides an overview of the housing portfolios that were included in the review:

**Table 1: Overview of Housing Portfolios**

Housing Portfolio	Details
<b>Community Housing Providers</b>	
PHC*	<ul style="list-style-type: none"> <li>• 6,694 units</li> <li>• Majority of units are apartments, with some walkups and townhouses</li> </ul>
External	<ul style="list-style-type: none"> <li>• 46 providers</li> <li>• 5,330 units</li> <li>• Majority of units are apartments, with some walkups and townhouses</li> </ul>
<b>Peel Owned</b>	
Affordable housing	<ul style="list-style-type: none"> <li>• 8 apartment buildings</li> <li>• 1,171 units</li> </ul>
Emergency shelters	<ul style="list-style-type: none"> <li>• 4 shelters</li> </ul>
Transitional	<ul style="list-style-type: none"> <li>• 1 transitional house</li> </ul>
Vacant	<ul style="list-style-type: none"> <li>• 1 vacant house to be re-developed</li> </ul>

*\*PHC is a community housing provider, but wholly owned by Peel*

Housing Services developed a working group with representation from Housing Services, PHC, Corporate Finance, Real Asset Property Management (RPAM), Capital Asset Management (CAM) and KPMG.

### 3. Findings

#### a) Condition of Assets and Projected Capital Expenditure Needs

Table 2 provides an overview of the condition of the housing assets and capital expenditure needs across the three housing portfolios:

**Table 2: Condition of Housing Assets and Capital Expenditure Needs**

Housing Portfolio	Capital Expenditure Needs (\$ millions)	Condition Assessment
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## Housing State of Good Repair Needs and Funding Gaps

	10 Years	25 Years	
PHC	\$710	\$2,192	<ul style="list-style-type: none"> <li>• 51% of the stock is in a state of good repair.</li> <li>• 73% of buildings are over 30 years old, and 6% of these buildings are over 50 years old.</li> <li>• 55.5% of the total 10-year capital expenditures will be directed toward critical repairs, where maintenance is not easily deferred without compromising the integrity of a building (e.g., foundation, roofing, fire protection), and 31% will be directed toward functional components (e.g., HVAC, electrical, plumbing).</li> </ul>
External	138	594	<ul style="list-style-type: none"> <li>• 87% of the stock is in a state of good repair.</li> <li>• 69% of buildings are between 20-30 years old, and 6% of buildings are over 50 years old.</li> <li>• 48% of total 10-year capital expenditures will be directed toward critical repairs, and 38% will be directed toward functional components.</li> </ul>
Peel Owned	24	248	<ul style="list-style-type: none"> <li>• 100% of the stock is in a state of good repair.</li> <li>• 73% of buildings are under 20 years old.</li> <li>• 21% of total 10-year capital expenditures will be directed toward critical repairs, and 48% will be directed toward functional components.</li> <li>• Emergency shelters have greater capital expenditures both overall and per square metre.</li> </ul>
<b>Total</b>	<b>\$872</b>	<b>\$3,034</b>	

Overall, the three housing portfolios are currently in a state of good repair. Peel owned housing is the newest and requires the least investment over the next 10 years, but critical and functional repairs will be needed to maintain that rating long-term. The external housing providers require more investment, with most repairs being critical to the integrity of the stock. PHC is the largest portfolio, with the oldest buildings, and requires the most significant investment immediately. Without this investment, more than half of PHC's stock will reach a critical state of repair within the next 10 years.

These portfolios will require approximately \$872 million in capital repairs over the next 10 years, and more than \$3 billion over the next 25 years. These are gross projected expenditures based on a point-in-time analysis using existing data, and will change as information is updated (e.g., all external housing providers will have new building condition assessments completed as of 2023, which will increase the needs).

### b) Changes to the CIL Program

The review determined that the CIL Program is insufficient and has limited capacity to solve the long-term funding requirements of the community housing providers.

Several key improvement opportunities were identified:

- The program should be restricted to external community housing providers.
- PHC should request grant funding through the annual budget process.
- Complete an assessment with recommendations on prioritizing a mixed approach of grants and loans for the external community housing providers.

## Housing State of Good Repair Needs and Funding Gaps

- Target and prioritize external community housing provider applications based on need.

Housing Services intends to implement all improvement ideas and simplify administration processes.

### RISK CONSIDERATIONS

The growing capital requirements for the affordable housing system are significant and as such, place considerable pressure on Peel. Housing assets will continue to face degradation and may eventually fail over time, resulting in a loss of stock, and health and safety risks for residents and building staff.

To mitigate these risks, Housing Services will continue to monitor the state of good repair for the housing system, invest in capital repairs, and support providers with capital planning. Housing Services will also continue to work with its partners to develop appropriate financial plans that address the timing of the capital requirements, including resource and capacity implications, and implement changes to the CIL Program to better support external community housing providers.

### BILL 112 RISKS AND IMPLICATIONS

The recommended long-term financing plan for the housing state of good repair liability was through Peel's 1 per cent Infrastructure Levy. As the implications of Bill 112 are unknown, there is uncertainty as to how the capital needs of community housing providers, including PHC, and Peel owned housing, will be funded. Without appropriate long-term investments in place, as mentioned previously in the report, these housing assets may degrade and eventually fail over time, significantly impacting residents, staff, communities, and the affordable housing system.

As endorsed in the June 8, 2023 Regional Council Report entitled "Bill 112 – Managing Through the Transition", Regional Council committed to the following principles, which support the state of good repair for the community housing system:

- Community housing construction and the continuation of housing enabling programs
- State of good repair investments for assets that will clearly still be required.

### FINANCIAL IMPLICATIONS

#### a) The Funding Gap

As outlined earlier in Table 2 of the report, the projected gross capital expenditure needs to maintain the state of good repair of the housing portfolio is estimated to be \$872 million over the next 10 years. The projected total reserve contributions from the community housing providers including PHC and from Peel are projected to total \$217 million over the next 10 years.

**Table 3: 10-Year Projected Funding Gap**

Housing Portfolio	Projected Capital Expenditures (\$ millions)
	2023-2032 Total

## Housing State of Good Repair Needs and Funding Gaps

PHC	\$710
External	138
Peel Owned	24
<b>Total Capital Cash Flow Needs</b>	<b>\$872</b>
<b>Total Projected Reserve Contributions</b>	<b>(\$194)</b>
<b>Funding Shortfall Net of Reserves (Gap)</b>	<b>\$678</b>

As summarized in Table 3, the net projected shortfall in capital funding over the next 10 years is \$678 million.

To fund the shortfall in funding, the recommended long-term financing plan for the housing state of good repair liability was through Peel's 1% Infrastructure Levy. As the implications of Bill 112 are unknown, there is uncertainty with regards to future capital reserve funding and planned increases to capital reserve contributions. It will be imperative that Regional Council continue to support community housing providers and Peel owned housing.

### b) Change to Funding the State of Good Repair for PHC

As the sole shareholder and owner of PHC, staff recommend that PHC be removed from the CIL program and instead, request annual capital funding requirements through the Housing Support service as part of the overall regional planning and budget process.

At this point in time, no changes are proposed for funding of the external community housing providers, and they will continue to seek financial support from Peel through the CIL program. Additional analysis of the CIL Program, however, is underway and future recommendations for improvement will be brought forward to Regional Council.

Housing Services will continue to pursue and distribute funding from the federal and provincial governments, including CMHC's National Housing Co-Investment Fund and the Canada-Ontario Community Housing Initiative (COCHI).

## CONCLUSION

Housing Services will continue to work with its partners to monitor and maintain a state of good repair across the community housing and Peel owned housing portfolios. This includes requesting required funding through the annual budget process and implementing changes to the CIL Program to better support the external community housing providers.

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Sean Baird, Commissioner of Human Services

*Authored By: Shannon Gander, Housing Specialist*