A simpler, cheaper housing subsidy:

REIMAGINING THE DELIVERY OF HOUSING ASSISTANCE IN ONTARIO

Technical background paper

ONPHA
Ontario
Non-Profit Housing
Association

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ONPHA IS THE VOICE OF NON-PROFIT HOUSING IN ONTARIO

WHO WE ARE

Our 740 housing member organizations manage more than 163,000 non-profit housing units in more than 220 communities in Ontario. They provide affordable homes to a diverse range of tenants, including: seniors; low-income families with children; Aboriginal people; the working poor; victims of violence and abuse; people living with developmental disabilities, mental illness, addictions, and HIV/AIDS; and the formerly homeless and hard-to-house.

For more than 25 years, ONPHA has been an independent, member-funded and member directed association. Our member focus makes us a strong advocate for non-profit housing providers and the communities they serve.

WHAT WE DO

We unite Ontario's non-profit housing sector and provide non-profit housing providers with the knowledge and resources they need to conduct their business efficiently and ensure that their housing is well-managed, safe, and affordable. We do this through education, policy and research, management advice, networking opportunities, communications, and bulk procurement opportunities. We also work closely with all levels of government to promote sustainable, community-based affordable housing and to represent the interests of our members.

WHY WE DO IT

More than 400,000 people in Ontario rely on community-based affordable housing. Many need support to maintain their housing and live more independent lives. Studies prove that affordable housing is an essential determinant of health and a key contributor to the vitality of Ontario communities.

We believe that all Ontarians need a secure place to call home at a cost they can afford. We know that good housing is the foundation for better lives and healthier communities. Our role is to strengthen this foundation.

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1. INTRODUCTION

1.1 A SUFFICIENT SUPPLY OF ADEQUATE, SECURE, AFFORDABLE HOUSING IS CRITICAL TO REDUCING POVERTY

Housing opens doors. Affordable housing plays a vital role in the success of every Ontario community. It helps low-income Ontarians be healthier, better educated and enables them to find and maintain employment. It's an investment that saves money, reduces poverty, creates jobs, and helps to ensure the success and prosperity of our province.

Affordable housing must be a priority if governments are serious about ending poverty. Housing is the largest expense of low-income households. If it is too expensive, it can drive households into poverty. But if it is safe, adequate and affordable, it can give them the stability and flexibility they need to succeed. It is an investment in the future of Ontario and its citizens.

It has been five years since the Government of Ontario released its Long-Term Affordable Housing Strategy (LTAHS). In that time, the Province, service managers[1], and the social housing sector made strides to improve access to affordable housing. But, there remains much work to do.

The Province is updating the LTAHS, which will help shape the future of the sector. Of particular interest are the improvement of housing assistance systems for recipients and service providers, the reduction of administrative burdens, and innovation that improves outcomes and reduces costs. These issues are also concerns of ONPHA members.

The delivery of rent-geared-to-income (RGI) and operating subsidies, which are the foundation of housing assistance in Ontario, has become an extremely complex and costly system to administer and deliver. In the following report, we propose several reforms which emphasize streamlining and simplifying the delivery of housing assistance.

1.2 SUMMARY OF PROPOSED REFORMS

The current legislative and regulatory framework imposes burdensome administrative requirements on housing providers and service managers, which are designed to ensure compliance with budgets and program rules. They are not focused on achieving better outcomes for the households receiving assistance or designed help those currently on waiting lists for rental assistance.

Currently, housing providers receive two types of subsidy; an operating subsidy to cover shortfall between full benchmarked rent revenues and actual operating costs, including debt service; and, RGI subsidy for tenants who are unable to afford the full benchmarked rent. They are required to monitor and report back on actual expenditures as they compare to pre-determined budgets. The result is a system with a lot of time consuming and complex administration, which can be costly. We believe the current system is unduly administrative and reduces housing providers' capacity to work with residents.

By comparison, other subsidy models achieve similar outcomes, and are much less complex to administer. Rent supplements[2] are much simpler to administer, as they provide the difference between the rent a household can afford to pay and the benchmark or market rent for the unit. There is no need to validate

1. Term "service managers" refers to Consolidated Municipal Service Managers and District Social Services Administration Boards, which are responsible for the development and delivery of local housing programs
2. Rent supplements provide households with the difference between the market rent for their unit and the amount they are required to pay, typically 30% of their gross income, adjusted for certain costs and deductions. Rent supplements are paid directly to landlords

expenses, because the basis for subsidy is the contracted rent. The rental cost of the unit should, then, give the housing provider the revenue needed to cover operating and other expenses without additional reporting. This proposal would require fundamental changes to current funding formulas, since it would remove project-based subsidies (i.e. the combined operating and RGI subsidy) and replace them with a new form of rent supplements to housing providers or housing allowances to tenants. Several stakeholders, including ONPHA, believe there may be significant advantages to disentangling rent subsidies from existing social housing programs.[3]

This approach increases housing providers' autonomy, reduces administration time and costs, and enables housing providers to more effectively manage and invest in their assets. It could enable service managers to achieve their service level standards[4] independent of social housing assets. And, depending on the legislatively defined benchmark or market rent level used, it could improve revenues for certain types of housing providers, mainly local housing corporations (LHCs), enabling them to finance much-needed capital reinvestment.

We have identified two sets of reforms that would streamline administration, simplify and reduce delivery and oversight costs, and generate better outcomes for households in need of housing assistance. The first set identifies opportunities to develop fairer and simpler rent setting practices, while the second involves changes to the rent subsidy model for tenants and the funding formula and administration requirements for housing providers. Our recommendations do not need to be implemented together, though we believe comprehensive reform would yield the greatest impact.

Reform administration of the RGI system

1. Simplify the calculation and process used to determine households' RGI subsidies and use an income tax-based system to determine income.

2. Revise rent setting for recipients of Ontario Works (OW) and Ontario Disability Support Program (ODSP) benefits from current rent scales, which are artificially low, to the maximum Shelter Allowance currently allowed under each program.

3. Increase the minimum monthly rent for households without declared income, with self-employment income, or who are in receipt of student loans or awards from $85 to $376[5].

4. Replace the RGI system, which is based on 30 per cent of gross household income, with a series of flat rents based on incremental increases in gross earnings.

Simplify housing providers' administrative requirements

5. Gradually eliminate project-based subsidies for projects that are able to cover costs with rent revenues and transition to a system of rental assistance that involves a fairer and simpler rent setting practice.

6. For projects that are not viable with only market rent revenues and rental assistance subsidies, replace the operating subsidy with a new mortgage subsidy for projects.

7. Revise and simplify providers' administrative reporting.

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3. OMSSA March 18, 2015. Building Sustainability in the Housing System: Submission on the Long-Term Affordable Housing Strategy Renewal
4. The term "service level standards" refers to the minimum number of RGI and modified units that service managers are required to have in their area. Service level standards are prescribed through the *Housing Services Act, 2011*.
5. $376 is the maximum monthly shelter allowance for an individual receiving Ontario Works benefits.

2. RATIONALE AND BASIS FOR PROPOSED REFORMS

Ontario's administratively inefficient and costly RGI system is the product of past policy decisions. In this section we provide some context on the current system, and why the emphasis on administration is increasing costs without generating positive outcomes for the households receiving benefits. We then examine the impact of the current RGI system on tenants, housing providers and service managers.

2.1 CONTEXT

Historically, social housing programs in Canada and Ontario focused on adding new affordable housing supply. Public housing corporations and, later, non-profit and co-operative housing corporations were built to create a pool of low-rent housing to accommodate low-income households.

In these buildings, rents are set low so that they are affordable for low-income households. This means that many social housing providers do not collect enough revenue from tenant rents to operate and maintain their properties without additional subsidies from government. Even with a mix of low and mid-income tenants, many housing providers cannot break-even without additional assistance. This is largely due to the cost of servicing mortgage debt[6], which is the single largest cost for most housing providers.

The subsidies that housing providers receive are generally described as "project-based". That is, the subsidy that housing providers receive is tied to each property that they operate. The type and level of subsidy they receive depends on the housing program under which the project was built. The housing provider then uses the subsidy for each project to off-set the low rents charged to tenants. Social housing providers' obligation to deliver low rents and maintain the property were established in project-level operating agreements at the projects' inception.

All government program expenditures are subject to an accountability regime to ensure that public funds are appropriately and efficiently spent. The cost of housing assistance for households paying RGI rent is high relative to other government programs. This elevates concerns about public accountability.

However, it is important to note that project-based subsidies establish the property / housing provider as the entity responsible for financial accountability rather than the household, who ultimately receives the benefit (i.e. a low cost of rent).

To determine whether government funding is being appropriately allocated and spent, a system is required to ensure compliance. And, because the subsidy is directed to housing providers, whose operation involves many different expenses[7], it is necessary to determine if each expense incurred is reasonable and acceptable. This requires detailed reporting, financial audits of costs, and reconciliation of operating subsidy.

At the same time, housing providers must determine the cost of rent for each tenant household. Rents are determined as a percentage of the household's gross income (typically 30 per cent) with adjustments based on household composition and circumstance[8]. As a household's income changes, it may be necessary to re-calculate the amount of rent owed. Different rules govern the calculation of rent for households receiving income assistance and those who do not receive income. Thus the process of calculating, verifying and, at year-end, reconciling operating subsidy and tenant rents involves considerable administrative effort and cost. In an effort to balance the interests and investments of service managers, housing providers, and the

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6. Much of Ontario's housing stock was built by financing 100 per cent of the construction cost.
7. Common housing provider expenses include rental administration, maintenance, utilities, property and other taxes, and debt repayment.
8. For example, adjustments are required if the household is responsible for paying its own utility costs or if members of the household are employed

federal and provincial governments, the Province created legislation and regulations that are complex and prescriptive. In 2000, the Province replaced the housing providers' operating agreements with legislation[9] that requires the review and validation of operating costs to determine and reconcile subsidy payments. These are the activities that currently add administrative costs for housing providers and service managers.

Under the current legislation, experimentation and innovation by service managers and housing providers that could improve tenant outcomes or create efficiencies are constrained. We believe that the system can be simplified to reduce administrative costs and to create flexibility that enhances outcomes for current and future tenants, in particular around opportunities and incentives to find employment.

2.2 UNDERSTANDING THE IMPACT AND IMPLICATIONS OF AN RGI RENT SYSTEM

RGI rents enable low-income tenants to pay a rent that is affordable for their household. Typically, these rents are well below market rents in the area and they are often below break-even rents for the housing provider[10].

This approach has intended and unintended effects on tenants, housing providers, service managers, and government. For tenants, rents are kept low and affordable in the long-term, which can alleviate stress and enable the household to meet its basic needs. The low cost of rent, however, can also act as a disincentive to find employment. For housing providers, low rents can reduce cash flow for operations, which may be partially or fully offset by operating subsidies. Housing providers and service managers share the administrative burden and costs to implement the system and meet reporting requirements. Finally, governments are required to provide a subsidy to ensure housing providers' viability. There is also an impact on inter-governmental transfers when tenants are in receipt of Ontario Works (OW) or Ontario Disability Support Program (ODSP) benefits.

Impact on housing providers

The impact of the RGI system on housing providers depends on the program under which the projects were built and the type of subsidy the provider receives from the government. For our purposes, RGI housing can be grouped into two types:

1. In the first group, the subsidy covers the difference between the rent tenants pay and market rent[11]. This group includes rent supplements and housing built under the Pre 1985-Non-Profit housing program[12] and Provincial Reform programs[13,14].

2. In the second group, the subsidy covers the difference between tenant rents and a break-even rent which is usually well below the market rent amount. This is the case in housing that was built without market rent units, including public housing / LHCs, housing administered by the Ministries of Health and Long-Term Care and Community and Social Services, and housing projects listed in Part III of the *Housing Services Act, 2011*[15].

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9. Initially through the *Social Housing Reform Act, 2000* which was replaced by the Housing Services Act, 2011. This legislation imposes a more complex and restrictive operating framework than the original operating agreements.
10. The term "break-even rents" refers to an artificially low rents set at a level that would have enabled a housing provider to cover minimum operating expenses with the assistance of a subsidy from government.
11. That is, a market/benchmark rent amount is used in the subsidy calculation.
12. In this program, rents would have been set at the low end of the local market.
13. PNP, MNP, and OCHAP, with the exception of HSA Part III projects (100% RGI projects)
14. Technically, for Pre-1986 Section 95 projects, where the subsidy is based on a formula and is finite (unlike Post-85 where it is variable) the provider has a maximum budget to provide RGI assistance. If they assist more households, or if a number of households experience income decline and request a rent adjustment, the provider may have to internally subsidize these RGI households. In such cases, they will no longer be fully compensated for offering rents at the RGI level.
15. HSA Part III of Ontario Regulation 369/11, s. 12 providers have 100% RGI due to a focus solely on a special needs population group

Some housing was built under programs that do not include RGI rent, but housing providers may have chosen to use RGI framework when administering those units in order to create fairness and consistency across their portfolio. For example, the early Federal Sec. 26/27 program had no RGI rent, except where a separate rent supplement was also included (in which case they are similar to group one).

The impacts of RGI rents apply only when projects are under subsidy. Housing built under federal housing programs will reach the end of their operating agreement over the next several decades. At that time, they will no longer receive a government subsidy. While they will no longer have to finance a mortgage when their operating agreement ends, many organizations will not be able to sustain current levels of affordability for tenants without additional government support. This is because their rental revenue is low, while costs associated with maintenance and repair are high. In contrast, housing providers administered under the *Housing Services Act, 2011*, will continue to receive some subsidy after their mortgages are paid.

Table 1: Distribution of Social Housing by type of program and RGI category*

1. Market or quasi market (incl. benchmarked and LEM)	Rent supplements, Pre-1985 Section 95; provincial reform and Urban Native	133,257**
2. Low break-even rent	Public housing, MOHLTC Dedicated Supportive Housing and Homelessness Initiative Units***	105,438
3. No RGI	Limited Dividend Section 26/27	44,180
n/a	Rural Native Housing Program, Residential Rehabilitation Assistance Program	7,741
On-reserve native housing, Pre-1986 and Index-linked Mortgage co-operatives		21,796
Total		**312,412**
Source CMHC total commitments as off 1994, plus 48,000 provincial unilateral units; * Ignores any potential expiries of federal agreements **Includes the 48,000 provincial unilateral units (Homes Now, Jobs Ontario etc.) and 6,266 MOHLTC rent supplement units ***MOHLTC units include 5,614 dedicated supportive housing units (which includes 1,529 long-term care (disabled, frail, ABI) beds), and 700 homelessness initiative units		

Table 1 breaks down Ontario's social housing portfolio by the program under which it was developed[16]. Market or quasi-market housing providers with RGI units, which are approximately half the units in the province, are almost fully compensated for low tenant rents through subsidies. However, more than 100,000 units in group two are funded to break-even rent levels only, making them more dependent on operating subsidies.

For these providers, who generally have a high proportion of tenants paying RGI rent, the subsidy covers only the difference between an artificially low break-even rent and the rent paid by tenants. There is no opportunity to generate increased rental income, retain earnings for capital renewal, or to service new debt for capital projects. Funding a capital replacement reserve would require a change to the way in which these projects are funded, likely creating a higher break-even rent and, therefore, a higher subsidy from government[17]. And, lower rents revenue lowers the value of the property when housing providers attempt to secure private financing of capital loans for repairs or new affordable housing development.

16. This excludes MCSS providers who would be in group (2). Also, 113 HSA Part III providers (don't know unit count) are in currently included in group (1), but need to be broken out into group (2)
17. The HSA explicitly provides authority for the service manager to create a rule that relates to the creation of capital reserves for the local housing corporation. (HSA s. 27 (3))

All housing providers and service managers are also affected by the burden of administering the RGI system. It requires the detailed annual review and validation of tenants' incomes, as well as intra-year adjustments as tenants' incomes change. The complexity of the RGI calculation is time consuming for staff, who must also summarize the data and report back to their service manager. The current approach requires considerable staff time and is costly. Time and money could be saved if a more streamlined subsidy model was adopted.

The requirement that tenants who pay RGI rent submit income-related documentation annually for verification can be confusing for tenants and time consuming for staff. Tenants' failure to return the forms can result in rent increases, which may lead to arrears and applications to the Landlord and Tenant Board, adding additional administrative and legal costs.

Any reform of the RGI system should aim to reduce the time and cost of administration through the creation of simpler and less burdensome reporting requirements. It would change not only the administration of the rent calculations, but also lower the cost of overseeing operating expenses.

Reform of the RGI system should also enable providers to charge a gross rent – meaning the rent that a tenant pays, plus the subsidy – that fully funds ongoing operating costs, including capital reserve contributions and the ability to service debt. This is particularly important for housing providers that are currently funded to only break-even rents, which tend to have lower revenues and older housing stock than other housing providers.

Impact on tenants

The purpose of the RGI rent model is to establish rents that are affordable relative to tenants' household income. Since the early 1990s, the norm has been to set rents at approximately 30 per cent of a household's income.

By setting rent relative to income, the RGI system effectively delivers a form of income assistance. It reserves 70 per cent of tenants' income for non-shelter expenses, directly addressing the challenges of living on a low income. For households in receipt of OW or ODSP, the effect on tenants is muted, and low rents merely reassign the burden of funding subsidy between levels of government, as discussed below. In both scenarios, however, social housing plays an important role in reducing poverty.

Research on income assistance and RGI systems has examined the effects of claw-backs and tapering effects[18] on benefits recipients. In particular, the issue of marginal effective tax rates (METR) is considered, which result from reducing or "taxing" a household's benefit to reflect earnings[19].

In social housing, the METR on earnings is 30 per cent. That is, for each dollar a household earns, their rent increases by 30 cents. Paradoxically, while lessening the cost of housing, the current RGI model may actually act as a disincentive to employment.

In contrast, a system that replaces the current model (percentage of income) with low, tiered rents that remain the same for incomes in a pre-determined range can act as an incentive to employment. Similarly, a model that defers a household's increase in rent as their income rises can also incent employment. In both instances, the household is able to retain income and build assets, which may help them to move out of social housing and into the community. This approach would benefit the household while freeing up RGI assistance for another household in need.

18. The term "tapering effects" refers to the reduction of income assistance benefits as recipients' incomes rise.
19. For example see CD Howe (2011), What's My METR? Marginal Effective Tax Rates Are Down – But Not for Everyone: The Ontario Case; SRDC (2002): Making Work Pay; and Stapleton (2010) Zero Dollar Linda.

The special case of tenants in receipt of OW or ODSP

Many households that live in social housing draw all or part of their income from the OW or ODSP income assistance programs.

The RGI system can act as a much larger disincentive to find employment for households in receipt of OW benefits, because there is a greater METR effect[20]. For example, single adult recipients of OW can only earn $200 per month before their benefits are clawed back on a dollar-for-dollar basis. This is effectively a 50 per cent METR.

In social housing, the rent paid by households receiving income assistance benefits are set by a schedule[21] and not as a percentage of income. These schedules set the rents at unrealistically low levels. For example, a single person on income assistance has a rent of $85 per month, while a single parent on income assistance with one child pays $191 per month. If a single person is considering full-time work at a minimum wage position, they would shift from the low rent set by the schedule to a rent that is a percentage of their earned income. In this example, their monthly rent would increase from $85 to approximately $490[22].

The OW benefits received by a single adult recipient are a combination of a basic needs[23] and shelter allowance. If that individual lives in social housing, their shelter allowance would be the amount prescribed in the rent scale ($85), plus a utility allowance. When they begin working and their earnings rise above $360[24], their rent would be calculated at 30 per cent of their earnings, less a $75 monthly adjustment for employment. The shelter allowance portion of their OW benefits would increase to the maximum amount for which the household is eligible ($376 per month) to off-set this increase.

The tenant that begins working would see a large rent increase. Their monthly rent would increase from $85 to $490, and only $376 of it would be covered by their shelter allowance. At the same time, the basic needs portion of their benefits would be reduced by 50 per cent for all income earned over $200. Some of the reduction in the basic needs amount would be offset by the increase in their shelter allowance. At the same time their OW basic allowance is reduced (by 50% of their earned income above $200), which may be offset by the shelter increase. In the end, the individual would see a minor change in their OW benefits and a large increase in the cost of their rent. This may be a disincentive to work or to report earned income.

To illustrate further, Appendix A details the calculation of benefit payments, the effect of earned income and the resulting claw-back of OW/ODSP benefits and calculation of RGI rent. It reveals that, excluding any other tax or source deductions on employment income, when rent in social housing is set at the prescribed amounts for OW/ODSP recipients, the effective marginal tax rate on earnings is 60 per cent. If, in contrast, the maximum shelter allowance for households in receipt of OW/ ODSP benefits were used (and OW/ODSP benefits cover this amount in full), the METR would be substantially lower, ranging from 28 to 40 per cent[25]. From a tenant's perspective, a key consideration is the impact of the clawed back earned income and rising rent due to employment. The results of this calculation can be a powerful disincentive. Figure 1 compares the impact depending on whether the maximum shelter allowance or prescribed rent for social housing is used. It shows the reduction of the claw-back (disincentive) if the maximum shelter amount is used. Across all

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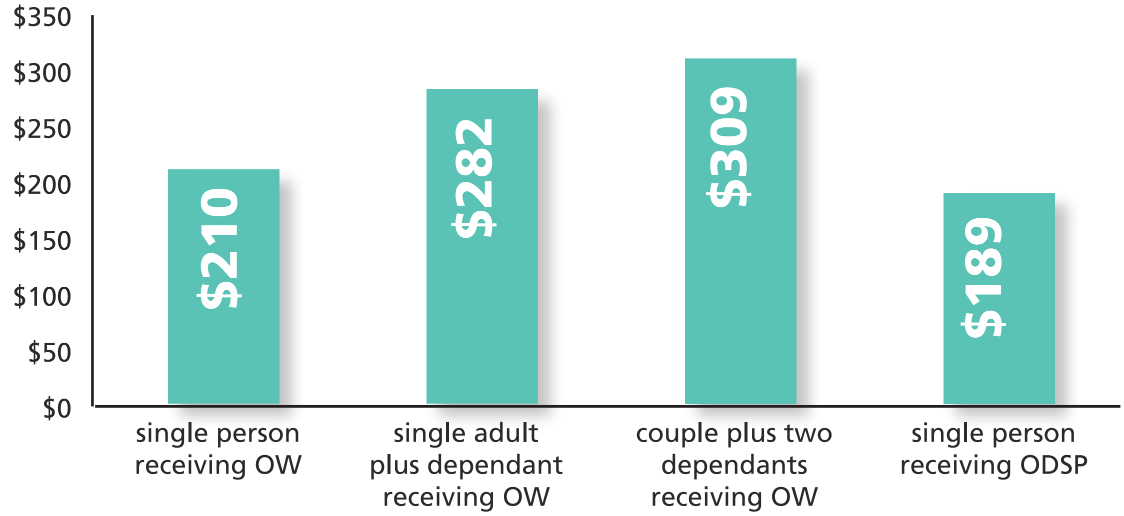
20. ODSP recipients may be similarly impacted if they are working full-time.
21. The rent scales for OW and ODSP recipients are prescribed in Ontario Regulation 298/01, Tables 3 – 5
22. For example, an individual earning minimum wage and working 35 hours per week would earn $1704.93 ($11.25*35 hours*4.33 weeks per month). They would be eligible for a $75 employment deduction, bringing their monthly income to $1,629.94, from which their rent would be calculated at 30 per cent ($488.98). Additional adjustments would also be made depending on whether or not the tenant was responsible for utility and other costs.
23. The basic needs allowance is an amount to assist with the cost of food, clothing and other personal items for members of the benefit unit. The provision of basic needs is based on family composition, the age of any dependents, geographic location and the individual circumstances of the benefit unit.
24. A single OW recipient is eligible to earn $360 per month before their rent is calculated using the RGI formula.
25. The range in METR depends on the size and composition of the household.

household types, the household is able to retain an additional $200 to $300 per month, which would incent employment. See Appendix A for additional details.

Figure 1: Amount of income clawed back from different household types if maximum shelter is charged in RGI housing



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current approach, based using prescribed rent amounts for households in receipt of OW / ODSP who are living in social housing, lowers the amount of benefits received and presents a financial and emotional disincentive to work. This practice is at odds with the objectives of the OW and ODSP programs, which are to reduce poverty and encourage self-reliance[26]. A shift to charging households in receipt of OW / ODSP benefits the maximum eligible shelter allowance creates much more positive outcomes and supports incentives to work.

Impacts on Province and service managers

Service managers are responsible for the payment of housing subsidy[27] and, as a result, are directly impacted by the amount of RGI and operating subsidy that must be paid to households[28]. As part of municipal government, they also have a political and fiscal desire to control expenditures. RGI systems that establish low rents increase subsidy costs for service managers.

The complexity of the RGI rent calculations requires service managers to review and validate housing providers' claims for subsidy, adding to administrative workloads and costs. We do not know how diligently service managers carry out these reviews and we anticipate wide variation between them. One large provider has estimated that the annual cost of salaries only for the administration of RGI calculation is approximately $2 million, or more than $200 per unit.

For tenants in receipt of OW and ODSP benefits, the prescribed rents increase the cost of the housing subsidy, which is fully paid by service managers, and reduce the cost of income assistance benefits, which will be fully-funded by the Province in 2018[29]. As a result, a shift to charging social housing tenants in receipt of OW / ODSP the maximum shelter allowance will impact intergovernmental transfers and spending.

26. Stapleton 2010
27. The Housing Services Act, 2011 sets out service managers' obligation to pay housing subsidy. In the case of dedicated supportive housing administered by the Ministries of Health and Long-Term Care and Community and Social Services, the Province is responsible for the cost of subsidies.
28. For providers funded by the Ministries of Health and Long-Term Care and Community and Social Services, their subsidy charge is internal to the provincial government so there is no net budgetary impact.
29. Currently the cost of income assistance is shared between the Province and service managers.

3. POTENTIAL IMPACTS OF PROPOSED REFORMS

3.1 MODELING METHODOLOGY

The impact of our proposed reforms were modelled using data gathered by the Ministry of Municipal Affairs and Housing in 2011. The data included anonymous information about the characteristics and sources of income of tenants living in units operated by five non-profit housing providers. The data also included information about the market and benchmark rents for the housing providers' units. The housing providers each operate in a different service manager area, some large and some small.

While the data is somewhat dated, it nonetheless provides a sound basis from which to test the impacts of our proposed reforms. Using this data, we are able to assess the impact on three key groups of housing stakeholders – tenants, housing providers, and service managers. We have also identified reforms which would impact the provincial government.

The first set of our recommendations would reform the administration of the RGI system:

1. Simplify the calculation and process used to determine households' RGI rent and determine households' income using an automated, income tax-based system.

2. Revise the basis of rent setting for OW/ODSP recipients from the rent scales, which are artificially low, to the maximum shelter allowance allowed under each program.

3. Increase minimum monthly rents from $85 to $376 for households without declared income and for households whose only income is derived from self-employment or student loans/awards.

4. Replace the current RGI system with a series of flat rents, each based on an incremental increase in gross household earnings.

The intent and impact of each recommendation is described below. They can be implemented with or without the second set of recommendations, which come later, and present fundamental changes to the funding model.

3.2 SIMPLIFY THE RGI CALCULATION

We recommend calculating a household's RGI rent based on their income as reported in their annual income tax return. We also recommend eliminating some exemptions and allowances. Our intention is to simplify and potentially eliminate the need for detailed RGI rent calculations.

We suggest that the calculation be based on line 150 (net income before tax) of the T1 General Form. For households receiving OW or ODSP benefits, we recommend using the maximum shelter allowance for which their household is eligible. Ideally the Ministry of Finance would provide automated income verification of tax information submitted to the Canada Revenue Agency (CRA), reducing the cost of administering rent calculations.

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30. Statistics Canada 2013, Annual Income Estimates for Census Families and Individuals (T1 Family File)
31. Programs such as the Rental Opportunity for Ontario Families (ROOF), Short Term Rent Support Program (STRSP), and the Housing Allowance Shared Delivery stream of the Investment in Affordable Housing Program (IAH)
32. Source: Personal correspondence between Steve Pomeroy and former Quebec housing provider employee
33. Ontario Regulation 298/01 s.49(3) (b)
34. Ontario Regulation 298/01 s. 50 (1) (b)

As a result of benefits such as the Canada Child Tax Benefit (CCTB), Ontario Child Benefit (OCB), GST rebates and other refundable tax credits, tax filing rates are now very high[30]. The tax system, therefore, provides a universal and consistent basis for assessing income.

Several service managers and housing programs[31] have successfully used CRA data and automated income verification to simplify access to, and the administration of, benefits. Also, some service managers that offer self-funded rent supplements, such as York Region, have already implemented a simplified rent calculation based on households' income tax information.

Some of these initiatives have not been formally evaluated, but the approach has been well received by housing providers, tenants, service providers, and tenant advocates. The tax system effectively captures income and deductions for spouses and dependents. It also consolidates a wide range of income types into the single amount found on line 150 of the T1 General Forum. Using a verified number like line 150 reduces housing providers' administrative burden and chance of error and is simpler and more intuitive for tenants. In Quebec, this method resulted in increased rental revenues and decreased administrative costs[32].

To further simplify the RGI rent calculation, we propose two additional changes:

- That 30 per cent of the income of adult children who are living with their parent(s) and who are not attending school full time be included in the household's rent calculation. Currently, the first $1,000 of income is included at 15 per cent and additional income is included at 30 per cent[33].

  Based on the data available, only three per cent of households would be affected by this change and the households' rents would increase by an average of $128 per month.

- Eliminate employment-related income adjustments[34] for households that are working. Based on the data set used, this change would affect 25 per cent of tenant households and would increase rents by an average of $37 per month.

Calculating rent based on the previous year's income would have an impact on tenants and funders. For example, many income programs for seniors[35] are adjusted quarterly to account for inflation. In the proposed model, inflationary increases would not be accounted for until the following year[36]. Unfortunately, we could not assess the impact of this using the data available.

Any new system for calculating RGI rents would need to include a mechanism for adjusting rent where there is a significant, mid-year decrease in income. Where income increases over the year, rent payable would not be recalculated. Allowing households to retain additional earnings reinforces incentives to work and will be captured the following year.

The changes we have proposed could increase the cost of rent for tenants in receipt of RGI assistance. The cost to service managers, who are responsible for paying subsidy to housing providers, would decrease. We estimate that our recommendation to include all of an adult child of the household's income in the calculation at 30 per cent and to eliminate employed-related deductions would reduce service manager subsidy costs by $157 per RGI unit, per year[37].

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35. For example, Old Age Security, Guaranteed Income Supplement, and Guaranteed Annual Income System
36. Old Age Security, Guaranteed Income Supplement, and Guaranteed Annual Income System are adjusted quarterly to account for inflation (Source: http://www.servicecanada.gc.ca/eng/services/pensions/oas/pension/index.shtml
37. This calculation is based on the sum of 3% of tenants with an impact of $1,536/year (i.e. adult children) and 25% of tenants with an impact of $444/year (i.e. employment income adjustment) (i.e. 0.03x1,536+.25x444=157)

Simplifying and automating the RGI rent calculation has the potential to reduce administrative costs for housing providers and service managers. One housing provider has estimated that it takes between 90 minutes and 120 minutes per household to conduct initial rent calculations or an annual re-verification. Based on this estimate, automated verification could yield Ontario's housing providers a savings of more than $10 Million annually[38]. The impact on service managers would vary depending on the amount of oversight they currently provide.

Table 2: Summary of impacts of simplified RGI calculation

Tenant	Provider	Funder (SM)	Province
Households with a change in income- positive or negative impact depending on change in income No impact for OW/ODSP tenants Households with an adult child living with parent (3%) - average increase of $128 / month or $1,536 / year. (STIR would increase to 30%) Households with employment income (25%) - average increase of $37 / month or $444 / year (STIR would increase to 30%) Would increase understanding of calculation and transparency for tenants	No impact to surplus/ deficit Would change rental revenues and corresponding RGI subsidy received from service manager Positive impact on administrative costs. If automated, could save an estimated 90 minutes to 120 minutes per rent calculation per household. Potential savings of more than $10 million to housing providers across Ontario.	Reduced cost of $157 per RGI unit per year. Impact of using preceding year's income as basis for rent calculation is unknown.	Administrative cost of providing automated income verification is estimated at less than $3 million to establish and less than $1Million per year to operate[39].

38. Consultants estimates based on 105 minutes per intake (17,500 households across the province) or annual re-verification (182,500 households) for staff with an annual salary of $55,000 (based on 250 working days at 7.5 hours per day)
39. Consultant's estimates based on ROOF and STRSP programs – MMAH's evaluation of the ROOF and STRSP programs found that centralized administration of programs offers efficiencies and the infrastructure developed to process the applications and payments for these two programs provides significant potential for cost effective programs in the future.
40. Such as the allowable non-benefit earned income amount that triggers a shift off minimum rents

3.3 REVISE THE BASIS OF RENT SETTING FOR OW/ODSP RECIPIENTS

The OW and ODSP rent scales were created to manage the two separate sets of benefit calculations in social housing and income assistance programs. The rents were set low, in part to limit the cost of the OW and ODSP programs, and in part to take advantage of different cost sharing rules under federal-provincial housing and income assistance transfer payment formulae. The financial allowances and calculations are now far removed from actual costs, such as average market rents. Archaic rules and regulations and the failure to update elements of the benefits calculations[40] now create perverse, unintended consequences for households.
Social policy advocates have argued that the structure of OW and ODSP benefits can be a disincentive to employment or to move off benefits[41].

Table 3: Summary of impacts of increase to maximum shelter allowance allowed under OW and ODSP

Tenants	Provider	Funder (SM)	Funder (Province)
Tenants' rents will increase but OW/ODSP shelter allowance would be adjusted to neutralize this change. The change would reduce disincentives to work because rent would be less likely to increase when they are working and begin to pay rents based on 30% of their income and the optics of significantly increased rent from earnings would be removed, or significantly reduced.	No impact on housing providers. The change would increase rental revenues but decrease subsidy received from service managers From 2018 service managers would save $1,915 per RGI unit, per year.	Based on the average sized SMs' portfolio would mean average annual savings of $8.5 million. Lower impact from 2015-2017 while costs of OW are being uploaded	Additional cost of $422 Million annually

Based on our sample, 40 per cent of households living in social housing receive OW/ODSP benefits[42]. Rent scales and the maximum shelter allowance to which a household is entitled vary based on household size and composition. In our data set, the weighted average monthly rent based on the rent scales is $162[43]. If rents in social housing were brought into alignment with maximum shelter allowance rates, the average monthly rent would be $561. This would increase the amount of rent paid per household in receipt of OW/ODSP assistance by $399 per month or $4,788 annually.

41. For example see CD Howe (2011), What's My METR? Marginal Effective Tax Rates Are Down – But Not for Everyone: The Ontario Case; SRDC (2002): Making Work Pay; and Stapleton (2010) Zero Dollar Linda.
42. As the data set contained data from LHCs only, this might be a somewhat higher percentage than for certain other housing providers. Seniors housing providers would tend to have fewer OW and ODSP recipients. For example, the one LHC with a very high proportion of seniors housing had only 20% of tenants on OW or ODSP.
43. For both OW and ODSP households

These changes would have no impact on tenants or housing providers because OW/ODSP shelter allowance would increase to reflect the change. However, the Province would see an increase in OW/ODSP program costs and service managers would see a commensurate decrease in their housing subsidy costs[44].

This change would help reduce disincentives to work, which are reinforced and exacerbated when individuals receive OW / ODSP benefits and live in RGI-assisted housing. The change would also realign responsibility for income assistance, which is a form of income redistribution. As such we believe it is more appropriately funded by the Province, from the income tax base, than by municipal property taxes.

3.4 REVISE MINIMUM RENTS

Tenants with no or very little income pay a monthly rent of $85[45]. This rent amount, referred to as "minimum rent", is paid by approximately two per cent of tenants[46]. The minimum rent policy is a legacy of programs active from 1964 to 1994 and the current minimum rent amount has not been revised in decades. Today most households without income have access to some form of income assistance, such as Employment Insurance, OW/ODSP, or Ontario Student Assistance Program loans[47].

While social housing offers stable, affordable housing, which can enhance tenants' ability to pursue employment or educational opportunities, it should not seek to replace income assistance programs. Minimum rents may discourage tenants from applying for income assistance[48]. They can also be a disincentive to work because, as with low OW rent scales, employment earnings cause a large increase in their rent.

We propose that the minimum rent be changed to $376 per month, which would match the OW maximum shelter allowance for a single person. Our recommendation would apply to households with no declared income and households whose only income is derived from self-employment or student loans/awards. Households with employment income and RGI rents of less than $376 would continue to pay rent that is based on 30 per cent of their income. Doing so would prevent us from creating an additional disincentive to find employment. Based on our data, this would apply to only three per cent of households, whose rent, on average, would increase from $129 to $376[49].

Increasing minimum rents would reduce service managers' housing subsidy costs by $46 per RGI unit, per year[50].

Table 4: Summary of impacts of increasing minimum rent

Tenants	Provider	Funder (SM)
Households eligible for minimum rent would see an average rent increase of $247 per month ($2,964 annually).	There would be no impact on housing providers. Rental revenues would increase and would be offset by a decrease in subsidy received from service managers.	Service managers would save $46 per RGI unit, per year.

44. Service managers would see a temporary increase in OW costs, but this would be eliminated by 2018 when the full cost of OW is uploaded to the Province.
45. O. Reg. 298/01, s. 47
46. Based on a sample of five housing providers, we found that, on average, two per cent of households were paying minimum rent.
47. The exception would be households that have assets that are valued higher than the asset limits set under the OW program but below those set by the service manager, if any, for RGI assistance. In this instance the household would be deemed ineligible for OW benefits but remain eligible for RGI assistance because they have pursued a source of income.
48. This is because the minimum rent is so low it's a disincentive to lose that benefit.
49. Under the current policies minimum rents applies to an estimated two per cent of households based on a sample of five housing providers. Based on the sample, it is estimated that another one per cent are households whose only income is derived from self-employment income who pay between the minimum rents and $376. Under our proposed reform, these households would also be charged $376. Together these households would account for an estimated total of three per cent of all households.
50. This calculation is based on the 3% of tenants with an impact of $1,548/year (i.e. 0.03x1,548=46)

3.5. REPLACE THE RGI SYSTEM WITH TIERED RENTS

As an extension of Option 3.1, we propose replacing the RGI subsidy approach with a simple system of tiered rents. Like RGI, tiered rents progressively increase as incomes rise. But, rather than directly linking rent payable to a specific percentage of assessed income, rents are linked to income ranges. This results in some households paying slightly more than 30 per cent of their income on rent, and some slightly less. This recommendations could be implemented with options 3.1, 3.2, and 3.3.

Table 5: Example of tiered rents

Annual Income Range	Rent Tier
\$0-\$15,000	\$375
\$15,001-\$20,000	\$450
\$20,001-\$25,000	\$550
\$25,001-\$30,000	\$700
\$30,001-\$35,000	\$800
\$35,001-\$40,000	\$950
\$40,001-\$50,000	\$1,100
\$50,001+	\$1,400

This approach further simplifies rent calculations and is easily understood by tenants. As a household's income increases, there is no rent increase until their income exceeds the upper limit on the income range and they move to the next tier. The opportunity to build and retain assets as the household moves within the tier can incent employment.

Table 5 shows an example of income ranges and the corresponding rent tiers. The rent tiers correspond to approximately 30 per cent of the amount in the middle of each income range[51]. Households with annual incomes above \$15,000 would have a maximum shelter-cost-to-income ratio (STIR) of 36 per cent and minimum STIR of 26 per cent. It is possible to make housing more affordable for households in the lower half of each income range by using a lower percentage, such as 28 or 29 per cent.

If we used the rent tiers in Table 5, which are capped at a hypothetical market rent, the overall average monthly rent for all households paying RGI rent would be \$489, based on our sample data from five housing providers. They currently pay an average of \$461 per month based on 30 per cent of their income.

If the rent for households in receipt of OW and ODSP were based on the rent tier closest to the maximum shelter allowance, they would pay an average of \$549. If, instead, their rent is based on the rent tier nearest but below the maximum shelter allowance, they would pay an average of \$436. This is the option used in Table 6 and would create a seamless transition from the current approach with no negative impact on tenants.

51. A variation on the proposed rent tiers could include additional tiers for households with earned income of less than \$5,000 and incomes between \$5,001 - \$10,000 and \$10,001 and \$15,000.

Table 6: Summary of impacts of tiered rents

Tenants	Provider	Funder (SM)	Funder (Province)
Tenants' rents would increase by $28 per month ($336 per year). STIR for households with annual incomes of $15,000 or greater would range between 26% and 36%. They would be higher for households with annual incomes less than $15,000. There would be no impact on tenants in receipt of OW/ODSP (40% of data set) if the rent tier closest to, but below maximum shelter allowance is used.	No financial impact on housing provider but would change rental revenues and corresponding subsidy from service manager. Would reduce administrative costs. If automated, housing provider could save between 90 and 120 minutes per rent calculation, per household. Could yield annual savings to sector of $10 million.	Approximately a $6.7 million reduction in subsidy payable to housing providers ($1,516 per RGI unit per year).	There would be an additional annual cost of $290 million for increased shelter costs for OW / ODSP recipients.

Another alternative to the RGI rent model is the provision of housing assistance in the form of a housing benefit. In this model, households would receive a benefit that reflects their housing affordability, household composition and local market rent conditions. As a portable benefit paid directly to the household, it would enable households to move between social housing and the private rental market. This concept has been proposed to the Province by ONPHA and other sector and community organizations. Refer, for example, to *A Housing Benefit for Ontario: One Housing Solution for a Poverty Reduction Strategy* for further information[52].

52. http://metcalffoundation.com/wp-content/uploads/2011/05/housing-benefit-for-all.pdf

4. REFORM ADMINISTRATION RELATED TO CALCULATION AND RECONCILING OPERATING SUBSIDY

Our second set of recommendations would simplify and reduce the amount of administration that is required to regulate and oversee the housing system. These are fundamental changes to the current RGI system that are not contingent on the recommendations already outlined in this report, but could complement them. We propose the following changes:

5. Gradually eliminate project-based subsidies for projects that are able to fully cover costs with rent revenues and transition to a system of rental assistance that involves a fairer and simpler rent setting practice.

6. For projects that are not viable with market rent revenues and rental assistance subsidies[53], replace the operating subsidy with a new mortgage subsidy.

7. Revise and simplify housing providers' administrative reporting.

These reforms replace the current funding formula in the *Housing Services Act, 2011* with housing assistance delivered directly to households to support affordability and, where required, a separate mortgage subsidy for housing providers. This rental assistance could be made available to tenants in social housing and also be offered to households on the waiting list. Doing so would allow service managers to meet service level standards outside of the social housing stock and would enable housing providers to introduce income mix into projects that currently have a large number of RGI-assisted units.

These reforms would also create a predictable funding environment for housing providers and funders. They would avoid inflationary increases in operating subsidy because rising rental income would cover such costs, as it does in the private sector[54].

Providers in financially weak positions may experience challenges under this set of reforms. This pressure would drive the rationalization and consolidation of small, less sophisticated housing providers and could help create a stronger sector with greater capacity to leverage assets for expansion and reinvestment.

Our recommendations also align with changes coming to the sector. Mortgages and debentures are maturing, which will leave local housing corporations and federal housing providers without subsidy. Setting all rents in those projects to market or a benchmarked rent would enable housing providers to operate independently and have the revenue they need. Housing assistance, delivered directly to tenants or through rent supplements, would help ensure housing affordability. Housing providers could generate surpluses, enabling them to self-fund or finance major capital repairs and new development.

Delinking housing assistance from project-based subsidies would provide important opportunities for housing providers and give tenants greater flexibility and the opportunity to move into the private rental market. Social housing providers may have to repair some units or projects to become competitive with the private market. The sector requires significant capital reinvestment, which would need to be addressed through capital grant programs or another financing vehicle. Failing to do so prior to implementing our recommendations could result in an outflow of tenant households that might jeopardize the viability of some projects and housing providers.

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53. Until their mortgages mature, many of the Section 95 PNP and MNP and Provincial Reformed providers would not be viable with only RGI subsidy
54. The benchmark/market rent would need to be set at a level that would allow for the production of an accumulated operating reserve to cover the risk and costs in certain years where costs may increase at a higher rate than rents.

4.1 ELIMINATE PROJECT-BASED SUBSIDY

The removal of project-based subsidy would reduce administrative complexity, the need for a high level of service manager oversight, and lower the associated administrative cost for both service managers and housing providers.

Simply stated, our recommendation would see a subsidy developed that funds the difference between the rental cost of a unit and a household's ability to pay. Depending on the program, break-even rents, average market rents, or full market rents could be used. Households could receive assistance that reflects a percentage of income, as they often do now, or a pre-set amount of assistance. Either way, housing assistance would be delivered directly to eligible households, increasing flexibility and choice for program participants and for service managers. To learn more about how similar programs have been implemented in Oakland and San Diego California, see page 24

This recommendation would replace the existing RGI subsidy that housing providers receive. For the two-thirds of housing providers whose subsidies are based on benchmarked or market rents, the change would be cost neutral. For the remaining housing providers, primarily local housing corporations, the cost of housing assistance would increase depending on the amount at which the benchmark or market rents are set. This cost increase is because the RGI subsidy that flows to these projects is based on break-even rents, which are lower than benchmark or market rents[55].

Setting the benchmark or market rent higher than break-even rent would help local housing corporations finance the repairs and revitalization of their housing stock. While subsidy costs would increase for service managers, implementing some of our other recommendations would help offset some of these costs by reducing other administrative and subsidy costs. Also, increasing housing provider's rental income would enable housing providers to borrow to finance repairs and could reduce the need for immediate large capital expenditures by service managers.

In the short-term, housing assistance could be delivered as rent supplements linked to projects. Doing so would help ease housing providers' transition to the new model. Ideally, however, housing assistance would be delivered to the household as a portable housing allowance, offering maximum choice to households. See the example from the Oakland California for a model that integrates revenue certainty, service level standard flexibility and household affordability and choice.

A rent supplement would provide greater predictability and a revenue guarantee for housing providers[56]. If housing assistance is delivered as a portable allowance, households would have the option of exiting social housing and continuing to receive assistance. The housing allowance option would carry risks for some providers, in particular those who are not competitive with the local rental housing market due to location or poor condition. These housing providers would need time and financial assistance to improve the marketability of their projects. For these providers, project-based rent supplements be preferable in the short-to-mid-term. See the experience of the Oakland Housing Authority on page 23.

On the other hand, allowing households mobility and choice can motivate housing providers to be competitive and provide good service and value. See the experience of the San Diego Housing Authority on page 23.

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55. In some cases, namely many Pre 85 Sec 95, and Provincial Reformed (PNP, MNP, and OCHAP) providers), replacing project subsidy with this rental assistance will not be sufficient to ensure viability. Additional assistance is separately, proposed, in the form of a mortgage subsidy.
56. This would be important for some providers in the short-term where the current state of repair of some of their buildings would not make them competitive with the private market and they could face a risk of vacancy loss until they make their buildings competitive.

Future housing assistance funding could be used to create a pool of housing allowances, which would enable some social housing tenants to move into the community. This would enable housing providers to introduce or increase the number of market rent tenants in their portfolios, improving their revenue stream. At the same time, the service managers' service level standard would be preserved while the former social housing household continues to receive housing assistance.

With a more favourable rent revenue and capacity to fund reserves and finance renewal, housing providers could fund new development and the expansion of affordable rental housing stock by leveraging assets, rather than a capital grant.

To the extent that housing assistance is a form of income assistance, administration could be centralized and administered by service managers or the Province. This would enable housing providers to focus on asset management, property management and tenant services. It could be incorporated into income assistance administration or, where housing assistance continues in the form of a rent supplement, the housing provider could continue to administer the rent calculation and simply advise their service manager of the required subsidy[57].

Table 7: Summary of impacts of eliminating project-based subsidy

Tenants	Provider	Funder (SM)
Tenants move to a rental allowance with additional adjustments for OW/ODSP or minimum rent as described above. No change in the net rent or level of affordability. If additional rental assistance (as housing allowances) is implemented, additional households could be helped.	Providers generate sufficient income to operate and fund capital renewal without project-based subsidy Revenues for local housing corporations (and other "break-even rent" portfolios) would increase, enabling them to fund repair and renewal.	Subsidy costs for local housing corporations would increase. Operating subsidies would be replaced by mortgage subsidies to some providers

4.2 IMPLEMENT A MORTGAGE SUBSIDY TO REPLACE OPERATING SUBSIDY

For nearly every housing provider, the need for ongoing operating subsidy is related to the cost of carrying debt. Some providers, primarily local housing corporations, that have a very high proportion of households in receipt of RGI assistance and operate at break-even rents require subsidy to cover expenses because rents are set too low. With rents set at benchmarked or market levels, most housing providers could cover all operating expenses save debt payment, which is typically the largest expense.

Mortgage payments remain constant, except at rollover, so there is no need for ongoing review and benchmarking of this expense. It is readily identifiable and revisions after rollover are easily implemented. The implementation of a mortgage subsidy resurrects the original intent of funding reform in Ontario, as originally modeled by ONPHA in the late 1990s[58]. The objective was to place providers on a level playing field and to balance autonomy and responsibility. This would encourage operating efficiency and discipline on the part of providers and eliminate detailed review and approval of operating expenses.

57. The provider would not be involved in the administration of the rent calculation if the housing assistance were in the form of a housing allowance
58. Unpublished background work

Our current recommendation would provide a mortgage subsidy to housing providers for whom break-even costs exceed rental revenues based on benchmarked or market rents. Our original modeling detailed the concept of an Operating Expense Ratio (OER), a measure commonly used in the private rental market to assess operating costs against rent potential. We envisioned that the OER would be used to determine the portion of net revenue available to service debt and paying this amount would be the housing providers' responsibility. The residual amount of "unaffordable debt" would be funded by service managers through a subsidy payable to their lender.

In the funding formula modelling that preceded the development of the *Social Housing Reform Act, 2000*, there were concerns about the transferability of the OER measure to social housing. As a result, the funding formula for housing providers administered under that legislation was created with distinct elements each adjusted by benchmarks. It also included actual for taxes and mortgage payments. The resulting formula is heavily prescribed, requires detailed line item benchmarking, and must be monitored, verified, and reconciled. In practice, providers function within the aggregate result of benchmarking, while actual costs vary between line items and the benchmarks.

Now however, service managers have more than 10 years of data on operating expenses and benchmarked rents that could be used to determine the level of debt that projects can and cannot reasonably carry. The amount of unaffordable debt would become the basis for the mortgage subsidy, which would remain fixed until renewal. The mortgage subsidy would terminate when the loan matures and the housing provider would operate independently. Housing assistance, as outlined above, would ensure housing affordability for tenants.

Housing providers would be responsible for all other costs and for remaining viable. They would have incentives for pursuing efficiencies, as they would retain surpluses, and could accumulate funds for replacement or reinvestment.

Table 8: Summary of impacts of change from operating to mortgage subsidy

Tenants	Provider	Funder (SM)
No impact	Provider has operating autonomy and responsibility to remain viable using fixed subsidy for unaffordable debt service costs.	Redirects part of former operating subsidy to housing providers until mortgage expires

U.S. experience in creating flexible subsidy funding

In the United States, some public housing authorities have been given increased flexibility including the option to change the type of program subsidy they receive. This usually involves exchanging ongoing operating subsidies for tenant-based subsidies, known as "Section 8 vouchers".
There are two types of Section 8 vouchers. One is a project-based subsidy, (essentially a form of rent supplement) and the other is a tenant-based or "regular" subsidy which is a portable allowance. The Section 8 voucher program increases the amount of subsidy available to the authority and enables them to invest in properties to enhance residents' experience.

Each housing authority can implement the program in a different way. Typically, the housing authority adopts a payment standard (which can be up to 110 per cent of the 40th percentile rent) for each unit size. The value of the voucher is then calculated at this standard less the tenant's portion of the rent, which is calculated at 30 per cent. Households are then able to shop for a rental unit and to select one that meets certain minimum standards of decency. Regardless of the cost of the unit, the value of the voucher remains the same. If the household finds a less expense unit, they keep the extra value of the voucher. If they select a more expensive unit, they are responsible for the additional costs. With such tenant choice, public housing authorities are forced to provide a good quality service and to reinvest in their assets so they can compete for tenants.

In San Diego, the housing authority (SDHA) traded its project subsidy for regular portable subsidies (i.e. "housing allowances"). If a SDHA tenant leaves, they leave with their voucher. SDHA is then free to rent the unit at whatever rent they choose, but receives no further subsidy. If SDHA were an Ontario Service Manager, they would maintain their service standard through the relocated voucher. Meanwhile the Oakland Housing Authority (OHA) took a different approach. There, officials were concerned about losing public housing units so they implemented a replacement requirement. If a tenant with a vouchers wishes to leave, the OHA must replace them with a new subsidized tenant, using a new voucher. OHA operates a large regular voucher program (almost 12,000 vouchers) but has a portfolio of public housing (fewer than 1,500 units). The size of OHA's pool of regular vouchers guarantees that public housing units can be filled with a subsidized tenants. This requirement also ensures a subsidy / revenue stream for the provider while providing choice to tenants who may want to move elsewhere.

The Section 8 voucher program allows housing authorities to generate positive cash flows and remain viable. In some cases housing authorities have borrowed against voucher subsidy revenue in order to upgrade units and remain competitive.

4.3. REVISE AND SIMPLIFY REPORTING

Taken together, the preceding reforms reduce the complexity of the existing funding system, enhance revenues thereby enabling sound asset management, and ensure ongoing affordability for eligible low income households. They also separate asset management from financial housing assistance, which is fundamentally a form of income assistance.

With simplicity comes reduced administrative time and cost:

- Most significant administrative savings come from the move to an automated or streamlined RGI assessment using the income tax system. Doing so would reduce the time needed to determine and monitor eligibility and would reduce errors.

- Removing project based funding significantly reduces the process of determining and reconciling operating subsidy payments. Shifting the focus of housing assistance administration to the household removes the associated administrative cost.

The reforms would return the sector to the original objectives of funding reform in Ontario, which was to establish social housing providers on a more disciplined and self-sustaining basis where they are both fully responsible and accountable for their success or failure.

At the same time, we recognize that over the past 50 years there has been significant public investment in social housing. As such it is reasonable for governments to expect a return on their investment. It is equally reasonable to ensure that providers are accountable and continue to use their assets to help low-income households secure safe and affordable housing.

We believe our proposed reforms will help housing providers to continue to deliver on their public mission. But, there is some risk, as there is now, that the viability of some housing providers will be challenged and that others may deviate from their intended purpose. Accordingly, it is necessary to retain a regulatory framework to manage the system. However, this could be revised and simplified to reduce the associated administrative cost to housing providers and service managers.

Annual financial statements by independent auditors and simplified annual information returns (AIRs) should remain in place. Much of the data in the AIRs is easily accessible and useful for providers and most property management software is able to provide the necessary data points. As a result, they place a limited administrative burden on housing providers.

However, we recommend that service manager practice be revised to ensure that the information submitted through AIRs is systemically reviewed to assess risk and viability. Using data in this way would enable service managers to work with housing providers that are at-risk and establish appropriate remedies. The work of the Agency for Co-operative Housing provides a useful model or risk management. It uses automated protocols to analyze data submitted through AIRs to assess risk, allowing the Agency to focus its attention on providers that exhibit risk characteristics[59].

In the absence of provincial direction, service mangers have designed and implemented different reporting systems and protocols. There is merit in the Province standardizing data gathering and reporting and in providing the automated tools to facilitate effective regulation and oversight. Centralizing this function within the Ministry of Municipal Affairs and Housing would be highly effective and would create a core of expertise. It would also arm the Province with detailed data on the housing system, thus enhancing the Province's research and policy role.

59. Also if the provider required additional funding for capital repairs a higher level of oversight may be provided.

5. CONSOLIDATION AND SUMMARY

We believe that our recommendation will help create a stronger, more efficient and more innovative housing sector. Together, they will streamline and simplify what has become a costly and administratively burdensome system for delivering housing assistance.

Our first set of recommendations would create fairer and simpler rent setting practices and generate better outcomes for clients:

1. Simplify the calculation and process used to determine households' rent-geared-to-income (RGI) rent and determine income using an automated, income tax-based system.

2. Revise the basis of rent setting for Ontario Works (OW) and Ontario Disability Support Program (ODSP) recipients from the rent scales, which are artificially low, to the maximum shelter allowance allowed under each program.

3. Increase minimum rents for households without declared income and for households whose only income is derived from self-employment or student loans/awards from $85 to the maximum shelter allowance for an individual receiving OW ($376).

4. Replace the current RGI system with a series of tiered rents based on incremental increases in gross earnings.

Our second set of recommendations propose changes to the tenant rent subsidy model and housing provider funding formula and administration. They are not interdependent and can be implemented with or following the implementation of the first set of recommendations.

We believe that the housing system can achieve better housing outcomes for more people by exploring changes to the tenant rent subsidy model and housing provider funding formula. These changes would help simplify the housing system so that it works better for Ontarians:

5. Gradually eliminate project-based subsidies for projects that are able to fully cover costs with rent revenues and transition to a system of rental assistance that involves a fairer and simpler rent setting practice.

6. For projects that are not viable with market rent revenues and rental assistance subsidies, replace operating subsidies with a new mortgage subsidy for projects (or portfolios).

7. Revise and simplify providers' administrative reporting.

Demand for housing assistance far exceeds supply. As a result, people in similar situations receive different levels of financial assistance from government. Households who are fortunate enough to live in social housing receive deep subsidies, while those living in the private rental housing market may not receive assistance. As demand increases, service managers and the Province will face growing pressure to act. We believe our recommendations can help stakeholders respond more effectively in an era of constrained and declining investment.

Appendix A: Illustrative example of claw-back and METR for selected client types

	OW single	OW Lone+1	Couple+2	ODSP single**
OW Basic needs allowance	280	609	771	619
RGI rent scale (OW)	85	199	269	109
OW Max shelter allowance	376	602	710	479
Earning limit for min rent (above this threshold use 30%)	360	791	1001	440
Earning exemption before any OW benefit reduction	200	200	200	200
Total OW Income (if earn below max limit)	365	808	1040	728
Rent paid (at Minimum Shelter Rate)	85	199	269	109
If earn income at 20 hrs min wage/week:				
Earnings	975	975	975	975
Reduction to OW benefit (50% after $200)	-388	-388	-388	-288
Net OW income	0	421	653	441
Combined income	975	1396	1628	1416
New rent (Income less $75 x 30%)	270	396	466	402
Rent increase	185	197	197	293
Residual income after rent	705	999	1162	1013
Claw-back (OW reduction plus rent increase)	573	585	584	581
Marginal effective tax on earnings *	59%	60%	60%	60%
Total OW Income (if earn below max limit)	656	1211	1481	1098
Rent paid (at Maximum Shelter Rate)	376	602	710	479
Same earnings (20 hrs min wage)				
Earnings	975	975	975	975
Reduction to OW benefit (50% after $200)	-388	-388	-388	-388
Net OW income	269	824	1094	711
Combined income	1244	1799	2069	1686
New rent (Income less $75 x 30%)	351	517	598	483
Rent increase	-25	-85	-112	4
Residual income after rent	893	1281	1470	1202
Claw-back (OW reduction plus rent increase)	362	303	276	392
Marginal effective tax on earnings *	37%	31%	28%	40%

* Calculation excludes any additional taxes or source deductions on income
** ODSP pays extra $100 benefit toward work expenses if working, so this partially offsets OW claw-back for ODSP only.

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