



Archived Content

Information identified as archived is provided for reference, research or recordkeeping purposes. It is not subject to the Government of Canada Web Standards and has not been altered or updated since it was archived. Some of this archived content is available only in one official language. Translation by CMHC can be requested and will be provided if demand is sufficient.

Contenu archivé

Le contenu identifié comme archivé est fourni à des fins de référence, de recherche ou de tenue des dossiers; il n'est pas assujéti aux normes Web du gouvernement du Canada. Aucune modification ou mise à jour n'y a été apportée depuis son archivage. Une partie du contenu archivé n'existe que dans une seule des langues officielles. La SCHL en fera la traduction dans l'autre langue officielle si la demande est suffisante.

REPORT OF THE
INTER-DIVISIONAL COMMITTEE
ON THE
INTEGRATION OF A HOUSING ALLOWANCE
WITH
OTHER HOUSING PROGRAMS

Policy Analysis & Development Unit
Canada Mortgage & Housing Corporation

December 1980

PREFACE

This Report is the result of an ad hoc Interdivisional Committee on the Integration of a Housing Allowance with Other Social Housing Programs which met three times between 15 August 1980 and 6 September 1980. The members of the committee were:

- D. Black, Program Evaluation
- F. Cameron, Intergovernmental Relations
- E. Dallaire, Social Housing
- K. Falk, F.P. Relations, Manitoba Office
- M. Goulet, Legal Division
- B. Hale, Residential Improvement
- I. Lithwick, Policy Evaluation
- H. McDonald, Policy Evaluation
- C. Rump, Policy Evaluation (CHAIRPERSON)
- M. Siddiqui, Mortgage Administration
- P. Streich (Secretary)
- W. Taylor, Treasurer's Directorate
- C. Terry, Market Analysis

This Report represents to as great an extent as possible the consensus reached by the committee.

The Chairperson wishes to thank all the members of the committee for their participation and active interest on this committee.

TABLE OF CONTENTS

	PAGE
PREFACE	
SUMMARY	
INTRODUCTION	1
I. RESIDENTIAL REHABILITATION ASSISTANCE (RRAP)	4
a. Volume of RRAP Activity	4
b. Rent Levels in RRAP Units	6
c. Incentives for Repairs	7
II. LIMITED DIVIDEND RENTAL HOUSING (LD)	9
a. Rental Agreements	10
b. Project Viability	12
c. Repairs and Modernization	13
III. RENT SUPPLEMENT (SECTION 44(1)(a))	15
a. Impact on Tenants	16
b. Project Impacts	16
c. Other Program Objectives	16
d. Inter-governmental factors	17
e. Inequities of Parallel Programs	17
f. Financial Considerations	17

	PAGE
IV. PUBLIC HOUSING	19
a. Tenant Benefits	22
b. Cost Sharing Arrangements	23
V. NON-PROFIT AND CO-OPERATIVE HOUSING	24

SUMMARY

Introduction of a shelter allowance will require readjustments in numerous other CMHC programs. Although the long-term goal of the shelter allowance is to replace most demand side housing programs, there will be an on-going need to continue to run as efficiently as possible projects built prior to the implementation of a shelter allowance and to continue to operate programs that have other objectives which would not be addressed by a housing allowance.

Residential Rehabilitation Assistance Program (RRAP) - Rental

Although a shelter allowance will enable tenants to demand adequate housing, much of this improvement will be of cosmetic rather than of structural nature. In tight markets, there may not be sufficient incentive for landlords to improve the property. Consequently, there remains a continuing need for some form of assistance for the improvement of sub-standard rental units. The actual level of subsidy needed to achieve this will have to be examined in greater detail.

Removal of rent regulation in the program may allow some reduction in the required per unit subsidy. At the same time, CMHC should explore ways of promoting greater enforcement of maintenance and occupancy by-laws to ensure that the higher rents possible under a shelter allowance have maximum effect on the quality on the housing stock.

Limited Dividend (LD) Rental Housing

There are some 70,000 LD units in Canada, of which 56,000 were built since 1968. Under the original agreement, CMHC gave entrepreneurs a 95% mortgage at the preferred interest rate. In exchange, the entrepreneur agreed to keep rents low and rent to low income households. Although introduction of a shelter allowance would permit the latter to afford higher rents, the committee felt this would result in an unwarranted capital gain to the owner. Therefore, it supports Mortgage Administration's recommendation that rent regulation be maintained, at least until the 15 year agreements expire, beginning in 1983. Since most of these projects were built when costs were lower, it is unlikely that they will default once the mortgage is renewed at higher interest rates.

Rent Supplement

The committee feels the rent supplement program should be phased-out as existing leases expire. Since housing allowance recipients will be able to choose their own dwelling, there is little justification for unit-tied assistance such as rent supplement. Since rents for some tenants might rise significantly because of the high market rents of many rent supplement units, tenants should be given ample warning of any upcoming lease expiry.

Public Housing

The committee recommends that existing public housing projects be integrated into the housing allowance program. This would be done by establishing market rents and then paying the tenant the appropriate allowance. Implementation of a housing allowance based on paying 75% of the gap between rent and 30% of income will result in significant rent increases, especially for the poor. Consequently the committee recommends that the allowance be based on a sliding scale, giving deeper assistance to the very poor. The committee recognizes that this would increase the cost of the program but feels nonetheless that such a modification is desirable.

The committee also recommends that CMHC use the occasion of the introduction of a housing allowance to disentangle the budgetary approval process. It recommends that the province be responsible for the subsidy from break-even down to "market" rent and that CMHC pay the housing allowance on the basis of market rent. Market rent could be set in the initial year to equate the relative federal/provincial contributions under the old and new systems. Thereafter, market rents would grow in accordance with an agreed-upon index.

Non-Profit Housing

The committee sees no need to change the existing relationships with non-profit housing projects built prior to 1979. As long as the project operates on a non-profit basis, any qualifying tenant may apply for a housing allowance. It is unlikely, however, that many tenants would qualify. There would, however, be no need to continue rent supplement leases in these projects.

With regard to Section 56.1 assistance, the committee feels the requirements for non-profit housing will be significantly reduced. Nevertheless, in certain tight markets there will continue to be a need for a policy to stimulate new construction.

REPORT OF THE INTER-DIVISIONAL COMMITTEE ON THE INTEGRATION OF
A HOUSING ALLOWANCE WITH OTHER HOUSING PROGRAMS

INTRODUCTION

CMHC operates a number of different housing programs on behalf of the federal government. While these programs have many different objectives, they can be characterized as operating on housing supply (eg. ARP) or on housing demand (eg. rent supplement). Deciding how to categorize all CMHC programs is complicated because some programs have both supply- and demand-side objectives. Limited Dividend (LD) is an example of a program designed to increase the supply of housing stock while at the same time reserving the units for lower income households.

Introduction of a federal housing allowance program calls into question the status of projects developed through past social housing program activity as well as the need for future activity through these and other program vehicles. In examining the impact of the proposed program on existing CMHC programs, the committee adopts the position that a housing allowance is a demand-side rental program and accordingly concentrated on its implications for the demand aspects of such Corporation programs as public housing, rent supplement, non-profit and cooperative housing, limited dividend and RRAP. The central issue is:

CAN HOUSING ALLOWANCES REPLACE ALL OTHER FORMS OF DEMAND-SIDE
HOUSING ASSISTANCE TO RENTERS OR SHOULD THEY BE INTRODUCED
IN ADDITION TO EXISTING FORMS OF ASSISTANCE?

In response to the introduction of housing allowances, the government could terminate existing social housing demand-side subsidies to renter households, transferring current clients to housing allowances. At the other extreme, housing allowances could be restricted to households not currently assisted and thus the new program would be in addition to current programs. In between these two extremes, the government could contemplate a variety of partial program realignments based on a program-by-program analysis of costs and benefits.

Considerations

Introduction of a housing allowance program presents both an opportunity and a challenge. The opportunity is to review and redirect existing housing subsidy programs. The challenge is the difficult task of change, especially when the change implies reducing benefit levels in past policies and programs.

There are five major considerations in the decision on the degree of integration:

1. The concept and objectives of housing allowances

Housing allowances are being advocated on the grounds of improved efficiency and effectiveness in meeting social housing goals. Past programs are serving only part of the need and on a per unit basis have proved expensive. Furthermore, all past subsidies have been tied to the unit whereas housing allowances seek to maximize benefits to recipients by delivering benefits to households rather than to dwelling units. Conceptually, therefore, the introduction of housing allowances would enable eventual replacement or elimination of existing social housing subsidy programs.

2. Equity

The proposed housing allowance will provide lower benefits per recipient household than existing subsidy programs. If existing subsidies are left in place inequities will be created between existing beneficiaries and those receiving housing allowances. In the interest of equity, it would be desirable to realign existing benefits with the allowance benefit structure.

3. Inter-program competition and project viability

Recognizing that it is always complicated to introduce a new program which may impact on existing programs, serious problems could be created because existing subsidies are attached to projects which have been financed with public capital. The government has then to consider not only the impact on clients but also the impact on projects. Even though dollar benefits will be lower for allowance recipients than for recipients of existing unit-tied subsidies, the perceived benefit to the clients may not be that different. Many eligible clients can be expected to prefer housing allowances to the subsidized units. This may reduce the demand for subsidized housing units and over time create difficulties in maintaining full occupancy of these projects. Under-utilization of the capital invested could result. These concerns require that strategies be developed to anticipate and deal with the potential competition between housing allowances and existing social housing portfolios as it would be most undesirable to introduce housing allowances in addition to other programs without planning for changes in the role of the social housing stock.

4. Controlling existing subsidy programs

Part of the rationale for housing allowances is to meet social housing needs in a more cost-effective manner in a period of fiscal restraint. Existing social housing subsidies are seen as being out of control and very costly. The introduction of allowances provides a ready opportunity to realign and rationalize existing social housing programs.

5. Costs of existing programs

Several existing programs are providing benefits today as a result of past program commitments. As a result, continuing these programs involves no cost to government whereas their abandonment might. One example, to be discussed below, is LD housing: it costs little to maintain the stock as low income housing but ending rent controls may increase the number of households receiving housing allowances.

Based on these five factors, it would seem that some form of program integration of housing allowances and existing social housing subsidies is required. Therefore, it is recommended that:

IN THE LONG TERM, A HOUSING ALLOWANCE PROGRAM SHOULD
REPLACE EXISTING DEMAND-SIDE HOUSING SUBSIDIES.

While the immediate replacement of existing social housing programs is unlikely, the Corporation should adopt the general principle outlined above but recognize that the timing of the required changes will depend on consultation with other actors and consideration of each program.

In using a program-by-program approach, many questions arise about the efficacy of the individual programs or of their supply-side objectives, which tend to be separate from the introduction of a housing allowance program. While in some cases the housing allowance program may provide opportunities to reorient or ameliorate weaknesses in these programs, the need for changes to existing programs has only been considered insofar as they may be necessitated by the introduction of housing allowances. It would certainly be desirable to postpone any major program changes in other areas until the Corporation decides, in consultation with the affected parties, how the housing allowance will be implemented.

I. RESIDENTIAL REHABILITATION ASSISTANCE (RRAP)

The federal housing allowance program as proposed has no requirement that recipients occupy units of specific standards. Nevertheless, there is continuing concern with the quality of rental housing quite independent of the need for rental assistance. Whereas, in the past, RRAP provisions have sought to address both the quality of units as well as the affordability to the occupant, the introduction of housing allowances provides an opportunity to clarify and refocus the objectives of the RRAP program.

Issues

- a. Should there be any increase or decrease in RRAP activity associated with the introduction of housing allowances?
- b. Should post-RRAP rent levels be allowed to rise freely after allowances are available?
- c. Assuming no standards requirements in housing allowances, will there be a need for incentives to encourage maintenance of rental units?

a. Volume of RRAP activity

Tenants will be able to afford a wider choice of rental accommodation with the housing allowances and some may choose to move to better quality units. In markets with high vacancies, tenants vacating the lowest quality stock will pressure landlords to improve their units or redevelop. In these areas, some increase in demands for RRAP assistance could be generated, especially where the economics of building new rental accommodation are unfavourable to investors.

Alternatively, in locations with few vacancies, landlords will be able to increase rents without losing tenants and these extra revenues could be reinvested in their buildings. For example, an extra \$60-100 per month in rental revenues could finance \$5-8,000 in repairs (at 13% over 15 years). Under this scenario, the need for RRAP assistance would be diminished after housing allowances are available.

Three options are considered as a response to housing allowances:

- Reduce volume of RRAP activity.
- Increase volume of RRAP activity.
- Maintain current levels of RRAP activity.

Considerations

- Need and Demand for RRAP: While the need for RRAP may be reduced to the extent that landlords could generate higher revenues and finance their own repairs, the demand for RRAP may be increased as tenant demands for higher quality housing are created. The impact of housing allowances in increasing the effective demand for rental accommodation can be expected to vary considerably with local market conditions.
- Stock quality: While there may be some increase in privately initiated repair activity after housing allowances are available, there will be a continuing concern with the structural and physical quality of units. Private repairs may concentrate more on cosmetic improvements than on structural components. The level of improvements required under RRAP are likely to exceed those that landlords would undertake themselves. In the worse quality units and buildings, there is a strong case for a program that encourages repairs to some specific standards.
- Incentives: Housing allowances in and of themselves will offer no direct incentives for landlords to undertake repairs. Only if tenants abandon the lowest quality stock will landlords be stimulated to upgrade units. In many market areas this will be impossible because of the limited supply of units in lower price ranges.

To the extent that RRAP has housing supply objectives, there is no case for reduction or elimination of RRAP following introduction of housing allowances. On the other hand, there is no immediate case for increasing the volume of RRAP units. There may be some increase in demand for RRAP in some areas as a result of increasing vacancies. However, these could be offset by decreasing demand in other areas. Therefore, it is recommended that when housing allowances are introduced:

NO IMMEDIATE CHANGES BE MADE IN THE VOLUME OF RRAP ACTIVITY.

b. Rent Levels in RRAP Units

Insofar as rent controls on rental RRAP units were intended to protect tenants from excessive rent increases and displacement, there will be less need for this type of protection after housing allowances are made available. Post-RRAP rents could be determined in the market place rather than be held below market.

The options are:

- Continue present rent regulation on RRAP units.
- Remove rent regulations from RRAP provisions.

Considerations

- Rent Levels: Rents can only rise to what the market will bear before landlords experience vacancies. Therefore, if post-RRAP rents are determined in the market, the units will find their appropriate place in the price structure. At present, rent levels in RRAP-ed units are somewhat below market. Since these units are still subject to provincial rent review where it exists, all landlords would be treated equally whether they undertook repairs with RRAP or without RRAP.
- Costs of housing allowances: Removal of rent restrictions would increase somewhat the costs of housing allowances to tenants in these units; however, depending on the ultimate rent levels and the maximum rents for allowances, some lower income tenants may choose to move to less expensive accommodation.
- Loss of low rent stock: To an extent, rent restrictions on RRAP units serve the additional purpose of reducing the tendency for the depletion of the lower rent housing stock; however, this concern is dealt with under current delivery guidelines by regulation of the type of repairs permitted under the program and by careful selection of buildings and areas under current delivery guidelines.
- Costs of RRAP: Housing allowance payments will provide the potential for increased rental revenues, some of which could be used to cover the costs of repairs. By relaxing rent restrictions and letting the housing allowances flow in increased rents to

landlords, the levels of per unit RRAP assistance could be lower than with rent restrictions.

- Incentives for rental RRAP: If some landlords are discouraged from undertaking RRAP on account of controls, relaxing or removing controls could serve to make repairs more attractive. Dispensing with the controls and at the same time allowing more of the costs to be financed through higher rental revenues would allow landlords more freedom to operate within the market.
- Tenant protection: There would be a continuing concern that landlords not use the repair program to displace tenants. It would be highly desirable to introduce some requirement that landlords notify tenants of the repair intentions and the impact on their rents as well as indicate to them that rental assistance may be available.

These considerations suggest that the preferred direction in the RRAP provisions would be removal of rent restrictions on landlords participating in the program. Also mechanisms could be examined to allow part of the costs of financing the repairs to be borne through increased rental revenues. Therefore, it is recommended that when housing allowances are introduced:

RRAP RENT REGULATIONS ON LANDLORDS RECEIVING RRAP ASSISTANCE BE DISCONTINUED AND CONSIDERATION BE GIVEN TO ADJUSTING THE LEVEL OF SUPPLY SUBSIDIES AFTER A HOUSING ALLOWANCE PROGRAM IS INTRODUCED.

c. Incentives for Repairs

While continuation of repair assistance (even at reduced levels) and removal of rent restrictions may induce some landlords to improve their units, there is still the concern that some housing allowance recipients would live in substandard units. Even though no minimum housing standard requirement is included in the program, it would be undesirable for public funds to be spent to maintain tenants in unsafe or unsanitary conditions. Although only a small proportion of housing in Canada falls into this category, these units will likely be occupied by the potential beneficiaries of housing allowances. Therefore, consideration must be given to other ways of encouraging up-grading of this housing.

Some of the options available are:

- Target RRAP assistance to units occupied by allowance recipients.
- Encourage tenant complaints of code violations.
- Encourage more vigorous code enforcement.

Considerations

- Targetting RRAP: Even if greater leverage can be achieved within current RRAP budgets, not all units needing RRAP will be served within the near term. Therefore, an option exists of directing RRAP to units occupied by recipients of housing allowances. A one-to-one targetting would be extremely cumbersome if not impossible. The situation could arise where some units in a building would be eligible and others would not. Therefore, this option is not recommended. The current approach which targets RRAP by price ranges to areas of low rent stock remains the most feasible. Undoubtedly some of these units would be occupied by higher income tenants; however, the quality of the stock would be improved.
- Tenant complaints: When tenants pay higher rents they may be in a better position to request repairs from their landlords. However, lower income tenants may have few options and may not be forceful in persuading landlords to do repairs. It may be unrealistic to rely on tenant-initiated complaints to improve stock quality but the option should not be completely ignored.
- Code enforcement: The most appropriate mechanism for improving stock quality is code enforcement at the municipal level. Many municipalities are suffering from budget restraints and have limited resources to implement their maintenance and occupancy by-laws. Options could be explored with provincial and municipal officials for mechanisms to assist municipalities, financially or otherwise, to achieve greater enforcement of local standards.

While there are a number of routes which could be taken to improve the quality of low rent housing, the most promising seems to be the code enforcement route. Therefore, it is recommended that:

IN CONCERT WITH THE INTRODUCTION OF HOUSING ALLOWANCES, THE FEDERAL GOVERNMENT INITIATE DISCUSSIONS WITH PROVINCIAL AND LOCAL OFFICIALS ON WAYS TO IMPROVE ENFORCEMENT OF LOCAL MAINTENANCE AND OCCUPANCY BY-LAWS, INCLUDING THE POSSIBILITY THAT THE FEDERAL GOVERNMENT BEAR SOME OF THE INCREASE IN LOCAL CODE ENFORCEMENT COSTS WHICH COULD BE CAUSED BY THE NEW FEDERAL ALLOWANCE PROGRAM.

II. LIMITED DIVIDEND RENTAL HOUSING (LD)

Separate consideration is being given to the future of Limited Dividend projects from the mortgage portfolio viewpoint. The Mortgage Administration Division is preparing recommendations following a report by an outside consultant. Without addressing the broader issues associated with the program as a whole, this section concentrates on the possible impacts of a housing allowance program on LD projects.

There are some 70,000 LD units in Canada; 55,990 units in 542 projects were built between 1968 and 1975 and have 15 year agreements. These will therefore begin to expire in 1983. There are also some 14,926 units in 125 projects built before 1968 with 40 to 50 year agreements. The diversity of the portfolio and the lack of detailed information on current rents and tenant incomes makes it difficult to evaluate the impact of housing allowances. Some preliminary work has been undertaken on a sample of projects, but more work is needed.

There are three main aspects of LD's which give rise to integration questions:

- rents have been regulated under agreements with LD landlords in order to maintain a stock of modest rent accommodation; rents are now substantially below market in the pre-1968 projects while those in post-1968 projects are closer to market levels. Overall, it is estimated that the average rent in LD projects is \$66 per month below market levels.
- projects were financed with preferential interest rates and extended amortization periods; older loans have interest rates as low as 3½%.
- projects were originally built as modest rent housing and although reserves for repairs could be or should have been accumulated, it would seem that several projects now require

substantial modernization expenditures for which reserves are not available.

Issues

The introduction of housing allowances brings into question the need to maintain a stock of below market rent units such as the LD's. Since the need to protect tenants would no longer be as pressing, the rationale for continuing government regulation can be challenged. In particular, three issues have been considered:

- a. Are rent regulations on LD units required?
- b. Will housing allowances reduce demand for LD units and lead to project viability problems?
- c. Will repair financing be required to maintain the competitive position of these units?

a. Rental Agreements

By regulation, tenants are required to have incomes at or below four times the rent in the LD units when they moved in and were expected to leave once their incomes exceeded five times the rent. Whether or not the incomes for exit were applied, the majority of tenants in LD's would probably not benefit from the proposed housing allowance since they are likely paying less than 30% of their income for rent. Thus, the cost of housing allowances for LD tenants would be negligible. Furthermore, since rent increases have been regulated, these tenants pay lower rents than tenants in the private market.

With the introduction of housing allowances, the government could consider the option of eliminating rent regulation of these units and allowing rents to rise to market levels.

Considerations

- Tenant rents and affordability: If government policy establishes that 30% of income is the maximum tenants should pay for rent, then current LD tenants are in an advantageous position by virtue of living in these lower-than-market-rent projects. Consistency and equity would argue in favour of allowing rents to rise to market and treating the tenants the same as those in the private

market. The impact on tenant rent contributions would be significant if rents increased from about \$200 to \$260 a month, even though part of the increase would be offset by the housing allowances.

- Stock Loss: Removing controls and allowing rents to rise to market would lead to reduction in the low rent stock, assuming that units could be rented out at higher rents. Since these projects were developed with public funds, an argument could be made to maintain them as a pool of lower rent housing for longer term social benefit.
- Effectiveness of CMHC rent controls: Rent increases are supposed to be authorized by CMHC; however, in many cases increases have been instituted without authorization. On the other hand, provincial rent control boards have also disallowed authorized increases. Outgoing income limits are not being enforced, although the physical characteristics of the projects themselves tends to attract tenants of modest income.
- Housing allowance costs: Even if rent restrictions were removed, the costs of housing allowances to LD tenants would likely be modest because provincial rent boards would slow the rate of rent increases and many tenants would continue to pay less than 30% of their incomes. This would change if provincial rent controls are ended.
- Financing: If program regulations on rents were removed, the current preferential financing of these projects would have to be reviewed. To allow rents to rise and continue low interest rate mortgages could be construed as conferring windfall profits on LD landlords at the public expense. There is also the question of the opportunity cost of funds outstanding at interest rates well below current borrowing rates. It would be necessary then to consider ways of revising the mortgage documents to raise interest rates to current levels. This would require concurrence of the borrowers.

Revising outstanding mortgages on projects built since 1968 to 12½% would increase repayment by an estimated \$4 million per annum. The borrowers would benefit if they were able to increase rental revenues in excess of this amount or if they intend to redevelop their sites and wish to terminate current arrangements anyway.

Some projects might be in financial difficulty if forced to refinance at substantially higher interest rates, especially if repairs or renovations are also required.

The current information available does not permit resolution of the cost argument and the difficulties of changing financing arrangements lead to a recommendation that in conjunction with housing allowances:

CURRENT CONTROLS AND EXISTING FINANCING SHOULD BE LEFT IN PLACE IN LD PROJECTS UNTIL FURTHER WORK IS UNDERTAKEN TO ASSESS THE PROBABLE IMPACT OF CHANGING PRESENT ARRANGEMENTS.

b. Project Viability

To the extent that housing allowances provide tenants with more freedom of choice the possibility exists that some LD tenants might relocate and that LD landlords could have difficulty filling vacancies. In turn, this could lead to financial difficulties which would force CMHC to assume the real estate.

Concerns about project viability following introduction of housing allowances would seem to be unfounded for the following reasons:

- The likelihood of the owner walking away from the property is much lower today than in earlier years because most LD owners now have considerable equity in their project. They would not wish to forfeit their interests in these projects at this stage.
- The sites of some LD buildings, especially in the west, are quite valuable in many cases and in themselves would be sufficient to attract owners to hold onto their projects.
- Rents are still low compared with alternative accommodation and units should be in a competitive position especially if rent increases are modest. Current tenants would be better-off staying in these units than moving to a higher rent private unit and obtaining a housing allowance. Few projects have vacancies.

Nevertheless, problems may be experienced in high vacancy markets where LD projects are already experiencing above-average vacancies. These projects have poor locations or are uncompetitive in terms of the size or quality of the units.

Since general viability problems are not anticipated following the introduction of housing allowances, no special provisions should be made to protect LD landlords. Specifically, this implies that existing tenants should be eligible for housing allowances either in situ or if they move to more expensive rental housing. Assuming that no changes are made in rental agreements or financing, no changes in target clienteles would be warranted and income limits should remain in LD projects. As is currently the case, these limits can be raised at the discretion of the local office if conditions warrant.

c. Repairs and Modernization

As LD projects age, the need for repairs and modernization increases. In 1977, it was estimated that some \$18 million would be required to repair existing LD and non-profit projects; however, discussions with CMHC branch mortgage administration officers concerning a random sample of LD projects revealed few projects needing major repairs.

It can be expected that the need for repair financing will increase over the next few years and further that some of the funding will be sought from the federal government. To the extent that housing allowances provide tenants with more choice of housing, repairs and renovations of the older projects will be more pressing, simply to maintain the competitive edge of these projects.

The question arises, then, whether special provisions for repair financing should be made. The options include:

- no special provisions for repair financing in LD's.
- provisions for repairs and modernization either capitalized into existing mortgages or repair assistance such as RRAP.
- encouraging higher rental revenues and generation of surpluses to finance repairs.

Considerations

- Protecting the government's investment: Since LD's were developed with federal loans, there is a vested public interest in protecting the existing investment, ensuring continued repayment and maximizing the return from the dollars invested. An argument could be made that repair financing is needed to secure this investment. If the policy decision is to maintain controls on these projects for the terms of current agreements and to leave existing financing in place then the pressure to provide funds is inescapable. Alternatively, it could be argued that sufficient return has already been generated from the original investment in that low rent units have been provided for a number of years, and that further investment would yield diminishing returns from an investment viewpoint. The latter argument is appealing in a period of fiscal restraint.
- Protecting the tenants: If projects are substandard, tenants could be living in unacceptable conditions. Unless landlords are persuaded to undertake repairs, and they may argue that funds are not available, the government could be criticised for maintaining a stock of poor quality housing. Even though it could be argued that low rents offset the quality, there would be moral pressure on government to reinvest in these buildings.
- Incentives for owners: Owners of well-located, older projects may be much more interested in redeveloping to higher uses than reinvesting in existing buildings. Some of the sites are valuable real estate and could yield a higher rate of return in other uses. Therefore, there may be little incentive for these owners to reinvest. On the other hand, CMHC branch offices feel that most owners are not interested in redeveloping their sites.

While it may be attractive to divest the government of further responsibility for these projects, there will be considerable resistance to the whole notion. Whereas housing allowances create the opportunity for higher rents to be charged and the possibility of financing repairs through project revenues, more work is needed in assessing the need for repair and modernization funding. At this stage then it is recommended that:

NO SPECIAL PROVISIONS BE MADE FOR REPAIR AND MODERNIZATION FINANCING IN LD PROJECTS UNTIL THE POTENTIAL FOR FINANCING THROUGH PROJECT REVENUES HAS BEEN ASSESSED.

III. RENT SUPPLEMENT (SECTION 44(1)(a))

The 1980 budget provides for federal contributions to 12,865 units under Section 44(1)(a). The average federal subsidy is \$97.37 per unit per month for a 1980 program cost of \$14.5 million to the federal government. Provincial governments utilizing these provisions provide matching subsidies. The 1978 Rent Supplement program evaluation found that the average tenant income was \$514 per month, the average rent paid by tenants was \$102 per month and the average market rent of the units was \$290 per month.

If these rent supplement tenants were converted to the housing allowance which covered 75% of the gap between actual rents and 30% of income, the average monthly allowance would be \$102, leaving the tenant to pay \$188. The cost to the federal government of shifting all tenants from a cost-shared to a unilateral federal housing allowance would be an extra \$7 per household for a total program cost of \$15.7 million if all tenants participated in the allowance program. Tenant contribution for rent would increase from 20.2% at present to 36.6% of gross monthly income.

Issues

The main issues to be considered are:

- a. Should rent supplement tenants be converted to the housing allowance program?
- b. What steps should be taken with respect to existing rent supplement agreements?
- c. Should new rent supplement agreements be considered?

In considering these questions, the federal government has three basic options with respect to Section 44(1)(a) rent supplements:

- Retain the program in parallel to housing allowances. Existing agreements would be renewed subject to provincial and landlord desires, and new agreements would be concluded where requested.
- Phase-out rent supplements as current agreements expire, transferring existing tenants to housing allowances. No new agreements would be made.

- Convert rent supplements tenants to housing allowances as soon as possible. This would be subject to provincial and landlord agreement.

Considerations

Clearly there are different costs and benefits to the federal government in each of these options. The alternatives must also be examined to see what is feasible given that federal-provincial agreements, government-landlord agreements and tenant-landlord agreements are all involved.

a. Impact on Tenants

Converting current rent supplement tenants to housing allowances would involve substantial increases in rents for tenants, from \$102 to \$188 per month on average, using the flat rate housing allowance formula. Even though tenants could receive a cash allowance rather than an in-kind subsidy, such increases in monthly rent payments are not likely to be very popular and there would be negative tenant reaction to the government. Even if the increases were enforced, the chances are that many tenants would have to move rather than pay the increased rents. The impact of such large increases could be offset by phasing them in gradually over several years or by using the sliding scale formula discussed below in the section on public housing.

b. Project impacts

Rent supplement units were leased by and large in newer projects. In some cases landlords were experiencing vacancies. Several hundred units were leased in ARP projects and there are also some in LD's. If, as expected, some tenants relocated, being unwilling to pay higher rents, then these projects could experience higher vacancies especially in looser rental markets. In the cases of ARP's this could lead to more project failures and claims against the MIF. Landlords with projects that are difficult to market would not be interested in premature termination of agreements and would probably press for renewals. Cancelling the program would likely be unpopular with these landlords.

c. Other Program Objectives

Not only does the program provide rental assistance for

tenants, but also it serves the purpose of reserving some units in newer rental buildings for lower income tenants and integrates them with higher income households. These program objectives may be seen to be useful and to merit continuation of the program in some form. Even if the program were not actively promoted, the federal government may wish to retain some mechanism that could be used to assist projects with vacancy or financial problems.

d. Inter-governmental factors

The latitude available to the federal government in altering present arrangements depends on the agreement of provincial parties. Since some provinces such as Ontario have made extensive use of the provisions in the past, they may be unwilling to negotiate changes or agree to termination. In this case, it may be politically difficult for the federal government to press for changes to existing agreements. Even ending new commitments may be unpopular with certain provincial governments.

e. Inequities of Parallel Programs

The rent supplement program is very similar to the housing allowance program, the only major difference being that subsidies are tied to specific units. However, the benefit levels through a federal housing allowance program would be much lower than under the rent supplement so that to operate parallel programs would be to create inequities in benefits available to the same client group. While these inequities are inevitable during a transition period following the introduction of allowances and a phased conversion from existing rent supplements, it would be more difficult to justify perpetuation of these differentials in the future if the terms of current rent supplement agreements are extended and/or new agreements are concluded.

f. Financial considerations

Subsidisation of lower income tenants in newer rental units is an expensive solution to housing affordability problems, and the rent supplement program has been criticised on these grounds. Retaining a rent supplement program implies that the federal government is willing to accept the inefficiencies of this method of providing rental assistance, and to bear the continued high subsidy costs. Housing allowances would be less expensive on a per unit basis to the public

sector as a whole because they oblige the tenants to contribute larger amounts to live in these relatively expensive units, or to move to more affordable units.

However, the federal government should consider the implications of replacing a cost-shared subsidy program with a unilateral federal program. The cost to the federal government of converting all current rent supplement tenants from 44(1)(a) to a federal housing allowances would increase from \$14.5 million to \$15.7 million using the 75/30 formula. This assumes that all current tenants would remain in these high rent units after receiving housing allowances. Given the rent increases for the tenants it seems quite likely that many would move to cheaper housing. In this event, the change in cost to the federal government would be marginal and there could be cost-savings.

At the same time, there would be cost-savings to provincial governments equivalent to their share of current subsidies, a possible \$14.5 million if all provinces agreed to discontinue the program. While it could be argued that the federal government should not let provincial government reduce their contributions to housing, this is the inevitable implication of moving toward a unilateral federal rental subsidy vehicle. It would then be up to provincial discretion whether or not they used these funds for further assistance to supplement federal contributions or spend the money elsewhere. In any event, the potential savings to provincial treasuries may be an inducement to provincial governments to agree to terminate current agreements.

Taking these various factors into account it is recommended that when housing allowances are introduced:

THE FEDERAL STRATEGY WITH RESPECT TO SECTION 44(1)(a)
SHOULD BE TO PHASE-OUT EXISTING RENT SUPPLEMENT AGREEMENTS
AS THEY EXPIRE, AND FURTHER THAT NO NEW RENT SUPPLEMENT
AGREEMENTS OR EXTENSIONS TO CURRENT AGREEMENTS BE
PERMITTED.

In effect, the program would be allowed to run-out as soon as possible. More than half the current rent supplement units are covered by landlord leases which will expire between 1980 to 1983. These should be allowed to expire under present terms. Tenants in these units should be notified of the impending removal of rent subsidies, of their eligibility for housing allowances, and their likely rent contribution. This will allow tenants to readjust their housing as they see fit.

The more difficult problem is presented by the longer term agreements existing in some cases for another ten or fifteen years. About one-fifth of units fall into this category, most of them in Ontario. The bulk of these are in projects developed under provincial rental assistance programs and in LD's. It is suggested that the provincial government be approached to negotiate shortening the term for these agreements, perhaps to a five year period. Some landlords may be willing to cancel agreements if they are in tight rental markets where they would have no difficulty in renting the units.

IV. PUBLIC HOUSING

The most difficult problems of integrating housing allowances relate to public housing because:

- Rents charged are low, subsidies are high and benefits to tenants would be reduced if allowances are introduced;
- Break-even rents are high and above market in many cases so that the former could not be used to calculate allowances and the latter might have to be determined arbitrarily;
- Once housing allowances are available, there may be some difficulties in filling vacant public housing units because the affordability problems of tenants on current waiting lists would have been ameliorated; and
- Current subsidies are cost-shared with other governments. Introducing a unilateral federal housing allowance could simply transfer costs borne provincially to the federal government. Existing agreements with provinces will have to be renegotiated.

Issues

The introduction of housing allowances brings into question the future role of public housing in Canada. There are some 180,000 units of publicly owned stock covered by 50 year federal-provincial agreements to share operating losses arising from rental to lower-income households. Most of these projects have a long useful life ahead although a few are ripe for redevelopment.

The central issue is:

SHOULD PUBLIC HOUSING BE RETAINED AS LOWER INCOME HOUSING
FOLLOWING THE INTRODUCTION OF HOUSING ALLOWANCES?

There are three basic options:

- Retain public housing as a separate and parallel program to housing allowances.
- Retain the stock and introduce housing allowances.
- Phase-out public housing as low income projects.

Considerations

- Need and Demand: When housing allowances are made available to tenants with affordability problems, the need for subsidised public housing as it now stands can be questioned. As people on current waiting lists are served, it may become more difficult to replace the 20,000 tenants who move out every year from these projects. Also, other tenants may be encouraged to move out to private units with the allowance program. The potential for relocation is strongest among moderate income tenants since they will be able to obtain comparable benefits with the allowances. Potentially, public housing could become even more the domain of the lowest income households especially those with inadequate transfer incomes. Changes of these kinds would tend to further increase the unit cost of subsidies in these projects. Even more serious is the possibility of growing vacancies in public projects and declining operating efficiency with partially occupied buildings. Declining demand for public projects could lead to progressive abandonment of public projects.
- Costs: Subsidies of public units are high and growing. To maintain the present program would be to commit the federal government to cost-share operating deficits for the life of these projects. The main reason for increasing deficits is that tenant incomes are not increasing as fast as operating expenses. Unless the tenant income profile is changed significantly, this situation will continue. Housing allowances could present the opportunity to diversify the income mix in some projects. While not all projects are amenable to income mixing, some proportion of the stock could be considered for diversification. At the same time as the demand for public housing declines, there is an

opportunity to phase-out those projects which are ready for redevelopment. All such changes in clientele and project profiles could contribute to reducing long-term costs of public housing subsidies.

- Impact on Tenants: Integration of housing allowances with public housing implies increasing rents paid by present tenants. While the amount of the increase depends on the formula adopted for the allowance, no formula for a general program could be as generous as current subsidies. The government may wish to protect current tenants from substantial rent increases. Certainly, resistance to higher rents can be anticipated from tenants, and it could be viewed as a responsibility of government not to make these tenants bear the burden of changes in government policy. On the other hand, it could be argued that to allow some 180,000 tenants to receive higher subsidies would be unfair to other renter households with the same income. Equity would suggest that households with similar incomes receive the same benefits, but to avoid severe impacts public housing tenants, some sort of sliding scale will be necessary.
- Inter-governmental factors: The federal government cost-shares current subsidies with provincial governments under the terms of long-term agreements. Initially, the federal policy was to share losses resulting from application of the federal Graduated Rent Scale. Over the last decade, many provinces have implemented variations in this scale which result in tenants with the same characteristics paying more for rent in some provinces. The question is whether the federal government can change the basis on which it determines its contributions. The federal share is based on the GRS which is appended to the agreements. There is no reason why the federal government could not seek to redefine the basis for its share in negotiations with the provinces. If housing allowances were viewed as the basis for federal contributions, mechanisms must be sought for setting the respective federal and provincial shares of losses. Several options are outlined below. In general, it is felt advisable that the federal government not consider any approach which would result in replacing provincial subsidies by federal dollars. However, approaches which reduce costs for both governments would be attractive to both.

Based on concerns about long run costs and possible reduction

in demand after housing allowances are introduced, the case could be made that public housing should not continue to operate in parallel with an allowance program. Therefore, it is recommended that:

EFFORTS SHOULD BE MADE TO REALIGN BENEFITS IN PUBLIC HOUSING TO CORRESPOND TO THOSE IN HOUSING ALLOWANCES.

Realigning current benefits to correspond to those in the allowance program presents many difficulties. It will be difficult to alter current subsidies without placing higher burdens on tenants. At the same time, attention must be paid to the implications of changes in federal and provincial sharing of costs. The two inter-related questions are:

- a. How should benefits be changed for public housing tenants to correspond to housing allowance benefits?
- b. How can current cost-sharing arrangement for public housing be altered so that the federal contribution corresponds to levels under the allowance program?

a. Tenant benefits

Attempts to realign public housing will likely result in increased rents for tenants. The degree of the increase depends on the formula used and what "rents" are used to calculate the allowances. The use of break-even rent would imply larger increases for the majority of tenants than an approach using market rent.

Tenant rent/income ratios would rise from below 25% to over 45% if the proposed 75/30 flat rate formula were applied to break-even rents of public units. This scale of increase is considered unacceptable.

Allowances could be determined so as to hold tenants harmless from rent increases if arbitrary rents were set to leave tenants in the same net position after allowances. However, this begs the question of how the other revenues required to operate the projects would be financed. Also it does nothing to place tenants on an equivalent basis with tenants in the private sector.

A sliding scale housing allowance formula using market rents could reduce the impact of conversion especially for lower income

tenants. Based on preliminary estimates, rents paid by tenants would increase more modestly from an average of \$127 to \$149 a month. The average housing allowance would be \$1,320 per annum. The flat rate scale would cost about \$600 per annum: less than half the sliding scale method. It would be difficult to implement a sliding scale for public housing and use a flat rate for other tenants. The costs of the sliding scale in non-public units would be roughly \$115 million or 30% more than the proposed flat rate schedule. Under this approach, tenants would be placed on the same basis as other tenants paying private market rents. This approach has considerable merit. It raises the question of how the gap would be bridged. This is addressed below.

b. Cost-sharing arrangements

If housing allowances were calculated based on economic rent the federal government would be assuming costs currently borne by provincial governments. The federal allowance formula could be advocated as the basis for rent determination and deficits be cost-shared on the same basis as at present. Both government would benefit from savings in subsidies in the ratio of their current contributions. Apart from the impact of this method on tenant contributions, the effect would be to convert the allowance to another cost-shared program which would probably be unattractive to both governments.

Instead, the concept of separate bridging subsidies and housing allowances is proposed. This could be approached in two ways:

- federal-provincial cost-sharing of the bridging subsidy and federal funding for the housing allowance; or
- provincial funding for the bridging subsidy and federal funding for the housing allowance.

The former method would relieve provinces of part of their subsidy burden and transfer it to the federal level. The latter approach has the possibility of separating the two subsidies conceptually and in terms of control so that each level of government could control its contribution. In the first year, the subsidy to bridge the gap between market and economic could be set based on current provincial contributions. The federal contribution would be the housing allowance based on market rents. These latter costs would increase only to the extent that market rents increased faster than tenant incomes. Some preliminary costing based on historical trends suggest that the

provincial contributions could tend to increase over time while the federal contributions would tend to decline, assuming the same income profile and depending on assumptions about increases in operating costs and market rents.

The rates of increases would depend on the rates of increases agreed on for market rents. This would be the main point of negotiations.

Any changes to the current arrangements will require agreement of the provinces. Some provincial agencies are concerned about the high and increasing costs of public housing subsidies. Therefore, there will probably be some interest in considering any proposals for controlling these costs. Also any measures to increase provincial flexibility would probably be welcome.

Therefore, it is recommended that as an immediate short-term strategy when a housing allowance is introduced:

THE FEDERAL GOVERNMENT INITIATE DISCUSSIONS WITH
PROVINCIAL HOUSING AGENCIES ON THE MECHANISMS FOR
REVISIONS TO CURRENT COST-SHARING ARRANGEMENTS BASED ON AN
APPROACH WHICH SEPARATES A PROVINCIAL SUBSIDY TO BRIDGE
THE GAP BETWEEN MARKET AND ECONOMIC RENTS WHILE FEDERAL
FUNDING BE APPLIED FOR THE HOUSING ALLOWANCES BASED ON
AGREED MARKET RENTS.

At the same time, it would be appropriate to begin discussions on the possible measures to diversify tenant income mix of public projects as part of a longer term strategy.

V. NON-PROFIT AND CO-OPERATIVE HOUSING

Three phases of non-profit housing have to be considered in relation to housing allowances:

- The pre-1973 non-profits were financed with preferred interest rates mainly for senior citizen tenants. Rents in these projects are low and it is unlikely that many of the tenants would benefit from housing allowances. Tenants are unlikely to move because of low rents and because they would be worse-off in private accommodation with an allowance. Thus, concerns about stacking another layer of benefits onto an

existing program are not relevant in this case. As with LD's, no changes are recommended in this program when allowances are introduced. Tenants would be eligible for allowances under the general formula.

- The 1973-79 program provided capital grants and the option of using rent supplements under Section 44(1)(b) on a portion of the units. The main questions concern retaining or replacing other subsidies when allowances are introduced and what impacts might be felt on project financial viability.
- 56.1 non-profit assistance is provided through a federal subsidy to write-down the interest rate. This may be reviewed in light of housing allowances. While allowances will not be sufficient to make new construction viable for low and moderate income tenants, some form of supply subsidy could be considered for private as well as non-profit production.

Issues in the 1973-79 Program

The main issues are:

- a. Should housing allowances be made available to tenants in these projects to replace other forms of assistance?
- b. What are the implications for project financial viability?

The options are much the same as in public housing and private rent supplements namely:

- Retain program provisions in parallel with housing allowances.
- Replace assistance with housing allowances.

Considerations

• Need

The case for providing housing allowances in these projects is even stronger than in other programs. Since only a portion of units are eligible for 44(1)(b) rent supplements, inequities have been created within projects where some tenants receive deeper assistance than other

with the same incomes. The 1977 Evaluation showed that half the tenants paying break-even rents were spending in excess of 30% of their incomes for rent. The availability of housing allowances will address these problems. It could also make non-profit units more attractive to low and moderate income households.

. Impact on tenants

Whereas break-even renters will benefit, some 44(1)(b) rent supplement tenants will face rent increases. The magnitude of the rent increases should be lower, however, since break-even rents are lower than the market rents in private units. The impact could be minimized through phased increases.

. Financing

Capital and interest assistance were used to develop these projects and the question arises whether this should be withdrawn once allowances are available. While it would be possible, the costs to revise financing would hardly seem warranted. Since projects are operated on a non-profit basis, rents could not be raised to yield excess profits. Even if rents were allowed to rise to market levels over time, the surpluses if any, could be controlled and used either for internal subsidisation or by pooling within the portfolio. Alternatively, funds could be accumulated for financing new non-profits.

. Financing

Capital and interest assistance were used to develop these projects and the question arises whether this should be withdrawn once allowances are available. While it would be possible, the costs to revise financing would hardly seem warranted. Since projects are operated on a non-profit basis, rents could not be raised to yield excess profits. Even if rents were allowed to rise to market levels over time, the surpluses if any, could be controlled and used either for internal subsidisation or by pooling within the portfolio. Alternatively, funds could be accumulated for financing new non-profits.

. Setting rents

As in public housing, the question arises as to how allowances

would be calculated. Ideally, allowances should be based on market rents. This approach could lead to surpluses where break-even is below market or deficits where break-even is above market. In some cases, pooling could even-out these differences. However, individual projects with local sponsors would not be able to maintain a break-even position. Until other controls can be developed, it seems most practical to base allowances on a break-even rent. However, techniques should be examined for revising provisions for surpluses and reserves to allow future moves to market rents. These changes would also guard against future financial difficulties.

On balance then, there seems to be a need for integration of allowances into these projects even though some tenants (those now receiving rent supplements) will be faced with higher rents. An option could be open for the non-profits themselves to reduce the contribution for these tenants through their own internal arrangements. Initially, allowances should be based on break-even rents until revisions can be developed to permit greater financial flexibility for the sponsors. Other financing should remain unchanged. Therefore, it is recommended that:

HOUSING ALLOWANCES BE MADE AVAILABLE TO ALL TENANTS IN
NON-PROFIT AND CO-OPERATIVE PROJECTS TO REPLACE SECTION
44(1)(b) RENT SUPPLEMENTS BUT THAT OTHER FINANCIAL
ASSISTANCE REMAIN UNCHANGED.

Issues with Section 56.1

The status of 56.1 could be reviewed in light of the new allowance program. While it is clear that allowances will be insufficient to generate any new supply directly, the depth of the new construction subsidies could be reduced somewhat. There are three options:

- Retain 56.1 as a supply subsidy at present levels
- Modify 56.1 reducing the subsidy to bridge the gap between market and economic rents
- Phase-out non-profit subsidies in favour of more general supply incentives.

Considerations

. Need for supply incentives

Housing allowances will address affordability for renters but will not likely resolve the shortages of rental housing. The depth of the allowances will be too shallow, and the gap between market rent and the cost of new construction are too high in most areas to make much impact. At the same time, rental demand will be increased through the allowance program which could cause increased pressures in tight markets such as Vancouver and Toronto. Therefore, the government should consider some form of supply incentives in concert with housing allowances. The question is whether incentives for non-profits alone is the appropriate route to go. A case can be made for more general supply incentives with less deep subsidies to stimulate all new production especially in tight markets.

. Commitment to non-profits and co-operatives

The federal government has a long standing commitment to third sector housing. Over the past two decades, considerable funds have been spent to build up the capability of the third sector to produce and manage housing. The third sector has been seen as a viable option to public and private development. Policy changes in 1979 virtually eliminated public housing and strengthened provisions for non-profit development, some of it through public development corporations at the municipal level. Expectations were created that the federal government would support these activities in years to come. To the extent that a capability has been created it would be wasteful not to utilize it to its fullest capacity. Furthermore, it would be difficult to revoke on the political commitments made. Therefore, continuing support of the third sector in some form seems warranted. However, the depth of this support and the exclusion of private developer incentives can be questioned.

. Costs

Subsidies in 56.1 are about \$3,500 per unit. Some 88% of this subsidy is used to bridge the gap between market and economic rents. The costs may increase after three and five year mortgages roll-over if interest rates increase from the 12-13% levels now applied. Thus, very little of the subsidies are being used to reduce rents for lower income tenants. Rather they are used to bring the units on stream. As a supply incentive program, the costs are prohibitive.

Based on these considerations it would seem necessary to review the 56.1 provisions with a view to creating a more general supply incentive program. Some continuing support of the third sector is warranted. Housing allowances will not resolve all questions of social housing policy in Canada, and the social objectives of non-profit and co-operative housing would still be valuable adjuncts to overall federal policy. Therefore it is recommended that when housing allowances are introduced:

SECTION 56.1 SHOULD BE RE-EXAMINED AS A PART OF GENERAL SUPPLY POLICIES AND THE DEPTH OF SUBSIDY RECONSIDERED IN LIGHT OF THE AVAILABILITY OF HOUSING ALLOWANCES.

Special care provisions would continue to be funded through Section 56.1 since these would not be replaced by housing allowances.