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## **The 2015 Federal Budget and Housing: Too good to be true\***

The federal Budget includes two new spending initiatives for affordable housing together with a statement that suggested the government was sustaining funding for social housing at current levels. This was believed to be a response to a significant issue and campaign from a wide range of affordable housing advocates, including the Federation of Canadian Municipalities (FCM), the Canadian Housing Renewal Association (CHRA) and the Co-operative Housing Federation of Canada (CHF). On further examination, it is clear the announcement was too good to be true, and the advocates of social housing had been misled.

### **Two new initiatives**

New spending included a new initiative, funded at \$150 million over four years to cover the cost of prepayment penalties that would be charged to non-profit and co-operative housing providers that sought to prepay long-term fixed rate mortgages (most of which are at roughly 8 percent) in order to refinance at today's much lower mortgage rates (well under 5 percent). This will either lower the ongoing mortgage payments to enable providers to hold rents low, or create room to add a larger loan to fund capital upgrades to aging properties.

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The second initiative offers a tax credit to family members with disabilities or seniors who require adaptation to their home to enable these individuals to continue living in their home. The measure provides a non-refundable tax credit of 15 percent of adaptation costs, up to \$10,000, so will partially reduce the cost of such renovations.

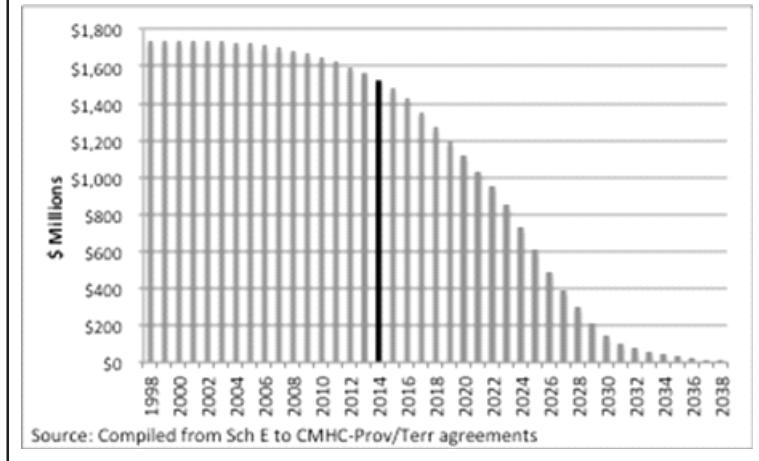
### The smoke and mirrors

The part of the budget that generated the greatest attention from the affordable housing sector was the statement that “CMHC will invest \$1.7 billion annually to support 570,000 households that depend on social housing support both on and off reserve” [Economic Action Plan 2015: 279].

At its peak, this was just over \$1.7 billion annually. Due to funding that has already expired, this is already down to an estimated \$1.5 billion. As shown in Figure 1, it will continue to decline at an accelerating rate. Over the next four years, the annual amount of subsidy flowing to existing social housing providers will decline by \$250 million.

Many advocates are concerned that this reduction in federal spending and termination of rent subsidies will put residents in existing social housing at risk. In addition, in the face of ongoing housing need, and only modest new spending under the Investments in Affordable Housing (a separate funding initiative for new activity), many have lobbied hard to ask the federal

**Figure 1: Schedule Decline in Federal Social Housing Subsidy**



It was believed that this statement related to an anticipated reduction of federal spending on long-term subsidy commitments for housing funded between the 1960s through to 1994.

government to reinvest the annual reduction of existing subsidies back into supporting new initiatives to ensure that providers can continue to serve low-income residents.

	2009	2010	2011	2012
<b>1. Transferred Programs</b>	1,053.90	1,037.40	1,019.60	999.6
<b>2. Non Transferred</b>	695.3	902.8	899.9	675.3
<b>Total</b>	<b>1,749.2</b>	<b>1,940.2</b>	<b>1,919.5</b>	<b>1,674.9</b>

*CMHC, Canadian Housing Statistics 2014, Table 38*

	Funding Under Long-Term Commitments for Existing Social Housing (\$ Millions)			
	2014	2015	2016	2017
<b>Planned spending</b>	1,666	1,640	1,669	1,666

*Source: CMHC Corporate Plan 2015-19, Table 5*

It is also noted that alongside expiring subsidies, the mortgages on these same projects are also maturing, so providers will no longer have any mortgage payments and for some this will help them to be viable.

The minister responsible for CMHC has resisted this lobby and has asserted that these were contractual arrangements, and as the contracts end, CMHC has no obligation to extend funding.

### Official published data confirms CMHC spending plans

This significant decline in federal spending is concealed in official data published by CMHC in both its Corporate Plan and *Canadian Housing Statistics* (CHS).

CHS (Table 38, 2014) shows that in 2012-13 current spending on “existing long-term commitments” approximated \$1.7 billion. Spending went up in 2010-11 as a result of one-time increases under the stimulus funding for social housing retrofit and other related stimulus measures, so 2009

and 2012-13 better reflect the ongoing spending level.

The CMHC Corporate Plan (2015-19, Table 5) also suggests ongoing spending at \$1.7 billion for 2015 through 2018.

### So why don't the estimates of declining spending match CMHC planned spending?

In order to understand this variance, one needs to appreciate how CMHC accounts for ongoing and planned spending, under the label of “existing long-term commitments.”

CMHC transferred administrative responsibility to the provinces and territories through a series of bilateral social housing agreements between 1997 and 2006. Federal spending under these agreements was frozen at the 1995-96 level, such that any inflationary increase in operating and subsidy costs must be absorbed by the provinces and territories. This is the “transferred programs” line in CHS 2014, above. This transfer has been declining. Between 2009 to 2013, it fell by \$76 million and will continue to decline (as shown in Figure 1).

However, expenditures under “non-transferred programs” have been growing and will continue to rise. These increases have the effect of offsetting the decline in spending under transferred programs.

There are three separate things causing “non-transferred” spending to increase:

- Three jurisdictions – Alberta, Quebec and Prince Edward Island did not sign transfers, so CMHC remains obligated to share inflating costs as prescribed under earlier agreements;
- In four provinces – British Columbia, Alberta, Ontario and Prince Edward Island, CMHC also remains responsible for ongoing subsidies to federally funded housing co-ops and these too are inflating, increasing subsidy obligations;
- Finally, CMHC has continued to make new commitments to On Reserve Aboriginal programs and also unilaterally covers inflating costs on pre-existing On Reserve Programs.

Together increasing costs in these three areas have acted to prop up the combined spending. Coincidentally (or

conveniently), these factors generate planned spending at the \$1.7 billion level.

So, despite the initial euphoria among advocates, it is clear that the Economic Action Plan 2015 did not respond to the ongoing lobby to reinvest the amount of declining federal funds (as shown in Figure 1) to ensure that low-income households are not affected by the maturing of funding agreement.

The statement that over the next four years the federal government “*will invest \$1.7 billion annually to support 570,000 households that depend on social housing support...*” does reflect planned CMHC spending levels. However, it does not relate to the more specific issue for which many advocates have been campaigning: reinvestment of scheduled reduced spending. Once the smoke has cleared it is apparent that, indeed, the Budget was too good to be true.

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