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Distilling the Tea Leaves: What the 2017 Federal Budget Really Means For Housing

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Highlights

Budget 2017 essentially sustains and extends the new quantum of funding established in last years federal budget and also presents two potential game changers for the housing sector:

- First, it foreshadows the release of a comprehensive national housing strategy (NHS), providing a funding framework to support yet to be detailed elements of the strategy.
- Second is the proposal to "preserve the baseline funding" related to long-term social housing operating agreements. Depending on how this is interpreted, it could be the source of a substantial ongoing funding envelope, or it could be a major disappointment.

Key elements

The 2017 Federal budget was eagerly awaited to see whether it would provide a further and larger commitment over that of 2016, seen by many as a good first step and initial instalment of renewed federal commitment to housing. It responded to the persisted call from advocates of affordable housing for a more predictable and long term funding commitment.

In a notable departure from shorter term and eleventh hour renewals of past versions of the affordable housing funding program and from the normal department of finance practice of five-year fiscal frameworks Budget 2017 provided an 11-year funding framework. This has the added political advantage of promoting this as a major new spending plan and significant commitment, amounting to over $11 billion.

While large in total, this is in fact a slight reduction in the funding levels announced in 2016 for the 2016/17 to 17/18 periods, but still a substantial improvement over the 2009-14 level of $388 million/yr.

For the two years 2016-18 the prior budget committed new spending at $1.15 billion per year; the 2017 budget commits an average of $925M per year over the 2018-19 to 21/22 period.

About the Center

The Centre for Urban Research and Education (CURE) is a multi-disciplinary network of researchers, primarily from Carleton University, who share an interest and commitment to strengthening municipal and urban affairs. With diverse experience, expertise and perspectives, the CURE network carries out collaborative research in areas including community governance, citizen engagement and local capacity building around planning for infrastructure to support social, economic, and environmental sustainability.

Vision and Goals

We are committed to strengthening governance, policy making, and management in urban areas through collaborative research, community engagement, and education.

Among the casualties of reduction over 2016 is the level of commitment to on reserve First Nations housing – which received $554M in the two years of the 2016 budget, but nothing for post 18/19. That said. There appears to be some unspecified level of funding for First Nations housing in the separate section of the budget on Indigenous Communities. This includes, starting in 2018-19, $4 billion over 10 years for "housing, water treatment systems, health facilities and other community infrastructure" for Indigenous communities.

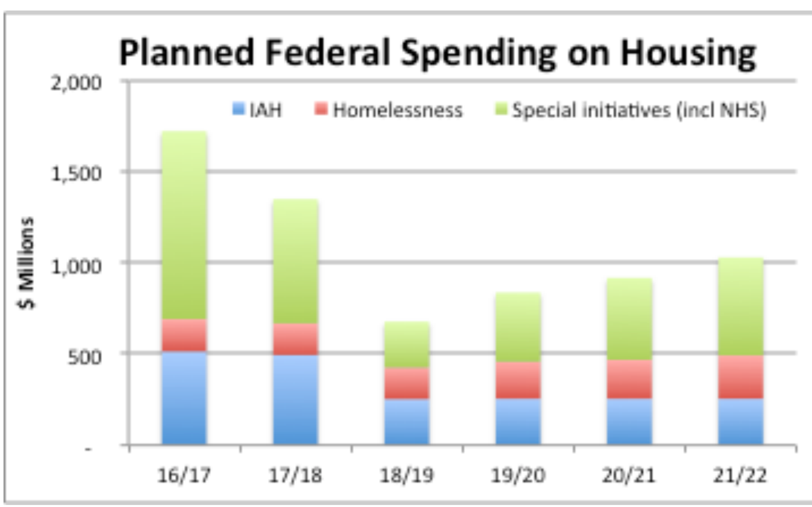
The new funding has recognized the reality that the majority of first nations people live off reserve, and has established a new funding envelop specifically for that target group (albeit at a very modest level of only $25m per year commencing in 2018/19). It also extends funding for housing in the North, but again at a lower quantum than in 2016-18 with $30 million annually starting 18/19 versus $187 million in 2016-18).

The other disappointment was the absence of an extension of the social housing retrofit (funded at $573M with $500M of this allocated to year one and already spent last year. This is an important support to small providers with aging assets and minimal capital reserves. It was also an effective way to quickly generate employment in the renovation-construction sector (as it also did with a specific increase in 2009-11 as part of the economic stimulus budget).

Building on prior budgets

The 2017 budget initiatives do not fully reflect all planned federal expenditures on housing; they simple add to previous commitments. To generate a complete picture it is necessary to add spending plans from successive overlapping budgets. These various prior layers are summarized below, drawing on the 2014 and 2016 federal budgets as well as the CMHC Corporate plan, which is the department/agency presentation of approved spending (and reflection of the main estimates). The planned spending can be categorized into four broad groups:

- Funding under cost shared federal-provincial-territorial Investments in Affordable Housing (IAH)
- Funding to tackle homelessness, flowing mainly through the Homelessness Partnering Strategy (HPS)
- An amalgam of special initiatives in 2016-18 and the proposed funding envelope to support the NHS starting 2018/19
- In addition there are some financing elements (which may be non-budgetary as they are loans rather than contributions) and an unknown retention of expiring subsidy from long term commitments



The first three categories are presented in the chart above, and detailed in Table 1. These exhibits show only the next five years to 2022, although the budget identified plans beyond that timeframe. This clearly shows the temporary boost provided in the previous budget extending through the current fiscal year, and the subsequent fall off in total spending levels. A large part of the higher amount in 2016/17 related to the temporary social housing retrofit funding ($573 million), most of which was allocated in 2016/17.

1. The current mainstream-funding envelope relates to the FPT cost shared investments in affordable housing (IAH) that was renewed and extended in the 2014 budget. This provides provinces and territories with funds, which they must cost match to deliver a variety of new initiatives, including rental assistance, renovations, assisted ownership and development of new affordable housing. The 2014 budget established funding over a five-year period 2014-19 in the amount of $253 million annually. Subsequently this was increased in Budget 2016, effectively doubling funding for IAH over a two-year period. With this in place, Budget 2017 did not allocate any further funding until 2019/20, after the initial five-year program ends. The result is two more generously funded years, last year and 2017/18, followed by a slid back to pre 2016 level in 2018/19. Thereafter reduced IAH levels are gradually offset as other elements of the emerging national housing strategy commence and expand.

2. The second element of the funding framework seeks to assist in tackling homelessness and provides funding via Employment and Social Development Canada's Homelessness Partnering Strategy (i.e. it does not flow through CMHC), with much of this allocated to 61 designated community entities in larger urban areas. Like IAH the HPS framework already had a five-year commitment to 2019 and was supplemented in 2016 and then expanded after that commitment matures. In total, funding to assist various government and community partner agencies in their efforts to address homelessness, totals just over $170 million annually through 2018/19 and then bumps up a little to just over $200million starting in 2019/20. Again this is larger in nominal terms that the recent levels, which from 2009 through 2014 approximated $119 million annually.

3. The third envelope of spending includes an array of special initiatives. The first group announced and funded in Budget 2016 included funding for key federal priorities: First Nations and the north, seniors, victims of domestic violence, a short-term funding to retrofit aging social housing assets and a new funding program to promote innovative approaches to creating affordable housing (with $208 million available over a five year period, most flowing between 2017/18 and 20/21). These special and largely temporary programs accounted for the largest part of the expanded 2016 budget spending for housing activities. But with the exception of the innovative housing fund, extended only for the initial two-year period.

   Budget 2017 established a new set of funding initiatives, primarily as a general funding framework to support elements of the yet to be announced national housing strategy. The single largest is a new national housing fund, expected to support various elements of the national housing strategy. Initially smaller, this grows over the 10 years of the budget to provide in total $5 billion to support the national housing strategy. The details on the type of initiative this new fund will support are expected to be released in the NHS. The budget does however earmark some additional funding for indigenous off reserve programming and to augment research and data collecting activities which will help to monitor and measure impacts of federal investment as well as support better understanding of evolving housing market conditions (e.g. recent price escalation in Vancouver and Toronto).

4. Finally there are two additional areas that may be very important complements to the announced national housing fund. This includes a financing program, originally announced in Budget 2016 ($500 million per year for five years, total $2.5B) on which details are expected to be released shortly. It is expected that this will provide either low interest or interest free loans to support development of new rental housing. It remains unclear whether any targeting will set a benchmark similar to that in IAH (up to 100% of CMHC surveyed

average market rents) or some higher benchmark in order to encourage modest market rent development (for example for the intermediate market between 100% and 140% of AMR). The other new element is a commitment in Budget 2017 "to preserve the baseline funding" related to long-term social housing operating agreements. This is discussed below.

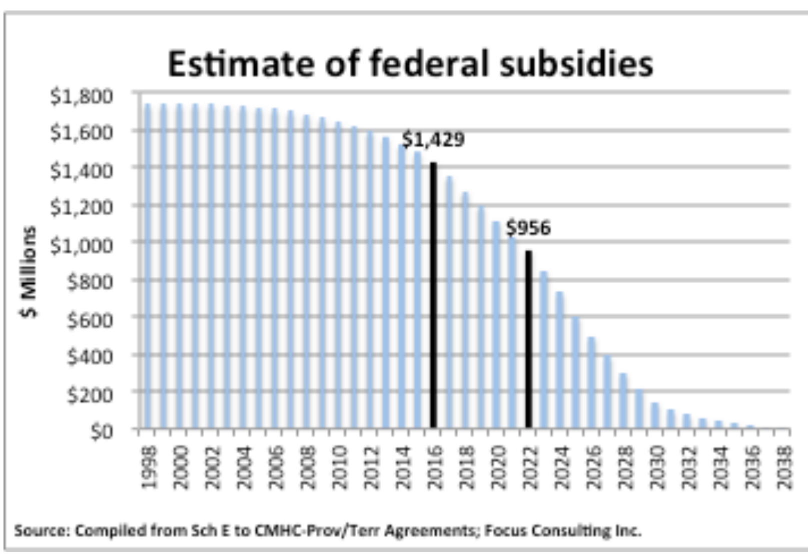
Preserving the baseline funding for long term commitments

This refers to ongoing subsidies that were linked to agreements on social housing mostly built prior to 1994 (and augmented since then by new on reserve commitments). These involve long term (35-50 year subsidy commitments contractually linked to social housing and in all but Quebec and PEI administered by provinces and territories.

There is some ambiguity about what "preserving the baseline" really means.

Funding linked to the agreements was subject to a series of bilateral transfer agreements with the provinces and territories initiated by the 1996 budget. The funding terms froze the federal subsidy amount at the 1995/96 level but allowed PTs to retain any savings, provided these were reinvested into housing. This was intended to offset any inflationary impacts in operating costs, with the primary saving generated by renewal of mortgage loans at increasingly lower interest rates.

The annual federal transfer was established in schedules to each PT agreement and reflected the reduction in the federal subsidy transfer as each project reached the end date of its agreement. Analysis of the schedules of annual subsidy transfers related to these agreements identifies total annual federal spending in the order of $1.7 billion. This is declining as agreements mature (a process which has been ongoing but accelerated rapidly around 2014). The schedules of federal subsidies in the social housing transfer agreements suggest a very significant reduction in annual spending in the next decade. Not all provinces have executed these agreements, so estimates were developed by interpolating based on unit distributions. In aggregate federal spending for these long-term agreements will decline by almost $5B (2018-2028). So, if this level of federal funding is preserved it would double the commitment in budget 2017 allocated to the National Housing Fund.



Three jurisdictions did not execute transfer agreements (although among these, Alberta finally did in 2016). In those three provinces CMHC continued to fund subsidies. It also provided ongoing subsidies to federal coops that negotiated a separate arrangement in four provinces, and thus remain under CMHC administration (via the Agency for Cooperative Housing) and to First Nations under the on reserve program.

With these CMHC direct arrangements, subsidies on that part of the long-term portfolio were not subject to the freeze at the 1995/96 levels. And over the years CMHC has funded some special initiatives such as retrofit, prepayment penalties on long-term loans, and support to expiring RGI subsidies. The net result of these direct spending initiatives on long term commitments is that the formal level of funding on long term commitments, as reflected in the CMHC corporate plan has remained more stable, and does not reflect the aforementioned estimate of substantially reduced subsidy via the declining transfer schedules.

All federal departments and agencies are required by Treasury Board to consolidate all spending plans as authorized in consecutive budgets, any statutory spending and parliamentary approvals. The CMHC corporate plan therefore represents its Treasury Board approved spending plan. The CMHC corporate plan is therefore an important document.

The following table from the 2017-21 CMHC Corporate Plan (published prior to budget 2017) reveals that planned spending under long term funding commitments does not dramatically decline. Compared to 2017/18 annual spending is only $14 million to $46 million lower and aggregates to only $154 million between 2018 and 2022.

Housing Programs spending

(in millions)	2015 Actual	2016 Estimate	2017 Plan	2018 Plan	2019 Plan	2020 Plan	2021 Plan
Funding Under Long-Term Commitments for Existing Social Housing	1,650	1,719	1,742	1,693	1,728	1,697	1,696
Funding for New Commitments of Affordable Housing	348	771	1,229	531	100	34	33
Housing Support	10	12	125	132	98	88	33
Market Analysis	22	29	31	28	25	25	22
Research (Housing Policy, Research and Information Transfer)	19	26	28	27	26	26	24
Housing Programs	**2,049**	**2,557**	**3,155**	**2,411**	**1,977**	**1,870**	**1,808**
Operating Expenses included in Housing Programs	112	134	165	142	127	117	102

If this is the baseline that Treasury Board and the Department of Finance are identifying and agreeing to preserve, the potential quantum of additional funding is negligible, and a far cry from the $5 billion predicted under the analysis of transfer schedules.

It is therefore critical that the meaning of preserving the baseline be clarified.

Table 1: Consolidated federal spending plan ($ millions) *

	16/17	*17/18*	*18/19*	*19/20*	*20/21*	*21/22*
1. Cost shared affordable housing (IAH)						
Budget 2014	253	253	253			
Budget 2016	261	242	0			
Budget 2017		0	0	255	255	255
Sub-total FPT IAH	***514***	***495***	***253***	***255***	***255***	***255***
2. HPS-Tackling Homelessness						
Budget 2014	119	119	119			
Budget 2016	58	54	0			
Budget 2017			54	203	213	237
Sub-total Homeless	***177***	***173***	***173***	***203***	***213***	***237***
3. Special targeted federal initiatives						
Budget 2016						
SH retrofit	500	74				
Seniors	100	100				
Victims Violence	60	30				
North and First Nations	356	383				
Affordable Rental Innovation Fund	13	73	Additional 119M over next 3 years (to total 208M)			
Sub-total targeted budget 2016	**1029**	**660**				
Budget 2017 (NHS related)						
Nat'l Housing Fund *		10	141	266	338	428
Indigenous off reserve	0	0	25	25	25	25
Northern Housing	0	0	30	30	30	30
Fed Lands		2	20	20	20	20
Research and Statistics		8	35	37	36	34
Sub-total targeted budget 2016	**0**	**20**	**221**	**348**	**419**	**507**
Other						
Preserve baseline in EOA			Amount TBD			
Affordable Rental Financing (loans)	500	500	500	500	500	500

Source: federal budget 2014, 2016, 2017