A Housing Benefit for Ontario

One Housing Solution for a Poverty Reduction Strategy

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Federation of Rental-housing Providers of Ontario

ONPHA
Ontario Non-Profit Housing Association

METCALF FOUNDATION

Greater Toronto Apartment Association

Daily Bread Food Bank

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One Housing Solution for a Poverty Reduction Strategy

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A proposal submitted to the Province of Ontario
by a coalition of industry and community organizations:

Federation of Rental Housing Providers of Ontario

Ontario Non-Profit Housing Association

Greater Toronto Apartments Association

Daily Bread Food Bank

Metcalf Charitable Foundation

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SUMMARY

A HOUSING BENEFIT FOR ONTARIO:
ONE HOUSING SOLUTION FOR A POVERTY REDUCTION STRATEGY

Hundreds of thousands of poor people in Ontario – whether they work or receive social assistance – spend more than half their income on shelter. This is a proposal to address this feature of poverty in Ontario by designing a new housing benefit.

A broad coalition from the rental housing industry, the non-profit housing sector, the community-based sector, as well as two private foundations, came together to develop these ideas.

It is no accident that the coalition includes Daily Bread Food Bank. According to the food bank's 2008 survey of its clients, the average food bank client paid 77% of income on rent and utilities. When people have to pay the rent, they go without food. Forty-two per cent of the people in the food bank survey said they had gone without food for a whole day at least once during the past year.

Organizations representing the landlords who rent to the poor are also a part of this coalition. They know how housing markets work in this province. They know, for example, that the cost of housing is much higher in larger urban centres. Yet the housing benefit that people on welfare receive is based on the same formula no matter where the recipient lives. This proposal suggests a way to address that disparity.

The coalition also includes social policy consultants who are trying to draw attention to the unintended ways that tangled welfare rules defeat the very people doing their best to get ahead. Welfare rules and practices are partly responsible for inflation at the low end of the rental market. Some landlords inflate rents to match benefits, and both the poor and the government pay for it. There are ways to change welfare practices so this can't be done so easily. This paper talks about how to do that.

Social housing – housing that charges rent geared-to-income – is a very limited resource in this province. It represents only 5% of the total housing stock and 18% of the rental units. The waiting lists are many years long.

There is ***no*** housing-related income program to help the working poor in Ontario.[1] Thousands of working families in our province pay over half their income on rent. This paper proposes a housing benefit that would extend to the working poor and help to stabilize them in the workforce. It would also create a new, transitional mechanism for people moving from welfare to low-paid work, easing the housing burden while they attempt to escape from the welfare trap.

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[1] In recent years, the province introduced a form of housing allowance called ROOF, but this had limited duration and rationed eligibility. It is not accepting new applicants.

The new housing benefit we describe in this paper has contours similar to the recently introduced Ontario Child Benefit. It would create a new form of income assistance, outside of the welfare payment system. It would remain in place once a welfare recipient leaves social assistance for work, but phase out as income rises and self-reliance grows.

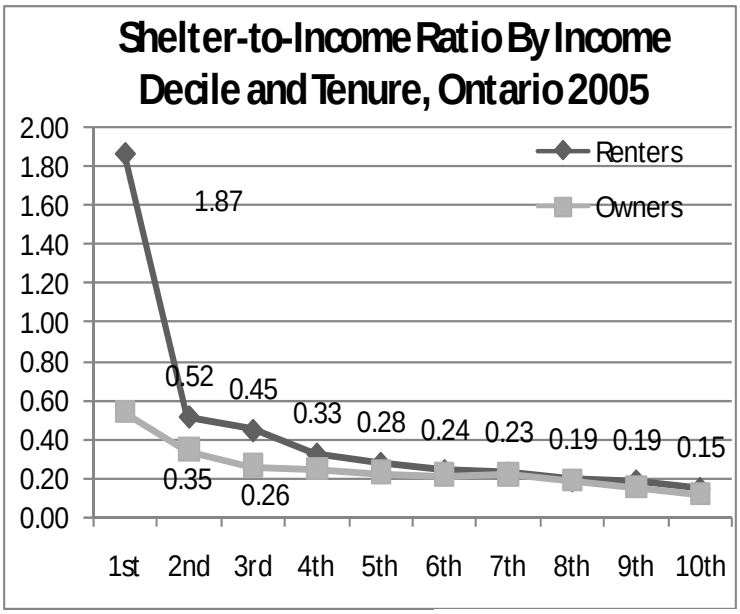
Under the current rent subsidy system for those on Ontario Works and disability benefits, it is possible, in some parts of Ontario, for the government to pay 100% of a person's rent. This proposal is designed to make sure that tenants carry a portion of their rent as a personal cost. Why? Because poorer people should have a stake in seeking out the best value they can get for their housing money. When poorer people begin acting like consumers in the housing market, they bring competitive forces to bear on landlords, and help to stop rent inflation.

A carefully designed housing benefit could significantly improve both housing and poverty outcomes in Ontario. We argue that it would involve minimal new cost to government, provided there are significant reallocations of existing program spending to support the new design.

This proposal focuses on a Housing Benefit as one part of a broader solution for addressing housing-related poverty. While it is a key component from an income standpoint, it should be regarded as complementary to a range of other solutions needed to address the shortage in the supply of affordable housing.

THE BURDEN OF SHELTER COSTS ON THE POOR

In almost all large Ontario cities, people who live below poverty lines are burdened with high shelter costs. Rental costs (including utilities) often consume more than half of a household's income. High shelter costs crowd out other necessities and are a big cause of the financial and psychological stress poor people face. Lack of secure housing keeps them far from available for work.



Source: Statistics Canada SHS 2005

Unlike other necessities, housing is an 'indivisible' expenditure. When funds run short during the month, a family can spend less on most things.

They can buy used clothes or postpone purchases. They can eat less, lower the quality of their food, or go to a food bank. They can walk or get a ride rather than paying for a bus or gas. Housing, however, is unique. Before anything else, people must pay the rent. Failing to do so causes a downward spiral of events, including an impaired credit rating, risk of – or actual – eviction, the stress and cost of finding somewhere else to live, and, at the very worst, homelessness.

Unpaid rent and its consequences also affect costs for governments and landlords. For landlords, the costs include: rent that they cannot recover; time spent filing applications with a housing tribunal; and time delays in finding new tenants. For government, there are administrative costs in dealing with eviction and in programs such as rent banks that provide temporary help to people in arrears. There are also the costs of legal aid and temporary shelters for those who are evicted for not paying their rent.

Low income households, and especially renters, pay a disproportionately high proportion of income for housing. In the graph to the right, shelter cost-to-income ratios are well above the 30% norm until well into the 4th decile.[2]

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[2] In the lowest decile, the data may be distorted by the inclusion of households with low income that are using savings to pay for housing. This may include some self-employed in new ventures, where business income remains low, but housing costs are established.

These statistics are corroborated by a 2008 survey of users at Daily Bread Food Bank, which found that the average food bank client paid 77% of income on rent and utilities.

WHO CARRIES THE HIGHEST BURDENS?

The table below estimates households with high shelter cost burdens, based on 2006 census data.

Estimate of Households with High Shelter Cost Burden (2006 Census)			
	Renters	Owners	All (1)
Total Households	1,301,000	3,200,000	4,501,000
Paying > 50% for shelter	261,000	255,900	517,000
Paying > 30% for shelter	580,000	665,160	1,245,500
OW/ODSP Case loads (2)	400,000	17,000	417,000(2)
Estimated working poor and seniors paying >50%			100,140
Estimated working poor and seniors paying >30%			828,425
(1) Census table excludes households with negative income			
(2) In September point in time, vs. full year - most will be renters. Includes 197k OW 220k ODSP). Of total renter cases 293,000 live in private rented apartments; 59,000 live in social housing and the remainder are case counts of children with severe disabilities, temporary care assistance to foster children who are non wards, boarders, and other persons receiving institutional care.			

People who receive Ontario Works and Ontario Disability Support (OW and ODSP) make up a large portion of the households paying more than 50% of income for housing.[3] These households may not receive benefits for the whole year, but the chart shows the households receiving benefits in September 2006 (417,000 households). This represents 80% of households paying greater than 50%.[4] At the lower affordability threshold of 30%, OW and ODSP accounts for roughly one-third, with the remaining two thirds being seniors with low income or the working poor.

The table shows more than 800,000 working poor households pay more than 30% of income for housing. More than 100,000 pay more than 50%.

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[3] This table uses OW/ODSP payments as a proxy for households. This will be a close proxy among families. For unrelated single persons especially, payment counts will overestimate the number of households. That is because there may be two or more persons, sharing a dwelling, each receiving OW. Also, a person receiving OW may share with a family receiving OW. For these reasons, the table represents an upper limit on OW/ODSP households and a lower limit on the net number of working poor.

[4] Statistically, this is an anticipated outcome because in almost all cases the structure of OW/ODSP benefits is such that the shelter component is close to 50% of the total benefit. Also, in many cases, households pay rent in excess of the shelter maximum. However some households paying more than 50% of income for shelter do not have low incomes; some are students or others with only temporarily low income.

The numbers in this table reflect an outside estimate of the potential recipients of a new housing benefit. The number of people who actually would qualify depends on how the program gets designed. Also, we know from other jurisdictions that have housing benefit programs that actual participation rates are well below 100% of the eligible household.

There is another group, not shown on the table that could benefit from a newly designed housing benefit. These are people in short-term or emergency need, such as for victims of violence.[5]

WHAT KIND OF SHELTER SUPPORTS EXIST NOW? WHAT ARE THE WEAKNESSES IN THESE PROGRAMS?

Social housing that charges rent-geared-to-income is a very limited resource, representing only 5% of the total housing stock and 18% of the rental units in the province. Because it has long waiting lists, social housing is slow to respond to short-term need.

There is no housing-related income program to help the working poor.

A recent provincial initiative, Rental Opportunities for Ontario Families (ROOF) is a first attempt to address the need for a housing-related income program for the working poor. However, ROOF is not a permanent program and is not effectively designed.[6] Moreover, the program stopped accepting applications on June 30th, 2008. We believe ROOF would be more effective if its funds were rolled into the proposed new Housing Benefit.

Ontario Works and Ontario Disability Support both explicitly include a shelter component in the overall benefit calculation. The benefit levels increase with household size, which is a desirable and positive design feature of any housing benefit that is sensitive to housing need.

Falling behind inflation

The chart on the following page shows that shelter components within social assistance programs are significantly lower than modest market rents. In most cities, they are under 70%. Over time, as rents have risen, the shelter components have fallen further behind.

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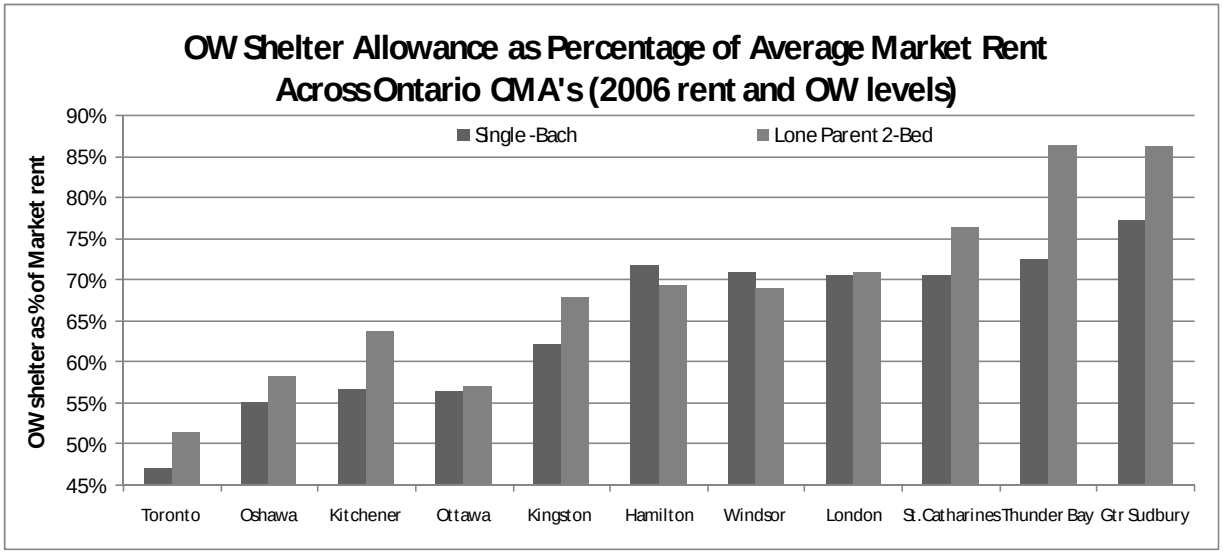
[5] The province has imposed a Special Priority Policy in the Social Housing Reform Act (SHRA). Social housing providers must use the same chronological waiting list system to house both special priority applicants, including victims of family violence, and those without such priority status. In practice, this has failed to address the immediate housing needs of priority households. The Ontario Non-Profit Housing Association has recommended that the province replace the SHRA's Special Priority Policy with an emergency housing system that gives victims of violence a form of housing allowance adequate to obtain any rental housing that is available in their community. The Housing Benefit along with the OW shelter allowance would go a long way to responding to this recommendation.

[6] Please see Appendix A for our analysis of the ROOF program.

Although there have been modest increases in benefit levels over the past five years (9.2%, which roughly approximates inflation), there is no formal indexing of OW/ODSP benefit levels. Due to the design of the existing shelter component of OW, these increases have not been well targeted. Any future increase could be more effectively invested into a new, well-designed program.

Inefficient delivery

The current design of the shelter component is inefficient in getting assistance to where it is most needed. It pays 100% of the cost of housing up to a single, province-wide rent maximum. The maximum is low and inadequate for large metropolitan centres. On the other hand, in low cost markets (especially for the higher ODSP allowances), the current level of shelter assistance is sometimes adequate.



Inflating the rental market

Another problem with shelter components in OW and ODSP allowances is the effect they have on landlord and tenant behaviour. If a recipient is able to find a dwelling with rent below the maximum, the shelter component is reduced. That means there is no incentive to seek lower cost housing. Moreover, the maximum is explicit and widely known. So, rents are often set at the maximum.[7] The cost of this inefficient design is borne entirely by the Ontario government in the case of ODSP and by Ontario (80%) and municipalities (20%) for OW.

A form of shelter supplement was introduced in Ontario in 2005. However, it had inflationary effects on housing prices because of program rules. It required, as a condition of eligibility,

[7] This is most evident in the rent setting practice for singles living in rooming house accommodation, where the ODSP maximum has effectively become the rent floor, even in poor quality accommodations.

that the recipient relocate to an eligible unit.[8] Vacant apartments are not subject to rent control. So, if the eligible tenants found a vacant unit, the rent had often been moved up to market. Meanwhile, their old landlord was raising the rent on the below-market unit they had vacated.

Disincentives to work

A final, but important weakness in the shelter component design is the barrier to labour market entry. In the current system of social assistance, there is only a slight transition, based on allowable earnings, before benefits are removed. Once this point is reached, people must assume the entire cost of their shelter at the same time as they assume other costs, such as the costs of dental care. This is a financial and emotional disincentive to move off of benefits, especially if it means recipients are no longer able to meet the cost of necessary items for their children.

WHAT CAN WE GAIN BY DESIGNING A NEW HOUSING BENEFIT?

Housing-related poverty can be reduced through a carefully designed housing benefit. Such a design should seek to do these things:

- Reduce high shelter burdens and related risks, such as credit impairment, eviction, and homelessness.
- Extend housing assistance to the working poor and minimize risk of a return to OW.
- Minimize the possibility of rents being raised in concert with rate increases in social assistance.
- Introduce incentives for low-income tenants to shop for housing that is suitable for them, for instance, to seek out affordable housing that is closer to where they work.
- Introduce a new way to help low-income workers remain in their housing.
- Reduce barriers to move off and remain off income assistance, and gradually move out of deep poverty.

The overall objective is to create a new housing benefit that helps not just OW/ODSP recipients, but also the working poor, residents of social housing who are paying market rents, and helps prevent homelessness.[9]

For OW recipients, a better design would create a more transitional effect and more gradual tapering off of assistance – with housing the last benefit to be reduced. This is because the cost of housing is the one single expenditure with the greatest impact on the household

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[8] The more recent Rental Opportunity for Ontario Families (ROOF) program eliminates this problem as it does not require relocating.

[9] The working poor and OW recipients are not mutually exclusive. There is a great deal of “churn” in OW case loads, with people moving in and out of low wage work. Often OW recipients may receive benefits for part of the year and work for other parts. See Frenette, Marc and Garnet Picot (2003) “Life After Welfare: The economic well-being of welfare leavers in Canada in the 1990s”, Statistics Canada, Ottawa.

budget. It is also the most destabilizing cost if it is not paid. A well designed housing allowance, carefully integrated with income assistance and back-to-work benefits, would enable people to move towards greater self-reliance.

The design of the new housing allowance must balance policy outcomes like these:

- Providing a substantial enough benefit to improve housing affordability for families of different compositions.
- Create work incentives by providing a benefit people continue to receive when they leave social assistance for work.
- Minimize marginal effective tax rates.
- Ensure the benefit will not contribute to housing price inflation.
- Manage program costs.
- Achieve administrative simplicity.

Our proposed housing benefit incorporates the best practices we could find in a review of housing allowances in other Canadian jurisdictions, as well as, Australia, Sweden, the United Kingdom, and the United States.[10]

THINKING THROUGH THE NEW DESIGN

DETERMINING ELIGIBILITY

Different eligibility criteria create different program costs. As a first principle, eligibility should be based on high shelter cost burdens. The design we put forward here focuses on low-income renters and excludes seniors. It is quite possible to extend the design, however, to include both owners and renters, and households of all ages. The Housing Allowance in Quebec, for example, includes homeowners who have heavy shelter cost burdens.

Since the objective is to help address housing-induced poverty, income level should also be a qualifying criterion. Only households with incomes below an income threshold would receive the housing benefit. Such a threshold should vary by household type – singles, families, and so on).

While it is possible to link directly to other programs or exclude certain households (such as those living in social housing), these decisions should be made based on shelter cost burden.

One group that might legitimately be excluded is youth in full time attendance at post secondary institutions. This is because students typically have low-incomes only in the short term. Also, they are eligible for student grants and loans.

[10] For more information on these practices, please see Appendix B, Use of Housing Allowances in Other Jurisdictions.

ALLOWING FOR HIGHER RENTS IN LARGER ONTARIO CITIES

When a housing benefit design has the same rent maximum across all of Ontario (as in social assistance), it fails to recognize the high costs in larger metropolitan centres. Rent maximums should vary to reflect differences in costs between major centres and smaller communities. In this proposal, we suggest differentiating between centres with more than 100,000 in population and smaller ones.[11] We define the maximum rent as the median rent for the population in both types of community. The medians were estimated from the Statistics Canada Survey of Household Spending. The actual maximums could be developed from either this source, or the annual Canada Mortgage and Housing Corporation (CMHC) rent survey.

ESTABLISHING RENT MAXIMUMS AND MINIMUM CONTRIBUTIONS

A feature of this housing benefit program is to specify:

- minimum and maximum rents for the purpose of calculating benefits and
- a maximum amount of benefit payable.

These features enable governments to control costs.

Establishing a minimum rent or ***contribution*** from the tenant ensures that the recipient pays part of the rent without subsidy. This practice gives tenants an incentive to make their own decisions about the housing they can truly afford. This design element is missing from the current shelter component of OW and ODSP.

People on Ontario Works receive money for rent up to a shelter maximum. In this proposal, for purposes of modelling costs, we based the tenant's minimum rent contribution on the existing OW shelter maximum. The advantage of this feature of the design is that it synchronizes with OW. People transitioning out of OW would experience neither a loss in the Housing Benefit nor a double subsidy.

SETTING DIFFERENTIAL CONTRIBUTION RATES FOR TENANTS

For those with incomes distinctly above OW levels, the tenant's contribution amount is the amount a tenant is reasonably expected to pay toward housing costs. The contribution ***rate*** is this amount, expressed as a percentage of income.

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[11] Another option is to make the split between the Greater Toronto Area and the Ottawa region on the one hand and the rest of the province, on the other. We are using the 100,000 population split in this proposal because the Statistics Canada data set used for the estimation did not allow the GTA + Ottawa vs. rest-of-province division.

Because spending on necessities varies according to the number of dependants in a family, social assistance pays different rates according to the size of the family. Similarly, the contribution rate for the new housing benefit should vary with household size.[12]

A sample model of contribution rates might be:

- Single, no dependents: 40%
- 2 person (couple; or lone parent with one child) 35%
- 3 person 30%
- 4 person 25%

The variable contribution rate accounts for the needs of families of different sizes and compositions by progressively increasing their after-rent income according to the number of family members. Although single adults working in minimum wage jobs are in a similar income situation to the single parent, they have substantially different expenses for necessities after the rent is paid. The lower contribution rate for families of two or more ensures that they have higher after-rent income to attend to the additional needs of their families.

Another reason for the differential contribution rate is to provide a benefit for low-income singles. Low-income, working-age singles in Ontario have the greatest depths of poverty, and they have not benefited from other important government programs. It is important that they benefit from this one. In this way, the differential contribution rate helps to rein in program costs, while ensuring that single people have access to the new housing benefit.

REPLACING "100%" RENT COVERAGE WITH "PER CENT OF GAP"

Social assistance programs have set housing allowances that they call "100%" of rent coverage, but with low maximums. This has had unintended effects. It may seem counter-intuitive, but "100%" coverage has harmed the people it was intended to help. There are two reasons for this:

- Landlords know what the maximums are. Some routinely set rents for people on OW and ODSP to the plan maximums. This has the effect of inflating rents.[13]
- Governments sense that increasing this benefit is expensive while providing very little help to those with the highest housing costs. For that reason, they have been reluctant to increase it. In fact, the benefit did not increase at all from 1993 to 2003.

Paying less than 100%, in the context of the design we recommend, would provide the greatest benefits to those most in need, at a lower cost. How would this work?

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[12] The Social Housing Reform Act currently uses a contribution rate of 30% along with specific income and asset testing procedures as part of that Act's rent-geared-to-income system. The model contribution rates presented in this paper should not be confused with the legislated requirements of that Act.

[13] See Appendix C for a more details on why the 100% subsidy design has not been effective in Ontario.

A new formula is needed for calculating housing allowances, one that is less transparent to landlords and more sensitive to individual circumstances. The formula we suggest is called "per cent of gap". The "gap" we refer to is the difference between the actual rent people have to pay and the contribution amount (the amount they are ***capable*** of paying, which we described earlier). The amount that will be paid to the recipient in the form of a housing benefit is a percentage of this gap.

When applying the formula, actual rents would be capped at a maximum, defined as the median rent for larger or smaller population centres. Minimum rent would be defined as the OW shelter allowance.

The per cent of gap formula would pay only part of the difference between the actual rent and the tenant's contribution amount.[14] There are four benefits to this, all involving behavioural incentives:

1. When landlords know that tenants have to pay (at least in part) for rent increases out of their own pockets, it is a disincentive to raise the rent.
2. Because the housing benefit will vary from tenant to tenant, it will be less clear to landlords what level of assistance they are receiving.
3. Because they must contribute towards the actual rent themselves, tenants may become more active in trying to get the best rent possible. If they are able to retain their housing through a combination of their own contribution and the housing benefit, they do not face the specter of moving from their communities.
4. When tenants don't have to move, apartments do not become vacant and subject to unregulated rent increases, which cause further rental market inflation.[15]

Selecting a per cent of gap for this model

Programs in other jurisdictions have selected per cent of gap formulas that range from 60% to 90%. For purposes of modelling costs in this paper, we used 75%.

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[14] Housing allowance programs in other provinces using gap-type plans never cover 100% of rent. Quebec uses 67% of the gap. In Manitoba and BC, which do not cover social assistance recipients, the per cent of gap is 90% for the lowest income, gradually declining until it is 60% for the highest income.

[14 cont'd] Among other countries, the UK Housing Benefit is a rare exception in covering 100% of rent. The Swedish housing allowance pays out 75% of the affordability gap. The Australia Commonwealth Rent Assistance (CRA) is similar to the Quebec model. Subsidy levels are calculated based on both a minimum and maximum rent threshold as well as a maximum total subsidy amount. The minimum rent threshold reflects the fact that general income assistance benefits are intended to cover basic living and housing costs. The CRA is intended to top up the basic allowance to help with higher rent costs. The rate at which CRA is paid is 75 cents for every dollar above the minimum rent threshold until a maximum rate is reached.

[15] There is evidence from both the Manitoba housing allowance and the Quebec housing allowance that a housing benefit of this type does not lead to rent inflation. See for example Canada Mortgage and Housing Corporation (2006) *Housing Allowance Options for Canada*, prepared by Finkel, Climaco, Khadduri and Steele.

We based our model mainly on Quebec's program. This is a good model because it integrates directly with the income assistance program and is designed to help smooth the transition for people moving off assistance into work.

APPLYING THE NEW FORMULAS

FACTORS INFLUENCING PARTICIPATION RATES

In other jurisdictions, many eligible households do not exercise the option to seek benefits under shelter allowance programs. Participation seldom exceeds 85% of eligible participants and can often be much lower. This is especially so in programs targeted to seniors (50-70%). A variety of factors influence this. Low levels of assistance often reduce the attraction of the program. Poor communication about the program, and how to apply, affect the level of applications. When government employees counsel people to enroll, participation rates rise. Because the model we are proposing includes OW/ODSP recipients, we assume higher enrollment may result.

Selecting the contribution rate and per cent of gap chosen will certainly affect eligibility. For example, anyone whose rent is 30% or less of their income would not be eligible for any assistance. They would be defined as not having an affordability problem. So, setting the contribution rate at 35% or 40% reduces total potential ***beneficiaries.***

USING THE NEW FORMULAS TO CONTROL MARGINAL EFFECTIVE TAX RATES

The combined contribution rate and per cent of gap formulas comprise the tax (or recovery) rate on the housing benefit as income rises. Here is an example of how this works:

A single person with a contribution rate/per cent of gap of 40/75 will have a tax rate of 30%. However, someone with 40/90 would have a tax rate of 36%.

A higher per cent of gap provides a higher initial benefit for a single person. But it will also result in steep tax rates as income rises. The selection of the per cent of gap and contribution rate should balance the need for a reasonable housing benefit with the need to keep marginal effective tax rates low. This is important in order to retain work incentives as income rises.

For this reason, ***selection of the contribution rate and per cent of gap cannot be considered in isolation from the marginal effective tax rate.***

SELECTING FORMULAS THAT WILL PROVIDE INCENTIVES TO WORK

Contribution and per cent of gap rates should be set at levels that ensure people who are able to work see a clear advantage to working. They should make social assistance less attractive. That means the formula chosen must always produce a favourable result when the housing benefit is combined with work income. This total must exceed what a person would receive on social assistance.

INTEGRATING THE HOUSING BENEFIT WITH OW/ODSP

The proposed housing benefit incorporates the relatively low, existing OW shelter allowance as the benefit floor for those receiving OW. This allows the new housing benefit to be built on top of existing social assistance rates. It can be paid as a supplementary benefit, avoiding the many complicated benefit rate changes that occurred with the introduction of the Ontario Child Benefit.

Over time, the new housing benefit could become the income-based housing program for all low-income Ontarians. The basic needs and shelter allowance for social assistance could be merged into one benefit rate without distinction between shelter and basic needs. For the Ontario government, this removes the expensive and administratively cumbersome process of requiring social assistance recipients to provide more than a single, annual, piece of evidence of rent amount in order to maintain program eligibility. For recipients, it removes a paternal aspect of the system.

APPLYING THE FORMULAS: THREE EXAMPLES

Example One

Hanifa is a lone parent with two children aged 7 and 9. She is receiving benefits from the Ontario Works program. She has no earnings at present. Her household's monthly income, including all benefits and tax credits is $1,702. Her total income under the Housing Benefit would go up by $79 a month to $1,781.

Hanifa's Finances		**Calculating Her Benefit**	
OW basic needs	**$374**	**Rent**	**$700**
OW shelter allowance	**$595**	**Minus OW shelter allowance**	**- 595**
Child benefits and other credits	**$733**	**Gap between rent and shelter allowance**	**= $105**
Total income before housing benefit	**$1,702**	**Housing benefit pays 75% of gap**	**X .75**
Total income after housing benefit	**$1,781**	**Equals Hanifa's monthly housing benefit**	**$79**

Example 2

Bob is also a lone parent with two children. He is receiving OW and, like Hanifa, has a monthly income of $1,702 including all benefits and tax credits. However, his rent is somewhat higher at $850 per month. The housing benefit recognizes rents up to $847 for calculating the benefit. Bob receives the maximum housing benefit of $189 per month, increasing his total income to $1,891 per month.

Bob's Finances		Calculating His Benefit	
OW basic needs	$374	Bob's actual rent is $850/month. Because this rent is over the maximum of $847, this amount is used to calculate the benefit	$847
OW shelter allowance	$595	Minus OW Shelter Allowance	- 595
Child benefits and other credits	$733	Gap between rent and shelter allowance	= $252
Total income before housing benefit	$1,702	Housing benefit pays 75% of gap	X .75
Total income after housing benefit	$1,891	Equals Bob's monthly housing benefit	$189

Example 3

Krystal is a lone working parent with two children. She works full-time and earns minimum wage plus various tax benefits and credits, generating a total monthly income of $2,211. Her actual rent is $800. Her total income under the housing benefit would rise to $2,314.

Krystal 's Finances		Calculating Her Benefit	
Employment income	$1,422	Rent	$800
Shelter allowance (there is no housing benefit for working poor)	n/a	Minus 30% of income $2,211 X .30 =663.3	- 663.30
Child benefits and other credits (including WITB)	$789		
Total Income Before Housing Benefit	$2,211	Gap between rent and 30% of income	= $136.70
Total income after housing benefit	$2,314	Housing benefit pays 75% of gap	X .75
		Equals Krystal's monthly housing benefit	$103

MODELLING AND COSTING: ONE PROGRAM DESIGN OPTION

A SUMMARY OF THIS MODEL'S FEATURES

Computing the cost

To estimate the cost, we used the Statistics Canada Survey of Household Spending. First, we determined the number of Ontario households in the survey eligible for the housing benefit based on the model below. We then computed the benefit each eligible household would get. Finally, we used Statistics Canada weights to estimate the costs for all eligible households in Ontario. Weighting is a statistical procedure that allows us to make conclusions about a whole population based on a sample.

Participation rate

A critical variable in determining program costs is the number of eligible households that will actually subscribe to the program. Participation rates will be highly affected by:

- the ease of the application process and
- whether OW/ODSP recipients will be eligible. (Participation rates will be high if case-workers guide recipients into the program. When they leave OW/ODSP, they will remain in the program.)

Because we are proposing a model that includes OW/ODSP recipients, we assumed high participation rates in the cost estimate. We used 100% enrollment to show the highest possible cost of a program with the features we model.[16]

Household types

The following household types are included in the model – in all cases they are renters.[17]

- Working age single persons
- Families (including single and couples with or without children)
- Seniors with dependant children under the age of 18

Exclusions from household types

We have excluded two household types from the model:

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[16] More realistic participation rates, based on the experience of other programs, are: seniors at 75%; families at 85%; and non-senior couples and singles at 85%.

[17] Although many housing allowance programs in other jurisdictions do include low-income home owners, for the purposes of this paper, we looked at renters only.

1. Seniors 65 and over: We do not recommend implementing a program that covers all household types. We propose converting the existing senior's property tax credit to a monthly benefit payment. This would be a little more than $60/month for most low income seniors, and would approximate the estimated housing benefit mean payment in this model. Converting this credit to a monthly benefit would make it more transparent that Ontario provides this money. Right now, the payment comes to seniors as part of their income tax return. For this reason, it is perceived as coming from the federal government.

2. Post-secondary Students: We excluded childless households under 25 who were not working all year, assuming these mainly represented students.

Per cent of gap rate

This model is based on a 75% rate of gap.

Contribution rates

The model uses contribution rates of:

- 30% for families and childless households of two or more people
- 40% for singles.

Families are excluded from the program if 30% of their income equals more than the maximum rent. Similarly, singles are excluded if 40% of their income equals more than the maximum rent.

Maximum rent eligible for the housing benefit

To determine maximum rent, the model uses median rents estimated from the Statistics Canada Survey of Household Spending (SHS) for the 2005 income year, as well as a combined data set from the 2004 plus 2005 files. This was to generate a larger sample and improve statistical validity. (Please see Appendix C for details on the data methodology.)

Medians were computed separately for urban areas of 100,000 or more population, and all other areas (both smaller urban and rural areas).[18]

Minimum rent eligible for the housing benefit

The minimum rent contribution is based on the existing OW shelter maximum.

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[18] This seeks to reflect the typically lower costs in smaller markets. However, the limited sample size in the SHS precludes separate maximums for different cities. In the case of the smaller urban areas plus rural areas, SHS 2005 is supplemented by appropriate inflated data from the SHS 2004 because of the low number of SHS 2005 records in these areas. The CMHC rental survey is another option for deriving geographically varied rent maximums.

Estimating household size

We based our assumptions about the size of unit that a household lives in on the number of people in the household, as follows:

- One person households are assigned a bachelor unit.
- A two-person household is assigned a one bedroom unit.
- A three or four-person household is assigned a two bedroom unit.
- Larger households are assigned three bedroom units.

MINIMUM AND MAXIMUM RENTS USED IN COSTING

The resulting minimum and maximum rents are shown in the following table. The table also identifies the associated income level of recipients (assuming a shelter-to-income ratio of 30%).

Minimum and Maximum Rents Used in Costing Assessment				
	Cities with 100,000+ pop		Areas under 100,000	
Size of Household	Min rent	Max rent	Min rent	Max rent
1 Person	$349	$575	$349	$462
2	549	750	549	549
3	595	847	595	701
4	647	847	647	701
5	697	1100	697	796
6	723	1100	723	796
Equivalent max income levels (@30%of income)				
1 Person		$18,480		$17,250
2		30,000		21,960
3		33,880		28,040
4		33,880		28,040
5		44,000		31,840
6		44,000		31,840

SUMMARY COST ESTIMATE FOR AN ONTARIO HOUSING BENEFIT

The following table identifies the costs of the new housing benefit, assuming 100% participation by eligible renters. The estimate is broken down by household type.

Families		Singles and Other Childless Households		Total	
Number of Recipients	Annual Cost ($ millions)	Number of Recipients	Annual Cost ($ millions)	Number of Recipients	Annual Cost ($ millions)
65,721	$93.6	128,559	$146.5	194,280	$240.1

POTENTIAL SOURCES OF FUNDING FOR THIS MODEL

A number of existing funds could be reallocated to support this proposed allowance:

Ontario Works

Our proposal is to augment, but not to replace, the existing shelter component of OW. That means any planned increases to the existing shelter component should be available to the new program. The increase in the shelter allowance over the past four years has added 9% to the monthly shelter allowance and has increased the budget by about $250 million. If similar increases are planned in the next four years, these would provide a similar amount of new funding.

The proposed housing benefit is designed to sustain assistance to individuals and families leaving OW. It seeks to encourage this transition. For each person successful in leaving and remaining off of OW, the full, basic costs of welfare, plus shelter components, are no longer expended.

It is possible to fund five to eight new housing benefit recipients for each person moving off OW. In the model we illustrate in this paper, the average housing benefit us $119. That compares to total OW benefits (at July 2008 rates) of $572 for a single and $962 for a couple with 2 children.

ROOF

ROOF was planned to provide supplements for five years. The initial budget was $185 million, over the full five years. Transitioning eligible ROOF recipients to the new program would provide $147million. This is the remainder of the original five-year, $185 million commitment, as only one year of five has been spent to date.

ROOF funding is derived in part from the federal/provincial Affordable Housing Program (AHP). The federal commitments terminate effective in March 2009. While there is no guarantee that the federal government will renew either the AHP or the Affordable Housing Trust programs, there is ongoing discussion and advocacy to re-engage the federal government. This is an unknown but potential source of funding. These recent federal initiatives have provided one-time, up-front capital funding, so are not precisely suited to an ongoing housing benefit program. However, part of such new funding could be converted to a flow of subsidy by investing in an annuity type model.

Ontario Property Tax Credit

As noted earlier, the existing Ontario Property Tax Credit already provides a notional level of assistance to low income renters and owners. In the case of renters, the amount depends on their rent. This is paid out as a single payment, lumped into a general tax return. For this reason, it is seen by recipients as a federal refund. This could be converted to a monthly payment and provided as rental assistance.

The credits for seniors are generous, as there is no tax back until net income is $22,000. For non- seniors, the value of the credit is eroded much sooner, once net income exceeds $4,000. In both cases the property tax credit is combined with the sales tax credit. Any senior couple with a combined income of under $22,000 would get an annual property tax credit of $817 ($68.08 monthly) if rent were $800 per month.[19]

For this reason, we recommend excluding seniors without dependants from the housing benefit and reconfiguring the renter tax credit to a monthly credit payment. Another option would be to eliminate the renter tax credit and use savings to fund the proposed housing benefit. If this option were chosen, seniors would need to be included in the model.

[19] A non-senior single paying rent of $700 would get a renter tax credit of $298 ($25 per month) if income was $10,000; $258 if income $12,000; $218 if income $16,000. This is significantly lower than the housing benefit, so would not be a realistic substitute for the proposed housing benefit. The maximum credit is also capped at $1,000 with a combination of renter and sales tax credits. If the notional tax expenditure of $218-$258 per low-income renter were eliminated, the realized saving could partially fund the new housing benefit.

APPENDIX A
COMMENTS ON THE RENTAL OPPORTUNITIES FOR ONTARIO FAMILIES (ROOF) PROGRAM

Launched in July 2007, ROOF provided a housing allowance of up to $100 per month for a five-year period to eligible, low-income working families in Ontario.

The design is simple – a flat payment of $100 per month if rent is greater than 30% of income.

This however creates a number of problems.

1. **The design is unfair to larger families**. A couple with five children receives the same amount as a lone parent with one child, although the former needs a much larger unit. All other housing allowances in Canada are sensitive to family size.
2. **The design is unfair to families living in high-cost markets**. A family living in a smaller community outside the GTA, such as Petawawa, Cornwall, or Chatham, might pay $600 a month in rent for a two-bedroom apartment. They receive the same benefit as a family paying $850 a month for a similar apartment in Toronto and Ottawa.
3. **The design has severe "notch effects."** Notch effects happen when there is a sudden drop in the dollar value of the benefit received. They should be avoided in designing income benefits, as they can produce unintended effects, such as making someone financially worse off when they earn more income – and we all agree that people should be better off the more money they make. In the case of ROOF, these notch effects operate for rent and income. Here are some examples:

If a family's income is:	And rent is …	Then the family …	And receives:
$1,600	$475 per month	does not qualify for ROOF	zero per month.
	$485 per month	qualifies for ROOF	$100 per month.
$20,000	more than $500 per month	qualifies for ROOF	$100 per month.
$20,050	more than $500 per month	does not qualify for ROOF	zero per month.

   Thus, the family with the slightly higher income is *worse* off by $1,150 per year than the family with the lower income.

4. **The design is unfair to families that save.** There is an asset limit of $10,000 for eligibility in ROOF. This means low-income families that have scrimped and saved toward a down payment on a house are ineligible. Home ownership is particularly important for some immigrant groups.

5. **The flat $100 is an easy target for some landlords.** Many landlords in a soft market are increasing rents less than the guideline amount, but if they know their tenants are receiving ROOF, they might be inclined to increase right up to the guideline, taking advantage of their tenant's reluctance to move.

   In the housing benefit models we studied, such as the Quebec, Manitoba, and BC models, the housing allowance differs from family to family. This ensures that, that even if landlords know their tenants are recipients, they will not know the amount they receive.

6. **There are administrative problems in ROOF.** Applicants are not required to submit evidence of rent, as they are in all other provinces that have housing allowances. This is apt to bring the allowance into disrepute.

7. **Eligibility is severely restricted.** Families that worked in 2007 or 2008 are not eligible unless they were also working in 2006.

8. **ROOF is now closed**. The final application date was June 30, 2008. No new families may apply.

APPENDIX B
HOUSING ALLOWANCES IN OTHER JURISDICTIONS

Various forms of housing or shelter allowance have been implemented in other Canadian provinces and abroad. Typically, the allowances are only one element within broader affordable housing strategies. They have proven to be durable and, in most cases, effective in reducing high shelter cost burdens. Some designs have been less effective than others and this provides useful insight into both good and weak design elements, based on experience.

In Canada, four provinces have had programs in place for more than 25 years: British Columbia, Manitoba, Quebec, and New Brunswick. More recently, Saskatchewan has introduced a shelter allowance, as has Ontario with the ROOF program (now in abeyance).

Manitoba and BC have "rental gap" type program.[20] Manitoba covers seniors (55+), non-welfare families, and disabled people. BC covers seniors (60+), working families, and some disabled people.

Quebec has a "housing cost gap" type program.[21] It covers seniors (55+) and low-income families, both working and on welfare. Homeowners are also covered.

Saskatchewan's program covers welfare and non-welfare families, as well as disabled people.

Ontario ROOF program covers working families only, has already passed the application deadline, and only provides assistance for up to five years.

In most provinces the program rent maximums and benefit levels have not been updated. Because the level of assistance is low, participation among eligible persons is not high. BC did significantly expand their program in 2005. Quebec has perhaps the best design and this is reflected in substantially higher levels of enrollment.[22]

Provincial Programs				
	Enrollment		Annual Budget	
	Seniors	Families	Seniors	Families
BC	15,000	5,000	$30m (2008)	$15m (2008, est.)
Manitoba	2,000	1,000	$3.2m (2005)	
Quebec	129,000		$90 million	

[20] Rental gap programs cover only tenants.
[21] Housing gap programs cover both tenants and homeowners.
[22] For analysis and assessment of Canadian housing allowances, see Steele (2007) "Canadian Housing Allowances," in Peter A. Kemp (ed) *Housing Allowances in Comparative Perspective* (Bristol, UK: The Policy Press, University of Bristol).

The experience in other countries is quite varied, and also provides useful insight.[23]

In the UK, there has been an extended debate over the design of their Housing Benefit, mainly related to work disincentives and claw-back effects. It is a universal entitlement and pays up to 100% of rent. As a consequence, the annual budget has expanded dramatically over the past decade.

In Australia, the Commonwealth Rental Allowance is directly tied to eligibility for income assistance. It was extended to low income working families in the 1980s.[24] Like Ontario Works shelter components, it suffers from lack of geographically-factored maximums.

The US Housing Choice Voucher is more like the Canadian Rent Supplement program than a classic allowance. For example, the subsidy payment goes directly to the landlord, not the tenant. Accommodation must pass exacting standards to be eligible.

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[23] For more extensive discussion of the international experience see Pomeroy (2005*) Meeting the Need for Non Market Housing Demand in Ontario: International Experience with Demand Side Assistance* Prepared for Market Housing Branch, Ontario Ministry of Municipal Affairs and Housing.

[24] See discussion in Hulse (2007) "Housing allowances and the restructuring of the Australian welfare state" in Kemp (2007). The latter book contains chapters on the UK, US and many other countries, as well as an overall assessment by Peter A. Kemp. For a comparison of the US voucher and housing allowances in other countries, see Steele (2001) "Housing allowances under Section 8 and in other countries: a Canadian perspective" Urban *Studies* vol. 38, no. 1.

APPENDIX C
HOW THE ESTIMATION WAS DONE

THE SIMPLE 2005 ESTIMATES, USING THE 2005 SURVEY OF HOUSEHOLD SPENDING

Statistics Canada conducts The Survey of Household Spending (SHS) each year. The survey collects information on household spending for the year and point-of-time information for December 31. Each SHS record gives the information for an individual household.

To do our estimate, we first established, for each Ontario SHS record, whether the household was eligible. We selected households that were “renters” on December 31. The maximum rent, which depended on household size, and the rent paid by the household then determined if the renter was eligible. The rent paid by the household is gross rent plus utility expenditure for the year. We then estimated the number of eligible households in Ontario in 2005 through a statistical procedure called “weighting” for each of the eligible records. We then summed this weighted amount.

For each eligible household, we computed the housing benefit based on our design model. The amount for each household was weighted and summed to get the total cost.

THE EXTENDED 2005 ESTIMATES, USING THE SHS 2005 AND THE SHS 2004 (INFLATED)

Because there are a fairly small number of records for Ontario in any single year’s survey, we incorporated the SHS 2004 survey into the estimate as well. We inflated the 2004 rent amounts to reflect 2005 levels using the rental component of the Ontario Consumer Price index (CPI). We adjusted upward by the overall CPI. Then we used the techniques described above to do the estimate. We added the result to the 2005 estimates and divided by two, to yield the extended 2005 estimates.

NOTES ON THE SUMMARY COST ESTIMATE

1. Costs differ for different household types

The estimated number of family recipients is just under 66,000. Because rents are higher for families, the amount of benefit is higher (on average $119/family/month). The total estimated annual cost is $94 million.

The largest group of potential recipients (non elderly couples, singles, and other households without children) is almost twice the size (close to 129,000) and is estimated to have a total annual cost of $147 million.

2. Flexible factors for adjusting cost

This initial analysis can be refined and cost-controlled by introducing tighter rent maximums and by excluding certain household types (for example seniors, by using the tax credit instead). If funding permits, a more generous benefit can be designed. A lower rent minimum for working families should be a priority.

3. Costs will vary with the state of the economy

The costs estimated here are based on economic conditions as they existed in 2005. If there were a recession with substantial job losses, costs would go up because of increased numbers of social assistance recipients. Some new EI recipients would also be eligible.

4. Costs will vary with the rate of housing consumption

If households do not increase their demand for housing in response to the program there will be no effect on competitive market rents. If, in response to the program, landlord raise their rents, or households move to better accommodation, this will affect costs over time.

This inflationary trend has not occurred in other Canadian programs of this kind. In those programs, recipients used the cash they received to buy more food and other goods and services, not to improve their housing. This is not surprising, given that households eligible to receive the allowance pay more than 30% of their income on rent and receive only part of the affordability gap.

To prevent a behavioural response on the part of landlords or tenants, it is crucial that the foundational features of a design remain intact:

- Pay substantially less than 100% of the affordability gap.
- Require a substantial contribution towards housing expense on the part of the household (30% of income or, for the lowest-income recipients, the equivalent of the OW shelter maximum).
- Ensure the housing benefit goes only to low-income households.

The integrity of the program also rests on the following aspects of administration:

- The housing benefit is paid to the tenant, preferably by direct deposit, not to the landlord.
- No landlord involvement is required in the application process except in rare cases.
- Applicants must present evidence of rent paid in the form of a rent increase notice, a lease, or a rent receipt. (This last must be presented on demand to Canada Revenue Agency auditors in any case.)

APPENDIX D
WHY THE 100% SUBSIDY RATE HAS NOT BEEN EFFECTIVE IN ADDRESSING HOUSING NEED

In 1981, the Ontario government added shelter subsidies as a part of social assistance. In the mid-1980's, the subsidy rate was raised to 60%. In 1989, in reaction to the report of the Social Assistance Review Committee (SARC – Transitions), the subsidy rate was raised to 100%.

With the 100% subsidy rate, the shelter subsidy had become in effect a shelter component or basic building block of social assistance rates. There were still zones of subsidy in this approach, but by 1997, these were eliminated. The shelter component was simply paid out based on rental receipts or mortgage and insurance payments.

The shelter component of social assistance allowances reached a high point in May 1993. In the ensuing fifteen years, several changes occurred, resulting in the following:

- Shelter allowances are now provided to a much smaller cadre of people who can qualify for social assistance (approximately 5.5% of Ontario's population). The working poor and homeless are largely excluded.
- Shelter allowances are paid well below average market rents (see page 6). The shelter component lost more than 40% of its real value through a combination of rate decreases (21.6% in 1995 for Ontario Works recipients), and inflation erosion. The component also lost more than 20% of its real value for ODSP recipients through inflation losses. Based on 35% inflation, the 1993 shelter allowance for a single adult of $414 would now be $559; by comparison it will be $349 later in 2008.
- Shelter allowances are almost always provided at the maximum rate because almost no one outside of public housing can secure rents at that level. There are exceptions in some smaller communities
- Shelter allowances are paid increasingly to private market renters (currently 83% of OW and 60% of ODSP).
- The amount now paid in the shelter component of social assistance is notionally between $3.0 and $3.5 billion (53% to 62% of the $5.6 billion paid in OW and ODSP in 2007-08).