

Staff Report



To Committee of the Whole

Service Area Office of the Chief Administrative Officer

Date Monday, November 7, 2016

Subject Proposed Framework for an Affordable Housing Financial Incentives Program

Report Number CAO-I-1607

Recommendation

1. That City Council confirms it will establish an Affordable Housing Financial Incentives Program, in addition to the funding provided by the City to the County as the Service Manager for Social Housing.
2. That the proposed recommendations for a framework for an Affordable Housing Financial Incentives Program be approved, as outlined in report **#CAO-I-1607: Proposed Framework for an Affordable Housing Financial Incentives Program.**
3. That staff be directed to develop the program details and implementation plan for an Affordable Housing Financial Incentives Program.
4. That funding for an Affordable Housing Financial Incentives Program be included as part of the 2017 budget discussions.

Executive Summary

Purpose of Report

Provide Council with a proposed framework for an Affordable Housing Financial Incentives Program to encourage the creation of new affordable housing developments within the city.

Upon Council endorsement of the framework and associated criteria, program details will be established.

Key Findings

The City has maintained an Affordable Housing Reserve (AHR) since 2002 with the purpose to:

- Fund the City's share of capital cost for affordable housing projects in partnership with Wellington County pursuant to the Federal-Provincial programs available at the time; and
- Offer incentives to encourage affordable housing projects

The existing policy provides minimal direction to staff and Council for assessing funding requests and determining an appropriate funding amount. Over the past several years, staff and Council have consistently identified the need to develop a more comprehensive, contemporary Affordable Housing Financial Incentives Program (AHFIP) and sustainable funding model.

The development of the framework for an Affordable Housing Financial Incentives Program (AHFIP) was influenced by some key principles and beginning assumptions which were approved by Council in the project charter (presented to Council on May 24, 2016). These principles were:

- An AHFIP will be focused on the creation of new, permanent housing¹
- Council support for an AHFIP, as demonstrated by their decision to allocate funds to the reserve in both the 2015 and 2016 budgets
- The requirement for meaningful incentives to encourage and influence the development of new affordable housing opportunities in the city
- The AHFIP will be designed to have an impactful influence on the creation of affordable housing within the city
- The AHFIP must maintain a healthy financial balance and make funds available to entities (e.g. developers, providers, others) which create affordable housing.

The framework recommended for an AHFIP is based on research and analysis of the city's housing needs, pro forma modelling and key stakeholder consultation. The framework includes proposed eligibility and priority ranking criteria. These criteria relate to a project's:

- Tenure (i.e. rental, ownership)
- Form (e.g. apartment, townhouse, etc.)
- Size of unit
- Project readiness
- Amount of incentives required
- Other funding sources.

In summary, staff recommend:

- Priority be given to primary rentals and small units
- Priority be given to projects where a municipal contribution is required to

¹ **Permanent Housing** refers to housing without a designated length of stay. In contrast, **non-permanent housing** is considered to be time-limited, temporary or interim accommodations for individuals and families who have no shelter, are at risk of homelessness or are in crisis. Refer to **ATT-2 – Permanent versus Non-Permanent Housing Graphic**

- access funding from another level of government
- Provide incentives for secondary rentals and ownership units if certain conditions are met
- Incentives be provided based on affordable rent and ownership benchmarks
- Rental units (both primary and secondary) be eligible for grant incentives
- Ownership units be eligible for loan incentives only (e.g. deferred and/or late payments)
- Maximum incentives in the range of \$60,000 to \$80,000 per affordable unit.

On October 11, 2016, staff presented the City's Affordable Housing Strategy (AHS), report #**16-75: Affordable Housing Strategy: Final Report**, to City Council. At that meeting, Council passed a resolution that:

"refers the role, if any, of the financial actions contained within section 6.3.3 back to staff to have the report reflect the secondary market in the affordable housing strategy targets."

Specifically, staff was directed to review the role of accessory apartments, as a form of secondary rentals, on the AHS targets and as a possible housing form for financial incentives. At Council's direction, staff will conduct a deeper review of secondary rentals, including accessory apartments and report back to Council with further/revised recommendations in Q1 of 2017. Following this review and Council's direction, any corresponding AHFIP details will be developed.

Financial Implications

Pro-forma modelling identified a "tipping point" of \$60,000 - \$80,000 per unit is required to incent the creation of permanent affordable rental housing. Report #**16-75** identified that to incent 40-50% of the City's affordable rental target of 34 units per year, an annual funding level of \$820,000 - \$1.3 million would be required. Although Council did not endorse the financial actions of Report #**16-75** and directed that additional analysis of the 3% rental target be reviewed to consider the secondary rental market, this overall quantum of funding has been used to inform the proposed 2017 budget expansion outlined in this report.

The current balance of the AHR is \$650,493 (as of December 31, 2015). Staff recommend that funding for an AHFIP be included as part of the 2017 budget discussions. The 2017 budget includes a base amount of \$100,000 for the AHR. An expansion request for \$500,000 has been submitted for Council's consideration, which would bring the reserve balance to \$1,304,400 in 2017.

Staff is putting forward these financial recommendations for year one of the AHFIP only. The forthcoming review of secondary rentals for the AHS may modify the City's rental targets. Any adjustment to the rental target could result in a change to the required financial need for an AHFIP.

Report

History of the Affordable Housing Reserve

Since 2002, the City has had an Affordable Housing Reserve (AHR). The AHR was established as part of the implementation of the City's 2002 Affordable Housing Action Plan. The current AHR policy identifies the reserve's purpose to:

- fund the City's share of capital cost for affordable housing projects in partnership with Wellington County pursuant to the Federal-Provincial programs available at the time; and
- Offer incentives to encourage affordable housing projects.

The existing policy provides minimal direction to staff and Council for assessing funding requests and determining an appropriate funding amount. Over the past several years, staff and Council have consistently identified the need to develop a more comprehensive, contemporary Affordable Housing Financial Incentives Program (AHFIP) and sustainable funding model.

Historically, the AHR has funded the capital costs to renovate a building to establish a youth shelter and to offset City fees for:

- non-profit housing;
- affordable home ownership units; and
- supportive housing.

In addition to the incentives provided through the AHR, the City has provided tax relief to affordable housing, such as Michael House. Tax relief is not funded through the AHR; it waives property taxes payment obligations and is lost revenue to the City.

On May 24, 2016, through report #**CAO-I-1602: Project Charter to Update the City's Affordable Housing Reserve Policy**, Council approved the project charter to update the criteria and guidelines for accessing funds from the City's AHR. This work is coordinated with the development of the City's Affordable Housing Strategy (AHS) by Planning, Urban Design and Building Services and Finance's work to provide Council with an update on the Reserve and Reserve fund policy and consolidation project, report #**CS-2016-62: Reserve and Reserve Fund Consolidation & Policy**, being presented to Committee of the Whole on November 7, 2016.

The City's existing AHR is part of Finance's comprehensive review of all reserves/reserve funds and the consolidation of reserves/reserve funds, wherever possible. For clarity going forward, the work describing proposed eligibility criteria and priorities to fund the creation of affordable housing is referred to as the "Affordable Housing Financial Incentives Program (AHFIP)". The proposed AHFIP is intended to be funded by the AHR.

Influences on the Development of an Affordable Housing Financial Incentives Program

The proposed framework for an Affordable Housing Financial Incentives Program (AHFIP) is influenced by a number of input sources including:

- Provincial Growth Plan
- Planning Act
- City's AHS
- County's Ten-year Housing and Homelessness Plan (HHP)
- Stakeholder engagement.

The Planning Department recently completed the development of an AHS (report **#16-75: Affordable Housing Strategy: Final Report**) which was presented to Council on October 11, 2016. The purpose of this strategy was to address municipal requirements under the Provincial Growth Plan and Provincial Policy Statement to plan for a range and mix of housing types and densities by establishing and implementing minimum targets for the provision of affordable rental and ownership housing. The AHS focused on affordable ownership and rental market housing².

The AHS work identified three key affordable housing issues facing our city:

1. There are not enough small units to rent or buy to meet the affordability needs of all smaller households
2. A lack of available primary rental³ supply makes it difficult for people to find affordable rental housing
3. The secondary rental⁴ market provides choice of affordable dwelling types but the supply is not as secure as the primary rental market.

The strategy provided concrete recommendations on how to best support achievement of the city-wide 30% affordable housing target, along with mechanisms to monitor achievement of the target.

One series of recommendations arising from the AHS is that financial incentives be provided to incent the creation of affordable housing. Specifically, these recommendations were:

² **Market Housing** refers to rental or owned housing that receives no direct government subsidies and, as such, has rents and purchase prices that are determined through market forces

³ **Primary rental** refers to structures with three or more units, composed of self-contained units where the primary purpose of the structure is to house rental tenants (CMHC). It includes both townhouse and apartment units that are not held in condominium ownership.

⁴ **Secondary rental** refers to all rented units other than those in the primary rental market. It consists of rented units within single detached, semi-detached and townhouse homes, accessory apartments, condominium apartments, and one or two apartments located in a commercial or other type of structure. (Affordable Housing Strategy: The Current State of Housing In the City of Guelph)

1. That the City provides a variety of financial assistance for the development of affordable housing.
2. That the City develop a Community Improvement Plan (CIP) for affordable housing to allow financial incentives to be provided to the private sector across the City.
3. That the City provides financial incentives to support the development of both primary rental housing units and purpose built secondary rental housing units with priority given to primary rental units.
4. That financial incentives focus on affordable housing projects containing smaller unit sizes (i.e. bachelor and one bedroom units).
5. That priority be given to affordable housing proposals that include funding from other levels of government.
6. That an annual financial contribution of \$60,000 to \$80,000 per unit be referred to the development of a comprehensive policy for an Affordable Housing Incentive Program for permanent housing funded through the Affordable Housing Reserve fund.

City Council excluded the above financial actions when it approved the AHS on October 11, 2016. In addition, Council made the resolution:

That Council refers the role, if any, of the financial actions contained within section 6.3.3 back to staff to have the report reflect the secondary market in the affordable housing strategy targets.

The AHS included research on the secondary rental market. The targets included in the AHS are for affordable ownership housing and primary rental housing. The intent is to include secondary rental units that align with Canada Mortgage and Housing Corporation's (CMHC) Rental Market Survey for the City of Guelph (i.e. ownership buildings where at least 50% of the units are rented). Currently, accessory apartments are monitored as part of a separate annual target recognizing their different nature. In response to Council's direction to reflect this secondary rental market in the targets, staff will report on the following in Q1 of 2017:

- Review other municipalities to determine how affordable housing targets are determined and measured in terms of the treatment of secondary rental housing;
- Determine, where possible, the secondary rental market units that are included in CMHC's Rental Market Survey for the City of Guelph and their impact on measuring the City's affordable housing rental target; and
- Assess and analyze the impact of including secondary rental units, including accessory apartments, on the City's affordable housing rental target; and
- Review the financial requirements for an AHFIP based on the outcome of the review of the targets.

The City's AHS complements the County of Wellington's HHP, which is a comprehensive, multi-year plan to address local housing and homelessness needs. The County, as Service Manager for social housing, is responsible for the non-market end of the housing continuum⁵, its related programs which the City supports through its funding to the County in the social services budget, and to develop an HHP in accordance with the *Housing Services Act, 2011* and the Ontario Housing Policy Statement, 2011. ATT-2 provides a graphic representation of market and non-market housing.

The research findings and consultations to develop the HHP parallel the findings of the AHS in identifying the low rental vacancy rate and limited affordable housing options. The HHP outlined a number of goals and associated actions to achieve the vision that "everyone in Guelph Wellington can find and maintain an appropriate, safe and affordable place to call home". Goal #4 of the HHP is "to increase the supply and mix of affordable housing options for low- to moderate-income households". Action 4.7 of the HHP is to "provide incentives to support affordable housing in new developments".

Other related work includes Finance's update of the Reserve and Reserve fund policy and consolidation project (Report #**CS-2016-62: Reserve and Reserve Fund Consolidation & Policy**). This project involves resetting the capital reserve fund management to align with the recommendations presented in the 2015 BMA Financial Condition Assessment, along with performing a comprehensive review of all reserves and reserve funds and to consolidate them wherever possible. A full review of the General Reserve and Reserve Fund Policy will also be done that includes recommended revisions and the inclusion of an appendix of all City of Guelph reserves and reserve funds that identifies the purpose, target balance, and source and use of funds for each.

Key Principles for Creating an Affordable Housing Financial Incentives Program

Development of the framework for an Affordable Housing Financial Incentives Program (AHFIP), previously referred to as the "Affordable Housing Reserve (AHR) Policy", was guided by key principles and beginning assumptions which were set out in the Council approved project charter (ATT-1: Project Charter). These principles and assumptions are:

- The AHFIP will be focused on the creation of new, permanent housing.

This approach aligns with the financial incentives proposed in the City's AHS and supports the goal of the County's HHP. Focussing on the creation of permanent housing also aligns with the Housing First principle which is the contemporary approach towards ending homelessness that moves homeless people directly into permanent housing.

⁵ **Non-market housing** is rental or ownership housing that requires government money to build or operate

For the purposes of developing the AHFIP, non-permanent housing is considered to be temporary or interim accommodations for individuals and families, who have no shelter, are at risk of homelessness or are in crisis. Funding for non-permanent housing and programs, such as homelessness, emergency shelters and transitional housing, will continue to be supported through the City's social services budget to the County, as Service Manager, and the City's direct funding to Wyndham House Youth Emergency Shelter.

- Council supports financial incentives for affordable housing as demonstrated by their decision to allocate funds to the Affordable Housing Reserve in both the 2015 and 2016 budgets
- Meaningful incentives are required to encourage and influence the development of new affordable housing opportunities in the city
- The AHFIP will be designed to have an impactful influence on the creation of affordable housing within the city
- The AHFIP must maintain a healthy financial balance and make funds available to entities (e.g. developers, providers, others) which create affordable housing.

Methodology

The work to develop an AHFIP framework was led by Intergovernmental Relations, Policy and Open Government, in collaboration and/or consultation with:

- Planning, Urban Design and Building Services
- Finance
- Legal and Realty Services
- Business Development and Enterprise
- Communications

The process to develop the AHFIP framework included:

- Research, including an environmental scan of other municipalities
- Creation of pro forma⁶ models that calculate the "tipping point" at which a City investment/financial incentive will produce units which meet the City's affordability benchmarks
- Consultation with key stakeholders.

Research and Environmental Scan

The **Affordable Housing Strategy: Draft Directions Report (report #15-101)** presented at Infrastructure, Development and Enterprise Committee on December

⁶ **Pro forma** is a set of calculations that projects the financial return that a proposed real estate development is likely to create. It begins by describing the proposed project in quantifiable terms. It then estimates revenues that are likely to be obtained, the costs that will have to be incurred, and the net financial return that the developer expects to achieve. (Wayne Lemmon. "Pro-Forma 101: Part 1 – Getting Familiar With a Basic Tool of Real Estate Analysis", *Planners Web*, viewed October 11, 2016, <http://libguides.utep.edu/c.php?g=429658&p=2930672>)

8, 2015 identified that Ottawa, Kingston and Hamilton all provide financial incentives for affordable housing. Each of these cities is also Service Manager for social housing and as a result, is receiving upper tier funding for housing (e.g. Investment in Affordable Housing funding).

Building on this work, municipalities which are not the Service Manager for social housing were reviewed, particularly separated cities that are urban centres. These cities were: Barrie, Belleville, Brockville, Orillia and County of Peterborough. The City of Waterloo, a lower tier city within a region, was also reviewed. Of these municipalities, only Barrie and Waterloo provide financial incentives for affordable housing.

On October 3, 2016, Barrie City Council approved a Built Boundary Community Improvement Plan (CIP) which provides incentives for affordable housing. Incentives range from 25% to 100% of the value for development charges, building permits and planning fees, plus tax increment grants for five years. Staff estimates a budget of approximately \$350,300 for this program would be required for this program.

The City of Waterloo has a "Minor Activity Grant Program" which is intended to facilitate small expansions and new construction that create spaces of up to 464.5 square metres (5,000 square feet) for affordable housing uses and/or office employment uses. The program provides additional incentives for developments that include heritage conservation and/or sustainable building design. The maximum grant is \$50,000 per project/property.

Pro Forma Models

To better understand the full cost to develop affordable housing units, a consultant was retained to create pro forma models based on various structure types, build conditions, tenure, location and unit sizing. Recent developments and development trends were used to inform the model criteria and project statistics. In total, 13 models were developed which included infill and greenfield apartments and townhouse models.

This work was done as a theoretical exercise to generate pro forma models of the costs for development under the categories of land costs, hard costs and soft costs. The models are not a replica of any one particular development. To create the models, various assumptions were made based on current trends in development and planning applications, research of the local real estate market and the expertise and experience of the consultants. The pro forma models are intended to be an approximation of costs only for the purpose of better understanding the costs of housing development. Actual costs will vary due to each site's unique aspects.

The goal of this work was to identify the "tipping point" at which a development produces units which meet the City's affordability benchmarks (i.e. \$326,064 for ownership and \$1,003 per month for rental based on 2015 rates). For each model, the amount of incentive required in order that each unit in the model met the benchmark was calculated.

ATT-4: Pro Forma Summary Sheet – Revenue Not Exceeding City of Guelph Affordability Criteria summarizes the project statistics, totals for each cost centre, total revenues, rate of return on investment (i.e. “hurdle rate”) and average per unit incentive required. In brief, the findings were as follows:

- The apartment models are the only models that include the small unit sizes (i.e. bachelor and one-bed units) which are in short supply in the city
- Rental units require more incentives than ownership units
- Redevelopment apartment units in the downtown core required more incentives than apartments outside downtown (both redevelopment and on greenfield)
- Redevelopment stacked townhouses outside downtown are the form which requires the least amount of incentive for rental units
- A 16 unit detached house project requires \$208,000 of incentives per unit
- Excluding detached houses, incentives for ownership units range from \$29,000 to \$51,000
- Incentives for rental units range from \$59,000 to \$79,000 per unit

The pro forma models were validated with local developers who have affordable housing experience within the city. A summary of their feedback is captured in ATT-3: Summary of Research and Key Stakeholder Consultation.

Key Stakeholder Consultations

Consultation with key stakeholders included local developers of affordable housing and representatives with an interest in affordable housing in the community. The feedback received is summarized ATT-3 and incorporated into the “Summary of Recommended AHFIP Criteria” section below. Additionally, developers were asked to validate the pro forma models. ATT-3 provides a summary of the feedback received from developers on the pro forma models.

Summary of Recommended AHFIP Criteria

Based on research and analysis of the housing needs in the city, a number of criteria were generated to determine eligibility for funding under an AHFIP, specifically:

- Tenure (i.e. rental, ownership)
- Form (e.g. apartment, townhouse, etc.)
- Size of unit
- Project readiness
- Amount of incentives required
- Other funding sources

The stakeholders were asked for their recommendations on identified criterion, summarized in ATT-3. The following table provides a summary of the recommended criteria for an AHFIP. Program details will be determined upon Council support for an AHFIP.

Condition	Recommendations
Tenure	<p>Primary and purpose-built secondary rental units</p> <p>Ownership units that are developed in connection with a program that protects the City's investment to create affordable housing by ensuring the units house low to moderate income households</p>
Form and size	Projects that contain small units (i.e. bachelor and 1-bedroom units)
Timing of incentives	Planning pre-consultation stage
Amount and form of incentive	<p>Based on affordable benchmark rents, with consideration given to unit size</p> <p>Grants for primary rental and purpose-built secondary rental units</p> <p>Loans for home ownership programs modeled on deferred charges (e.g. Options for Homes)</p> <p>Maximum amount of \$60,000 to \$80,000 per unit. This amount will be reviewed after Q1 2017</p>
Other funding sources	Projects where a municipal contribution is required to access funding from another level of government

Financial Implications

Over its life, the AHR has been funded from operating surplus allocations and from annual budgeted transfers from the City's operating budget. A consistent funding source or amount has not been established. In the last two budget cycles (2015 and 2016), City Council contributed \$250,000 and \$100,000 respectively to the AHR.

Pro-forma modelling identified a "tipping point" of \$60,000 - \$80,000 per unit is required to incent the creation of permanent affordable rental housing. Report #**16-75** identified that to incent 40-50% of the City's affordable rental target of 34 units per year, would require an annual funding level of \$820,000 - \$1.3 million. Although Council did not endorse the financial actions of Report #**16-75** and directed that additional analysis of the 3% rental target be reviewed to consider the secondary rental market, this overall quantum of funding has been used to inform the proposed 2017 budget expansion outlined in this report.

The current balance of the AHR is \$650,493 (as of December 31, 2015). Staff recommend that funding for an AHFIP be included as part of the 2017 budget discussions. The 2017 budget includes a base amount of \$100,000 for the AHR. An expansion request for \$500,000 has been submitted for Council's consideration, which would bring the reserve balance to \$1,304,400 in 2017.

Staff is putting forward these financial recommendations for year one of the AHFIP only. The forthcoming review of secondary rentals for the AHS may modify the City's rental targets. Any adjustment to the rental target could result in a change to the required balance for an AHFIP.

At the May 3, 2016 Governance Committee meeting to present the AHFIP project charter, members of City Council asked for information on the social benefits of supporting the creation of affordable housing. The Mowat Centre is an independent public policy think tank located at the School of Public Policy & Governance at the University of Toronto. The Centre's September 2014 report, *Building Blocks, The Case for Federal Investment in Social and Affordable Housing in Ontario*, calculated the social return on investment⁷ for affordable (and social) housing. Research showed that,

"As a result of living in social and affordable housing:

- An estimated 35,000 individuals in core housing need would see increased employment, generating \$9500 each in new gross earnings at part-time minimum wage (2006).
- 177,000 children in housing need could improve educational performance, increasing their lifetime earnings by over \$2600 per year.
- 278,000 individuals in need are less likely to need an emergency room when no longer vulnerably housed, saving \$148 per visit.
- Nearly 21,000 male inmates could see reduced risk of recidivism if they are not at risk of homelessness on discharge, saving government an average of \$9,500 per correctional stay".⁸

Corporate Strategic Plan

2.3 Ensure accountability, transparency and engagement.

3.1 Ensure a well designed, safe, inclusive, appealing and sustainable City.

3.2 Be economically viable, resilient, diverse and attractive for business.

Communications

⁷ **Social Return on Investment** tries to capture the economic impact of providing services to a target population. More than just counting how many people have been served through a program, SROI goes further to capture the external economic impact of outcomes that a service facilitates. (Central City Foundation, <https://www.centralcityfoundation.ca/wp-content/uploads/2015/10/CCF-Community-Report-2015.pdf>)

⁸ Mowat Centre (2010) "Building Blocks: The Case for Federal Investment in Social and Affordable Housing in Ontario" Mowat Centre, University of Toronto

Key stakeholders involved to date in this work will be notified of Council's decision on the AHFIP framework and updated information will be posted on the City's website.

Attachments

- ATT-1 Project Charter
- ATT-2 Permanent versus Non-Permanent Housing Graphic
- ATT-3 Summary of Research and Key Stakeholder Consultation
- ATT-4 Pro Forma Summary Sheet – Revenue Not Exceeding City of Guelph Affordability Criteria

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PROJECT CHARTER

Date: 01-04-16

Project Name: Affordable Housing Reserve Policy

PROJECT DEFINITION

CORPORATE PROJECT PURPOSE:

To develop a policy which governs the use and funding of the City's Affordable Housing Reserve (AHR)

CRITICAL SUCCESS FACTORS:

Project success will be influenced by:

- A reserve which can make a impactful influence on creating affordable housing within the city
- A stable funding source for the reserve
- Support from municipal and sector specialists
- Support from City Council
- Connection with and implementation of the City's Affordable Housing Strategy (AHS) and the city-related strategies of the County's 10-year Housing and Homelessness Plan (HHP)

PROJECT GOALS:

The policy will outline:

- The type of projects and/or investments which are eligible for funding
- The type of organizations which are eligible to apply for funding
- The amount (or range) of funding available for each type of project / investment
- The process to administer funding to eligible organizations and projects / investments
- Funding sources for the reserve
- Connections with and ability to leverage other funding sources

PROJECT STRATEGY :

The approach to the project work will:

- Be guided by the issues identified and actions (directions) proposed in the City's AHS
- Be designed so that the financial incentives provided will be impactful on the creation of affordable housing
- Utilize a consultant to perform "pro forma modelling" that:
 - Calculates and itemizes the cost of development under various conditions (e.g. new construction, renovation, etc.), tenures (e.g. rental, ownership, etc.) and unit sizing
 - Calculates the "tipping point" at which the City's investment / financial incentive impacts the affordability of housing development
 - Provides insight into the cost factors which drive the development of ownership units over rental units
 - Will be used to assess the financial feasibility of funding-related directions in the AHS
- Be based on latitudes and limitations of governing legislations (e.g. Planning Act, Municipal Act, etc.)
- Support / complement strategies and plans (including the HHP) developed by the Wellington County as the Service Manager for social and affordable housing
- Employ community engagement and open government principles for policy development
 - Engagement will be limited to elements of the proposed policy which are within scope
- Consider the practices of other municipalities' use of incentives for the creation of affordable housing
- Examine past funding practices and use of reserve funds
- Consider/use community engagement feedback received during the development of the AHS

When completed, the AHR policy will be presented to Council for approval. Presentation of the policy

ATT-1: Project Charter to Update the City's Affordable Housing Reserve Policy

PROJECT CHARTER

will be in sufficient time to provide Council with a framework for decision-making regarding the AHR for the City's 2017 budget process

PROJECT PRODUCT DEFINITION

END PRODUCTS:

A detailed policy which defines:

- The type of projects and/or investments that are eligible for funding
- The type of organizations which are eligible to apply for funding
- The high-level process to administer funding to eligible organizations and projects/investments (i.e. establish decision-making authority to administer funding)
- Funding sources for the reserve

KEY INTERIM PRODUCTS:

- Open government policy development framework
- Community engagement framework
- Communications plan
- Staff report to Governance Committee which approves the scope and approach to the project

PROJECT SCOPE

Project Scope Is (Includes):	Project Scope Is Not (Does Not Include):
Funding which incents the creation of new permanent affordable housing within both the market ⁹ and non-market ¹⁰ end of the housing continuum	Deliberation of whether or not the City should maintain an affordable housing reserve
A spectrum of financial transaction types for fund uses will be considered such as direct financial incentives, purchasing of land, fee waivers, forgivable loans, etc.	Undertaking any actions to develop new corporate entities which may complement the City's efforts to encourage new affordable housing development
An analysis of the legal and financial implications of the various ways in which the fund could be used	Providing funding commitments to any stakeholders
Retaining a consultant to perform "pro forma modelling" to calculate the cost of development under various conditions (e.g. new construction, renovation, etc.), tenures (e.g. rental, ownership, etc.) and unit sizing and calculate the "tipping point" at which the City's investment / financial incentive impacts the affordability of housing development	Development of any application forms, etc. to access reserve funding
Utilization of the consultant's work to assess the financial feasibility of funding-related directions of the AHS	Development of any legal contracts, etc. for reserve fund recipients

⁹ Market Housing refers to rental or owned housing that receives no direct government subsidies and, as such, has rents and purchase prices that are determined through market forces

¹⁰ Non-market housing is rental or ownership housing that requires government money to build or operate

ATT-1: Project Charter to Update the City's Affordable Housing Reserve Policy

PROJECT CHARTER

A defined process to access funding from the AHR, including a timeframe during which requests for funding can be made	Review and/or change to any funding provided through other mechanisms, such as Community Benefit Agreements (e.g. CBA with Wyndham Housing for the Youth Emergency Shelter)
Consultation with expert stakeholders who can advise the City on financial incentives which will have a meaningful impact on the creation of affordable housing	Funding for any forms of temporary housing, including emergency shelters and transitional housing
Recommendations for a source and amount of sustainable funding	If the AHR funding is supplemented with other municipal funding sources to leverage federal/provincial funding, determining any conditions or parameters for this additional funding falls outside the scope of the AHR policy development
The AHR will be considered the first source for any City contributions required to leverage federal and/or provincial funding of affordable housing opportunities which could be supplemented by other municipal sources as appropriate	Funding for retrofits or other incentives for existing housing
Community engagement principles and open government practices	

PARAMETERS

PROJECT OBJECTIVES	
<p>SCHEDULE:</p> <p>April – July 2016: Research practices of other municipalities Review past practices and uses of the current AHR Retain consultant and complete related work Research and analyze elements of draft policy</p> <p>Aug - Oct 2016: Propose AHR contribution for 2017 budget based on work to date Conduct all stakeholder consultation Modify draft policy with stakeholder input</p> <p>Nov 2016: Submit report and draft policy to Governance Committee</p> <p>BUDGET:</p> <p>TBD</p>	
KNOWN CONSTRAINTS:	
<p>RESOURCES:</p> <p>Time Historically, the AHR has been funded by annual contributions which have been decided upon through the City's budget process. The policy, and its anticipated approval, must be completed in time to guide the 2017 budget process and provide Council with a framework to determine reserve contributions for future years</p> <p>Staffing The Project Committee is committed to this project until completion of the policy</p>	

ATT-1: Project Charter to Update the City's Affordable Housing Reserve Policy

PROJECT CHARTER

The proposed timelines and strategy are ambitious. Priority and dedicated time must be assigned to this project by the Steering Committee

Additional expertise will be accessed as required

Cost

Planning has funds available for consulting fees if required. These funds are part of the AHS strategy

OTHER:

Scope

The project scope is limited to the development of the policy for Council's approval. Implementation of any approved policy will be managed as work outside the scope of this project

BEGINNING ASSUMPTIONS:

- Council wants and supports an AHR as demonstrated by their decision to allocate funds to the reserve as part of the 2015 and 2016 budget
- Council wants to establish an AHR that can have a impactful influence on the creation of affordable housing within the city
- Encouraging and influencing the development of new affordable housing opportunities would be strongly enhanced by providing impactful municipal financial incentives, in conjunction with other tools and strategies to be identified through the AHS. The AHR is one of the tools available to the City to help address affordable housing issues
- In order to be an effective tool, the AHR must maintain a healthy financial balance and make those funds available to entities (e.g. developers, providers, others) which create affordable housing
- The policy will be connected to the findings and recommendations from the City's AHS (and associated reports) and also the County's HHP, for guiding the use, access and funding of the AHR
- Staff will propose an AHR contribution amount based on the work done to date as part of the budget building process (est. July 2016). The policy will be completed in time to provide a framework for Council when deliberating a contribution to the AHR as part of the 2017 budget (est. Nov 2016)
- The reserve will be focused on the creation of new, permanent housing. This approach will also address the financial incentives proposed in the draft directions of the AHS. It also aligns with Housing First principles. Housing First is the contemporary approach towards ending homelessness that moves homeless people directly into permanent housing.
- Non-permanent housing options on the housing continuum (i.e. homelessness, emergency shelters and transitional housing) will not be eligible to receive financial incentives from the Affordable Housing Reserve. These services will continue to be supported through the City's funding to the County, as Service Manager for the social programs which include homelessness, emergency shelters and transitional housing
- New requests for funding from the existing AHR will not be considered until the policy and associated funding model are approved by Council
- The policy and procedures surrounding an AHR may require updating / reworking if/when proposed legislative changes take effect (e.g. inclusionary zoning)

ATT-1: Project Charter to Update the City’s Affordable Housing Reserve Policy

PROJECT CHARTER

- Historically, federal and/or provincial funding of new affordable housing developments has required a municipal contribution. The AHR will be the first source of funding for the municipal contribution. Other municipal funding sources may be utilized to supplement the AHR as appropriate
- The City provides support (facilities, funding, other) to organizations via other mechanisms, such as Community Benefit Agreements. These other funding/support mechanisms fall outside the scope of the review and development of the AHR policy
- The list of expert stakeholders used for the Affordable Housing Strategy will be the basis for the expert stakeholders for the AHR, plus others as appropriate

RISK ASSESSMENT:	(High, Medium, Low)	
	Probability	Impact
Schedule Risk: 2017 budget timelines are changed and Council deliberations are held earlier than previous years	Low	Low
Budget Risk: A consultant is needed to either conduct research or facilitate stakeholder and/or public consultation sessions	High	Low
Technical Risk: Proposed provincial legislations are enacted which negatively impact proposed policy recommendations	Medium	Low
Other Risk:		

REPORTING RELATIONSHIPS:

Interim report(s) and the final policy will be presented to City Council for approval through the Governance Committee

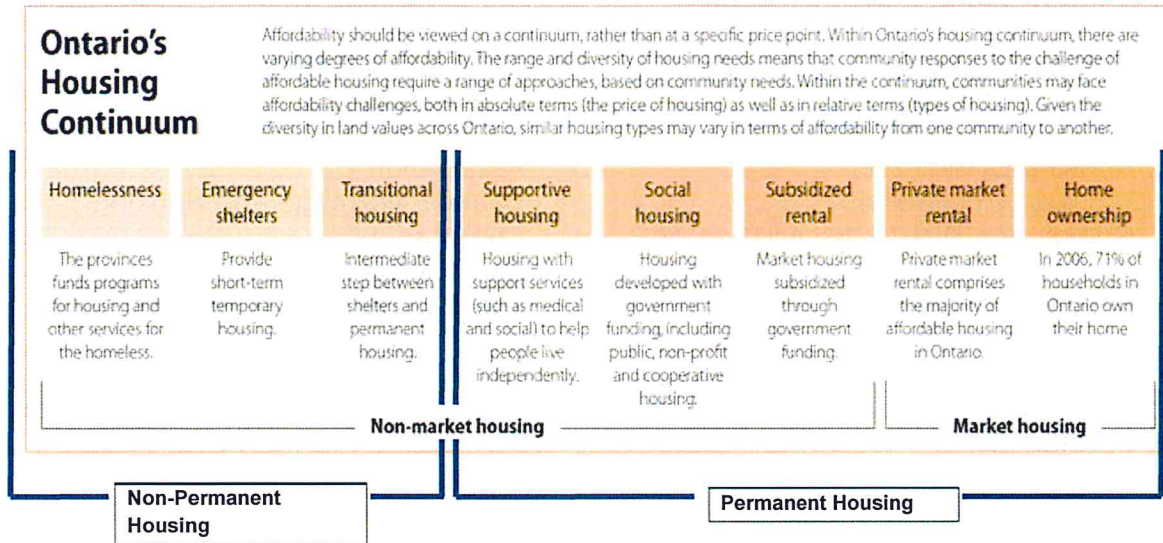
COMPLETION CRITERIA

The project will be considered complete when:

- A draft policy has been developed
- The draft policy has been presented to Governance Committee

ATT-2: Permanent versus Non-Permanent Housing Graphic

PERMANENT VERSUS NON-PERMANENT HOUSING



ATT-3: Summary of Research and Key Stakeholder Consultation

Summary of Research and Key Stakeholder Consultation

Consultation was done with key stakeholders. Invited stakeholders included local developers of affordable housing and representatives with an interest in affordable housing in the community, including:

- Wellington County
- Poverty Taskforce
- Wellington Guelph Affordable Housing Committee
- University of Guelph
- Guelph and District Association of Realtors
- Habitat for Humanity
- Older Adult Strategy representative
- Guelph and District Homebuilders Association
- Canada Mortgage and Housing Corporation
- Chamber of Commerce
- Local property management firms

The consultation asked stakeholders for their recommendations on various eligibility and priority criteria to receive AHFIP funding which were developed based on the research findings.

Proposed Eligibility and Priority Criteria for an AHFIP

Based on research and analysis of the housing needs in the city, a number of criteria were generated to determine eligibility for funding under an AHFIP. These criteria were:

- Tenure (i.e. rental, ownership)
- Form (e.g. apartment, townhouse, etc.)
- Size of unit
- Project readiness
- Amount of incentives required
- Other funding sources

The stakeholders were presented with details on each criterion and asked for their recommendations.

Tenure

Tenure refers to rental or ownership. Rental could be primary rental or secondary rental. Primary rental is purpose-built rental housing while secondary rental is rented units outside of purpose built rental projects.

Factors which were considered for tenure recommendations included:

- The City's AHS identified a lack of available primary rental supply which makes it difficult for people to find affordable rental housing
- The Official Plan Update includes a city-wide target of 30% of all new housing be affordable
 - 27% ownership (or approximately 304 units per year)
 - 3% rental (or approximately 34 units per year)
- Private sector development in the city has been meeting the affordable ownership target every year since 2009
- The rental target has only been met in 2012

ATT-3: Summary of Research and Key Stakeholder Consultation

- Over the last 7 years, the only affordable market rental housing built are the senior apartments at the Residences at St. Joseph's
- In October 2015, the city's vacancy rate for rental housing was 1.2% which is the lowest rate in Ontario (3% is considered to be a healthy vacancy rate)
- 21% of renters spend more than 50% of their income on housing (i.e. in deep core housing need)
- 7% of owners spend more than 50% of their income on housing
- Secondary rental includes accessory apartments
- The City maintains a separate target for new accessory apartments per year
- The target for accessory apartments has been exceeded every year
- Generally, rented accessory apartments meet affordability requirements, which on average are:
 - 1 bedroom accessory apartment rents for \$750
 - 2 bedroom accessory apartment rents for \$911
- In a 2014 survey of accessory apartment owners, the City found that almost 25% of accessory apartments were not being rented
- Generally, other types of secondary rental units (e.g. townhouse, condominium apartments) do not meet affordability requirements
- Of these "Other types of secondary rental", only 1 bedrooms are affordable at \$875
 - 2 bedrooms rent at \$1151
 - 3 bedrooms rent at \$1431

There was no general consensus from the stakeholders on the tenure criteria. Some were of the opinion that an affordable unit is an affordable unit, regardless of whether it is for ownership or rental, while others felt that the turnover in a rental unit will help more people over time.

Some also felt that accessory apartments should be a factor when considering the rental supply gap and also the annual rental target. Stakeholders were unanimous that no incentives should be provided for accessory apartments since the City is already exceeding its accessory apartment target without incentives. However, at Council's direction, staff will conduct a deeper review of secondary rentals, including accessory apartments and report back to Council with further/revised recommendations in Q1 of 2017.

Form and Size

Form refers to the structure type (e.g. apartment, townhouse and single detached) and size refers to the bedroom count. Stakeholders were asked to consider the minimum housing size needed for the household composition, based on the National Occupancy Standard. In other words, the City would not provide incentives to support a household's choice to be "over housed". Other considerations were:

- The City's AHS identified that there are not enough small units to rent or buy
- The average size of households has been declining for over 20 years
- Half of the city's population needs only a 0 or 1 bedroom unit and there's increased competition for the smaller units
- Individuals living alone represent 26% of Guelph's households
- Couples without children represent 24% of Guelph's households

ATT-3: Summary of Research and Key Stakeholder Consultation

- 1-person renter households have the highest level of core housing need at 13% versus 6% of lone parent renter households and 3% of couples with children
- 55% of Guelph's existing housing stock is single detached dwellings

Consensus was that priority should be given to small units and that incentives should be provided to what is needed (e.g. smaller, affordable units). On the issue of form, no one particular form came to the front but there was agreement that a mix of size of units in buildings was best. Rather than form, stakeholders discussed factors which make a development affordable for both the developer and the people who live there, such as parking requirements, location of the build, proximity to amenities, etc.

Project Readiness

When asked at what stage a project should be in order to consider financial incentives, stakeholders recommended it be at the project pro forma stage. In other words, when a project is first being costed out and prior to a zoning amendment and/or site plan approval, is a good time for the City to confirm if a project would be eligible for incentives. Although it's preferable that incentives are provided as early in the development process as possible, developers advised that the commitment for incentives was more important. By way of comparison, the County's Investment in Affordable Housing (IAH) funding is provided in stages, as construction milestones are reached.

Amount and Form of Incentives

Stakeholders were asked what, if any, consideration should be given either to the amount of incentives per unit being requested and/or the total amount of incentives requested for the entire project. Stakeholders recommended that the overall project viability should be part of the evaluation criteria, rather than setting a specific, per unit amount.

The City's AHS identified that financial incentives should focus on achieving the City's affordable housing targets and address identified housing issues. The City's challenge has been meeting the annual 3% affordable rental housing target which equates to approximately 34 rental units per year. Although not discussed with the stakeholders, the pro forma models show that the average amount of incentives required to allow for the construction of affordable rental housing is \$60,000 to \$80,000 per unit. Since the AHS includes other actions that support meeting the City's affordable rental target and identified housing issues, the strategy recommends incenting 40% to 50% of the City's affordable rental target (i.e. 14 to 17 units per year).

Developers were asked if the form of the incentive was important. In other words, would receiving the incentive in the form of a waiver of fees and charges be more advantageous than receiving a cash incentive, or vice versa? Rather than identify a preferred form of incentive, developers stated that incentives should not be limited to waiver/deferral of development charges. Depending upon the project, an amount equivalent to development charges is not sufficient. Developers advised that not all projects are equal and that a different approach is needed for each project. For example, small projects (e.g. 34 units) pose a challenge because developers can't

ATT-3: Summary of Research and Key Stakeholder Consultation

achieve economies of scale with density as they could on larger projects. In general, deferral of fees is unlikely to be sufficient to bring affordable housing units online; therefore, waivers or grants are required. However, for projects developed in connection with not-for-profit programs, a deferral of fees can be sufficient to create affordable units, or provide for low cost mortgages, that are accessible to low to moderate income households. Developers also recommended that incentives should not be provided on a per unit basis, but rather on a project basis. When asked if the City should provide incentives to bring units online at below average market rent, stakeholders were unanimous that the City cannot afford that depth of incentives. The County's funding programs and rent supplements will address rents below average market rates.

Other Funding Sources

Staff asked if projects which are receiving funding from other sources, especially funding from other levels of government, should be given higher priority for AHFIP funding than projects without other funding or partnership sources. Stakeholders advised staff that these projects should not receive higher priority. Rather, the project's overall financial viability is more important than how a project will be funded.

Developer Consultations

Following the broader stakeholder session, meetings were held with local developers to validate the pro forma models and for consultation on policy aspects requiring direct housing development expertise. Developers were asked to validate the models which closely matched their experience within the city.

The following is a summary of the feedback received from developers on the pro forma models:

- Overall, there was approval of the cost centres and categories of the models
- Some developers considered the project statistics (i.e. number and type of units) to be too dense and not fully reflecting typical build conditions
- Values of land in the models are highly variable. Factors influencing land costs include:
 - Location
 - Existence of site servicing (i.e. sewers, water, etc.)
 - Site suitability and geometry
 - Environmental and/or geotechnical issues
- Land costs used in the pro forma models may be on the low side when considering that the models are based on the value/cost for zoned land. The amount may be more reflective of the value for unserviced land
- The "per door" construction costs may also be on the low side
- Cost for constructing surface parking is accurate but costs for construction of underground parking is too low. The underground parking costs are more reflective of cost for "under building" parking
- The soft costs of the model may be slightly too conservative
- Other factors which influence the cost of development are:
 - Construction materials (i.e. wood frame is less expensive than concrete)
 - Urban design adjustments required from Site Plan

ATT-3: Summary of Research and Key Stakeholder Consultation

- Amount and type of amenity space provided
- Parking requirements and the required mix of surface, underbuilding, or fully structured parking
- The pro forma models were calculated using a 12% hurdle rate (i.e. return on investment). Depending on market conditions, the developers advised that a project may still go forward with a lower hurdle rate or, if there's higher risk factors, a higher hurdle rate is required

Residential Development
City of Guelph

REVENUE NOT EXCEEDING CITY OF GUELPH AFFORDABILITY CRITERIA

September 30, 2016

3.2 PRELIMINARY PROJECT PROFORMA SUMMARY SHEET - REVENUE NOT EXCEEDING CITY OF GUELPH AFFORDABILITY CRITERIA

Project Statistics/Parameters Building Type Location	Apartments Down Town Core		Apartments (No Commercial) Down Town Core		Apartments Outside Down Town Core Green Field / Vacant Lot		Townhouses Outside Down Town Core Green Field / Vacant Lot		Stacked Townhouses Outside Down Town Core Built-up/ Redevelopment		Detached Houses Outside Down Town Core Green Field / Vacant Lot for sale		
	1A	1B	1C	1D	2A	2B	2C	2D	3A	3B	4A	4B	5A
Total No. of Residential Units	80		96		80		28		30		16		
Options	\$2,000,000	\$2,000,000	\$2,400,000	\$2,400,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$980,000	\$980,000	\$900,000	\$900,000	\$1,600,000
Land Costs	\$18,953,707	\$18,014,597	\$19,440,246	\$18,313,593	\$14,965,719	\$14,392,889	\$15,070,779	\$14,497,889	\$4,481,295	\$4,393,095	\$4,210,071	\$4,153,371	\$4,126,080
Hard Costs	\$6,599,197	\$5,659,807	\$7,307,094	\$5,988,625	\$6,046,788	\$4,942,830	\$6,182,509	\$4,987,080	\$2,270,951	\$2,098,802	\$2,395,411	\$2,231,893	\$1,765,303
Soft Costs	\$22,552,804	\$25,674,404	\$29,147,620	\$26,702,218	\$32,812,467	\$24,135,719	\$33,053,288	\$24,284,969	\$7,732,446	\$7,471,897	\$7,595,482	\$7,275,269	\$7,691,383
Gross Project Budget (A)													
Project Revenue - Sales	\$27,956,359		\$27,702,412		\$22,697,072		\$22,698,209		\$7,852,868		\$7,206,449		\$5,062,343
Total Revenue & Recoveries (B)													
Profit/(Loss) = (B) - (A)	\$403,456		(\$1,445,208)		(\$115,495)		(\$354,979)		\$120,322		(\$299,033)		(\$2,429,040)
ROI (PROFIT/COSTS)	1.5%		-5.0%		-0.5%		-1.5%		1.6%		-4.0%		-32.0%
Project Net Annual Operating Income - Rental													
Total Net Annual Operating Income		\$884,872		\$790,524		\$599,280		\$599,280		\$195,858		\$220,648	
ROI (NET ANNUAL OPERATING INCOME/GROSS PROJECT BUDGET)		3.6%		2.7%		2.8%		2.8%		2.6%		3.0%	
HURDLE RATE	12.0%	5.0%	12.0%	5.0%	12.0%	5.0%	12.0%	5.0%	12.0%	5.0%	12.0%	5.0%	12.0%
AVERAGE INCENTIVE/SUBSIDY COST PER UNIT	\$36,286		\$51,489		\$35,663		\$39,017		\$28,841		\$39,950		\$208,000
PRESENT VALUE OF THE AVERAGE ANNUAL INCENTIVE/SUBSIDY COST PER UNIT		\$62,132		\$78,484		\$71,269		\$72,432		\$79,107		\$59,451	

