



Committee of the Whole Report

For the Meeting of June 11, 2020

To: Committee of the Whole **Date:** May 29, 2020
From: Karen Hoese, Director, Sustainable Planning & Community Development
Subject: 1601-1609 Douglas Street (Fairfield Hotel) Housing Grant

RECOMMENDATION

That Council:

1. Instruct the Director of Sustainable Planning and Community Development to notify Pacifica that:
 - a. Pacifica is required to repay its dispersed housing grant of \$250,000, pro-rated to the amount remaining on September 15, 2019 (\$162,500), in accordance with the Grant Agreement dated December 17, 2017;
 - b. No further funds will be provided under the existing Housing Grant Agreement due to Pacifica terminating operations of the Fairfield Hotel;
 - c. Any funds remaining in Pacifica's accounts will be converted to an extraordinary circumstances grant, and no further funds will be provided for the Fairfield Hotel.
2. Instruct the City Solicitor to:
 - a. Prepare a new extraordinary circumstances grant agreement from the 2020 contingency budget in an amount equivalent to the housing grant returned to the City (\$162,500), to allow Pacifica to spend the balance remaining (\$162,500 less operating funds spent since September 2019) to:
 - i. Operate the hotel until such time as all tenants requesting to be relocated have moved from the building;
 - ii. rehouse any tenant requesting to move from the Fairfield Hotel;
 - b. Include in this agreement the following provisions:
 - i. This shall be a one-time only grant for extraordinary circumstances;
 - ii. This grant agreement covers a conversion of funds remaining from those dispersed in December 2017 and no cash payment shall be issued to Pacifica;
 - iii. Any further requests for funding should be directed to appropriate funding bodies such as BC Housing;
 - iv. The grant is provided to cover such costs as:
 1. Operational costs at the Fairfield Hotel until such time as Pacifica ceases operation at the building;

2. Relocation costs, including moving costs, furnishing, household goods and food for tenants currently residing at the Fairfield Hotel;
 3. Temporary rental supplements for tenants moving to new self-contained housing units;
- v. A project budget shall be provided;
 - vi. Any funding deficits will not be covered by the City under any circumstances;
 - vii. A final report will be required, including the provision of audited financial statements, no later than June 15, 2021;
 - viii. Any grant funds indicated on these financial statements as not spent or earmarked for rental supplements by June 15, 2021 shall be repaid to the City by September 15, 2021;
3. Direct staff to release all funds held in trust for the Fairfield Hotel back into the Victoria Housing Fund for use in other affordable housing projects.

EXECUTIVE SUMMARY

On December 17, 2017, the City of Victoria entered into a housing grant agreement through the Victoria Housing Reserve Fund (VHRF) to provide \$500,000 to Pacifica Housing Advisory Association for the Fairfield Hotel, a privately owned Single Room Occupancy (SRO) Hotel located at 1601-1609 Douglas Street. The purpose of this grant was to offset Pacifica's operational costs and thus assist Pacifica in maintaining deeply affordable rents at the building for a period of ten years (\$50,000 per year). Half the grant was dispersed to Pacifica on December 17, 2017, with the remaining \$250,000 held in trust at the City. As of June 15, 2020, the remaining funds in hand at Pacifica will be approximately \$120,000.

The Fairfield Hotel is owned by a private corporation, Reliance Properties, and receives no ongoing subsidies from any other levels of government. It is secured as low-income housing through a lease between Pacifica and Reliance Properties. This lease, to which the City is not a party, was in place prior to the City's housing grant. Beyond the housing grant agreement, the City has no other legal jurisdiction over the operation of the building, and its relationship exists with Pacifica only.

In Fall 2019, Pacifica informed the City that it intended to terminate its lease with Reliance Properties and cease operations at the Fairfield, citing the inadequacy of the building and the need for a higher level of support than Pacifica is able to provide even with the City's grant. The City is now in receipt of a formal letter (Attachment A, with supplementary information in a follow-up letter, Attachment B) indicating that in addition to the earlier noted issues, Pacifica believes the COVID-19 pandemic has made the relocation of tenants who wish to move to more suitable accommodation an urgent concern.

Pacifica is seeking support from BC Housing and Vancouver Island Health Authority to expedite the planned relocation of any tenants wishing to move before Pacifica terminates its lease. While several rooms were secured in coordination with VIHA for Fairfield residents requiring high levels of support, BC Housing has indicated to Pacifica and the City its current priority is currently to house unhoused residents due to the COVID pandemic. However, recognizing the challenges Pacifica is facing, BC Housing has funded a security guard to be posted at the Fairfield for the safety of tenants.

In light of these concerns, Pacifica is requesting permission to use their VHRF grant for relocation costs such as moving, food, household goods/furnishing for tenants in their new homes, as well as for rental supplements where no non-market units are available and tenants may need to move to market-rate housing. Pacifica is estimating that if all tenants wanted to move, this work — including

longer term rental supplements — would cost approximately \$300,000. As this is not a typical use of VHRF funds, staff do not recommend Council consider this request as stated, and recommend Council consider directing staff to request Pacifica repay the City its grant of \$250,000, pro-rated to September 2019, the date Pacifica was no longer in compliance with its VHRF Grant Agreement (a total of \$162,500).

Pacifica could choose to sever its relationship with all remaining tenants once they terminate their lease with the building owner and repay the Housing Grant to the City. However, given Pacifica's desire to support its vulnerable tenants who wish to move to more suitable accommodation, staff recommend entering into a new extraordinary circumstances grant with Pacifica equal to the Housing Grant repayment through the City's 2020 contingency fund (\$162,500). This payment would involve no transfer of cash from the City, but rather would allow Pacifica to use the balance of funds already dispersed — approximately \$120,000 as of June 2020 — to support tenants who need or want to move ahead of Pacifica terminating its lease with Reliance.

PURPOSE

The purpose of this report is to provide Council with information and advice regarding a request from Pacifica to expand the use of the housing grant provided to operate the Fairfield Hotel to move tenants from the building due to Pacifica terminating its lease with the building owner.

BACKGROUND

The Fairfield Hotel is a 62-unit Single Room Occupancy (SRO) building located at 1601-1609 Douglas Street, owned by Reliance Properties and operated through a lease agreement by Pacifica Housing Advisory Association (Pacifica). The Fairfield houses no-income and low-income tenants who pay rents that are, on average, set at or slightly above the income assistance shelter rate of \$375/month.

On October 19, 2017, Council approved a Victoria Housing Reserve Fund (VHRF) grant from Pacifica in the amount of \$500,000 over 10 years, or \$50,000 per year, to support the operation of the hotel. The purpose of the grant is to support operational costs at the hotel so that Pacifica can maintain deeply affordable rents. There are no other government subsidies in place, and the remainder of the operational budget is supported through tenant rents.

The terms of this funding were outlined in a Housing Grant Agreement dated December 17, 2017 (Attachment D). The first half of the funds, \$250,000, was paid to Pacifica when the grant agreement was signed (December 17, 2017), and the remaining balance was to be dispersed at the commencement of the second half of the lease term (December 15, 2022). At the end of the lease term, the intent was for Pacifica to find suitable long-term accommodation for the residents and terminate its lease with Reliance.

In October 2019, Pacifica communicated to the City that even with the VHRF grant, the condition of the Fairfield and acute needs of many of its tenants have made operations unviable. The Fairfield Hotel is over 100 years old and requires ongoing repairs, some of which fall to Pacifica to complete, and some of which impact Pacifica's ability to provide required services to its tenants. The building's vulnerable tenants are also requiring a high level of support, which further impacts operating costs. Pacifica has confirmed they began discussions with the building owner to terminate their lease, which was entered into prior to the City providing support and to which the City is not a party, and stopped backfilling tenancies September 2019.

Because the building ceased operating per the agreed upon terms in September 2019, that is the continuous operation of 62 units of low-income housing, Pacifica is in breach of its Housing Grant Agreement with the City. Per the terms of the agreement, the society is now obligated to repay to the City its grant on a pro-rated basis from September 2019.

Staffing changes at Pacifica, including a new Executive Director and new Director of Finance, delayed provision of the formal letter requested by the City, and then in March 2020, the COVID-19 Pandemic struck and a Provincial State of Emergency was declared.

ISSUES & ANALYSIS

The City is now in receipt of a formal letter from Pacifica (Attachment A). The letter indicates that due to the COVID crisis, Pacifica would like to expedite the relocation of tenants who wish to leave and are seeking permission to use the VHRF grant monies to support these moves. They have also provided supplementary information, including a follow-up letter providing responses to staff questions of clarification (Attachment B). Together these letters outline a vulnerable tenant population, many of whom are at high risk of complications should they contract COVID-19, a lack of hygiene facilities in the building (a total of four bathrooms and eight toilets), and challenges with maintaining appropriate social distancing measures, in addition to pre-existing challenges with maintaining the building. Pacifica has been able to relocate several tenants with complex health needs to Vancouver Island Health Authority (VIHA) supported housing units, however 36 tenants requiring fewer supports remain in the building.

Pacifica is actively seeking support from BC Housing and VIHA to expedite the planned relocation of tenants who wish to leave the hotel to self-contained housing units. However, BC Housing has indicated to both Pacifica and BC Housing that its priority during this pandemic is housing the unhoused residents of the city first. While no funds for moving costs or rental supplements are being provided, BC Housing has paid for a security guard to be posted at the building, at a cost to the province of \$10,000 per month, to prevent non-residents from accessing the building to reduce infection risk amongst its vulnerable residents.

The building's owner, Reliance Properties, has indicated in a letter provided to the City on May 12, 2020 (Attachment C) that it is supportive of Pacifica's request. It should be noted that tenancies at the Fairfield Hotel fall under the Residential Tenancy Act (RTA), and unless a Notification to End Tenancy is issued for an appropriate reason as stipulated in the RTA, tenants would terminate their tenancies through a Mutual Notice to end Tenancy, or they would have the option to remain in the building (however, Pacifica has indicated that most tenants are keen to leave due to the health risks of remaining in the building). When Pacifica ceases operations at the Fairfield, any tenants remaining in the building would become the responsibility of Reliance Properties.

Given that Pacifica can no longer maintain operations due to the insuitability of the building for its tenants, that no other funds are available at this time from appropriate agencies, and that many tenants have expressed a desire to move to more suitable accommodation given the lack of available supports and social distancing measures in the building, Pacifica is requesting permission to use the remaining funds in the Victoria Housing Reserve Fund grant for this purpose. Specifically, Pacifica is requesting use of VHRF funds for:

- Continued operations at the Fairfield as long as any tenants remain, including staffing costs. Pacifica has indicated they need to keep nearly at 100% operations to ensure the safety of anyone who remains despite receiving less rent to cover costs;
- Relocation costs -- Most of the residents don't have funds to move, connect to utilities, pay security deposits, or buy furniture or groceries;

- Rent supplements -- Pacifica has some available units within their own portfolio but per their operating agreements these units must be rented at market or low end of market rates to make them viable. This is the bulk of what Pacifica has available, which Fairfield tenants can't afford. Pacifica would be looking to support tenants until new buildings with deeply subsidized units become available and/or tenants qualify for SAFER rent supplements. Alternatively, some tenants could move to market accommodation elsewhere with rent supplements.

The purpose of the VHRF is to support the development and retention of affordable housing. Using the fund to support the transition of residents to new housing is not consistent with the fund's intended purpose. Beyond the fundamental disconnect with the funds purpose, there are several reasons why the use of this grant is not recommended in this particular instance:

1. This type of support is not a normal function of local government, and falls under the purview of agencies such as BC Housing and Vancouver Island Health Authority. Pacifica is pursuing funding from these agencies concurrently, but if the City were to pay the requested amount in full, these agencies would not be required to provide any support;
2. Providing long-term rental supplements requires administrative resources for oversight and financial monitoring and reconciliation by the City, who do not have expertise in this area and leaves the City vulnerable to financial and optical risk.
3. A component of the estimated costs is longer-term rental supplements. There are alternative, more appropriate solutions to long-term rent supplements than the City providing rent support to tenants including provincial rent supplements designated for this purpose and the opening of more units of subsidized and low-income housing through attrition and construction.
4. Using VHRF monies for relocation expenses and rent subsidies creates a continued financial relationship between the City and the Fairfield Hotel and increases risk to the City for future financial requests of this nature.
5. Any further withdrawals from the VHRF will limit the amount of support the City can provide to create and preserve affordable housing development in the City, which is the fund's stated purpose.

For all these reasons, staff do not recommend Council consider this request and recommend requesting Pacifica repay the first instalment of the Housing Grant in the amount of \$250,000 prorated from September 2019, when Pacifica breached its housing grant agreement with the City by no longer operating 62 units of low-income housing (\$162,500), and to re-release the second instalment of \$250,000 back into the VHRF.

Pacifica could choose to sever its relationship with all remaining tenants once they terminate their lease with the building owner and repay the Housing Grant to the City. However, given Pacifica's desire to support its vulnerable tenants who wish to move to more suitable accommodation, staff recommend entering into a new extraordinary circumstances grant with Pacifica equal to the Housing Grant repayment through the City's 2020 contingency fund (\$162,500).

This new grant agreement would not invoke the issuance of any further funding, but rather would allow Pacifica to use any funds remaining from monies already dispersed (approximately \$120,000 as of June 15, 2020) to support tenants who need or want to move ahead of Pacifica terminating its lease with Reliance.

This solution strikes a balance between providing Pacifica with support to move tenants who wish to be relocated while maintaining the use of VHRF funds for the creation or retention of affordable housing units. It also positions the City as a partner in rehousing the vulnerable tenants of the Fairfield Hotel.

Note that the City is not a party to the lease between Pacifica and Reliance Properties. The building is privately owned, and the City does not have any authority to direct transference of the lease to another operator. In addition, Pacifica maintains the option of terminating its lease with the building owner, repaying all funds to the City on a pro-rated basis, and leaving the building and its tenants. However, it is Pacifica's intent to rehouse all tenants requesting to be relocated to safe, long-term accommodation, and funds are required in order to complete this work.

OPTIONS & IMPACTS

OPTION ONE (Recommended): Direct staff to request Pacifica repay its Housing Grant of \$250,000 on a pro-rated basis and prepare a one-time extraordinary circumstances grant in an equal amount to the repaid grant to support Pacifica in the relocation of Fairfield tenants requesting to move to appropriate, self-contained housing.

This option is recommended to support Pacifica in finding appropriate housing for its vulnerable population before it terminates its lease with the building owner using the remainder of the housing grant already dispersed (converted to an emergency circumstance grant). This option will support the relocation of tenants requesting relocation to more appropriate housing. This option also ensures all remaining funds allocated to the Fairfield Hotel are redistributed back into the VHRF for the fund's intended purpose of creating and preserving affordable housing in the City of Victoria.

OPTION TWO: Require repayment of the housing grant based on the date Pacifica ceased to provide 62 units for no/low-income housing with no extraordinary circumstances grant.

This option is not recommended as Pacifica is already operating at a significant deficit in this building. If the City required immediate repayment of remaining funds from the first installment, Pacifica would be unable to assist tenants to move into appropriate housing and many tenants would remain precariously housed.

2019-2022 Strategic Plan

The 2019-2022 Strategic Plan outlines a number of measurable outcomes in Strategic Objective Three: Affordable Housing; and Strategic Objective Five: Health, Well-Being and a Welcoming City, which are supported by the recommended approach. These include decreasing homelessness, increasing the number of people who feel safe and part of the community, and clear improvement on mental health and addictions.

Impacts to Financial Plan

The recommended approach would have a positive impact on the City's overall budget. While the conversion of the remaining balance of the Housing Grant to an emergency circumstances grant would have a net zero effect on the City's budget, the balance of funds earmarked for years 6-10 at the Fairfield Hotel (\$250,000), would be redistributed to the VHRF to support other affordable housing projects. The VHRF currently provides grants between \$5,000-\$30,000 per unit of affordable housing depending on tenure, level of affordability, and unit size for the creation and preservation of affordable housing units.

If Council chose not to approve this request and require the full repayment of funds from the time Pacifica was no longer complying with the housing grant (when they stopped providing 62 units of low-income housing), the pro-rated housing grant (\$162,500) plus all earmarked funds (\$250,000)—a total of \$412,500—would be returned to the VHRF. However, as outlined in this

report, this approach is not recommended due to the critical impacts on Pacifica and its vulnerable tenants.

Official Community Plan Consistency Statement

The amendment to the housing grant agreement is consistent with the Official Community Plan's Broad Objective on Housing and Homelessness 13(e) that partnerships enable stable housing with appropriate support services.

CONCLUSIONS

As Pacifica is no longer operating the Fairfield Hotel as agreed upon in its housing grant agreement with the City, repayment of the grant issued in 2017 on a pro-rated basis is required. However, by providing Pacifica with a one-time extraordinary circumstance grant from the contingency budget equal to the required VHRF repayment amount, the City will continue to support Pacifica's work, assist with rehousing vulnerable tenants, and ensure the appropriate use of VHRF funds for the creation and preservation of affordable housing units in the city.

Respectfully submitted,



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Community Planning Division



Karen Hoese, Director
Sustainable Planning and Community
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Report accepted and recommended by the City Manager:



Date: June 5, 2020

List of Attachments

- Attachment A: Letter from Pacifica Housing
- Attachment B: Follow-up Letter from Pacifica Housing
- Attachment C: Letter from Building Owner (Reliance Properties)
- Attachment D: Housing Grant Agreement.