



Committee of the Whole Report For the Meeting of March 18, 2021

To: Committee of the Whole **Date:** March 4, 2021
From: Karen Hoese, Director, Sustainable Planning and Community Development
Subject: **Victoria Housing Reserve Fund Guidelines Update**

RECOMMENDATION

That Council direct staff to:

1. Update the Victoria Housing Reserve Fund Guidelines based on the following changes:
 - a. Remove reference to funding assistance for affordable home ownership projects.
 - b. Amend the Funding Assistance section to:
 - i. decrease the eligible funding allocation for different levels of affordability per home;
 - ii. add a total funding cap for grant contributions to not exceed \$500,000 per project; and
 - iii. include fund eligibility to homes rented at Deep Subsidy, Rent Geared to Income (RGI) and Housing Income Limits (HILs) rates.
2. Revise the application process timeline so that grant applications that receive preliminary approval by Committee of the Whole are held for final approval by Council until development approvals are in place.
3. Update the *Victoria Housing Strategy Phase Two* document, page 47, to include with respect to Housing Affordability Targets:
 - a. Notwithstanding the income targets provided above, to support the expeditious development of affordable housing, proposals which are owned and operated by senior government agencies and non-profit housing providers, where homes are rented at Deep Subsidy, Rent Geared to Income or Housing Income Limit Rates are considered to meet the City's definition of "affordable housing".

EXECUTIVE SUMMARY

The purpose of this report is to provide recommendations for Council consideration to update and improve the Victoria Housing Reserve Fund (VHRF) Guidelines.

The proposed updates include strengthening the focus of the guidelines on funding affordable rental homes; decreasing the tiered funding allocation per housing unit and placing a maximum on total

funding for each project so that Victoria can better distribute grants to support more affordable housing projects; and updating the funding assistance to include funding options for affordable projects that are receiving senior government funding. This report also recommends process improvements for application efficiency for projects that have not yet received development approvals when a grant application is made.

The proposed amendments to the Victoria Housing Reserve Fund guidelines will ensure the efficient and equitable distribution of funds to the greatest number of non-profit housing projects across the city and will better support the fund's long-term sustainability, enhance fulfilment of Victoria's housing targets, and ensure that affordable housing targets align with other funding from BC Housing and Canada Mortgage and Housing Corporation programs.

PURPOSE

The purpose of this report is to provide Council with information, analysis, and recommendations related to proposed improvements to the Victoria Housing Reserve Fund Guidelines.

BACKGROUND

The Victoria Housing Reserve Fund (VHRF) provides financial grants to assist with the development and retention of affordable housing for households with very low to median incomes.

The VHRF guidelines receive ongoing monitoring to ensure they reflect current City priorities and are achieving its intended purpose. The *Victoria Housing Strategy Phase Two* includes an action to review the VHRF guidelines after each intake date to ensure alignment with current City priorities, Housing Strategy actions and ability to achieve housing targets.

At the Special Council meeting of June 4, 2020, Council directed staff to re-prioritize actions in the *Victoria Housing Strategy* to improve housing security as part of COVID-19 recovery. In this process, four actions were expedited, and new actions were identified. One of the new actions was to advance and support the rapid supply of affordable and supportive housing with government partners and non-profit housing providers.

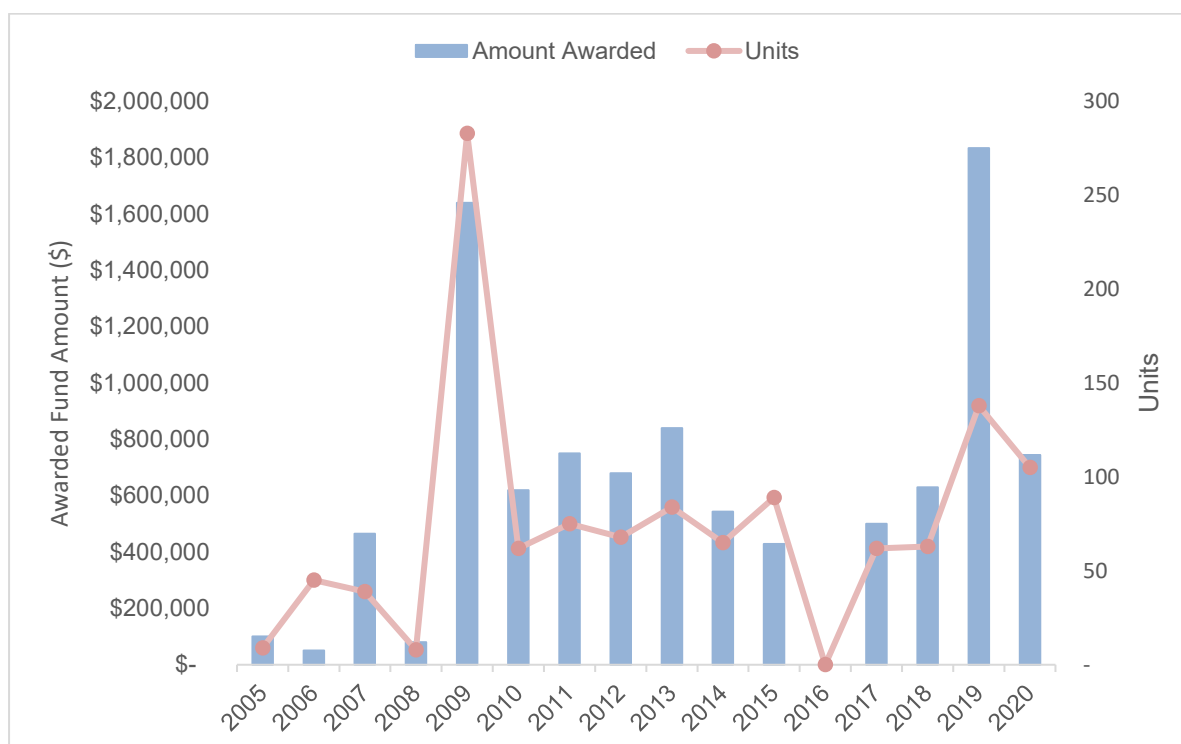
ISSUES & ANALYSIS

1. Capacity of the VHRF Fund

Across the province, municipalities are experiencing historic levels of investment in affordable housing development, with more provincial and federal funding calls slated for 2021 and beyond. Victoria is well positioned to support the rapid development of affordable housing through collaboration across departments and with external non-profit and government partners.

On average, between 2006 and 2018, there were five or less applications to the fund per year, with two applications most years. Since 2018, the VHRF has experienced a significant increase in applications for funding (see Figure 1), with an average of five to seven applications per year. The VHRF has a current unallocated balance of \$3,395,442.

Figure 1: Housing Units and City of Victoria Housing Reserve Fund Awards 2005-2020



Note: Recent awarded fund amounts and housing units may change throughout the development process

2. Consultation with Non-Profit Housing Providers and Funders

Engagement with non-profit and government stakeholders took place throughout 2020. The consultation included engaging in three different ways: requests for input by email; one-on-one phone conversations; and a non-market development workshop (held virtually), with guiding questions related to proposed changes to the guidelines and process improvements for supporting affordable housing developments. A total of 14 organizations were contacted, and 10 non-profit housing providers and funders attended a non-market development workshop in October 2020. Part of this consultation included identifying opportunities to improve, simplify and expedite the VHRF grant application guidelines and process for affordable development projects. A summary of the feedback received is included in Attachment A. Consultation with non-profit housing providers and funders to discuss ways to improve the affordable housing application process at the City is an ongoing initiative.

3. Focus on Supporting Affordable Rental Housing

The City of Victoria has proportionally more low-income households compared to the Capital Region as a whole, and proportionally more renter than homeowner households. Of all metropolitan areas in Canada, Victoria has the seventh highest rate of households in Core Housing Need¹. More than one fifth (9,065 or 21%) of Victoria's households are in Core Housing Need. Of these households, 86% are renters. Approximately 46% of renters in Victoria spend over 30% of their income on rent and utilities, and 22% spend more than 50%.

¹ A household is considered to be in core housing need if its housing is unacceptable (does not meet one or more of the adequacy, suitability or affordability standards), and acceptable alternative housing in the community would cost 30% or more of its before-tax income.

The VHRF guidelines provide tiered grant funding based on depth of affordability, type of housing unit (number of bedrooms) and number of eligible housing units. The guidelines apply to affordable rental and affordable homeownership projects, although affordable homeownership projects are eligible for the least amount of funding per housing unit. With the anticipated increasing demands for grants for affordable rental housing from non-profit housing providers and the current focus on improving affordability and stability for renters, one direction explored during consultation was removal of funding assistance for affordable homeownership from the guidelines. This received strong support; with concern expressed by one of the non-profit housing providers, who provides affordable homeownership opportunities for median and low-income families in the region.

As this action would better support key goals of the Housing Strategy and would help focus the grant contributions on affordable rental projects which are delivered by our government and non-profit partners to offer deeply affordable housing for residents most in need, it is recommended that funding assistance for affordable homeownership be removed from the guidelines.

See Attachment B for an updated version of the Victoria Housing Reserve Fund Guidelines that include this and other proposed changes to better support affordable housing projects.

4. Equitable Distribution and Availability of VHRF Grants

a. Reducing the Per-Unit Funding Allocation

Staff recommend adding a new tier of funding allocation for studio housing units and decreasing the funding allocation per each housing type, as shown in Table 2 below:

Table 2: Proposed Changes to Eligible Grant Funding Based on Income and Housing Type

| Eligible Affordability Levels | Eligible Amount Per Housing Unit | | | | | | |
|-------------------------------|----------------------------------|------------------|----------|------------------|----------|-------------------|----------|
| | <i>Studio (NEW)</i> | <i>1 Bedroom</i> | | <i>2 Bedroom</i> | | <i>3+ Bedroom</i> | |
| | Proposed | Current | Proposed | Current | Proposed | Current | Proposed |
| Very Low Income | \$7,500 | \$10,000 | \$10,000 | \$20,000 | \$15,000 | \$30,000 | \$20,000 |
| Low Income | \$5,000 | \$10,000 | \$7,500 | \$20,000 | \$10,000 | \$30,000 | \$15,000 |
| Median Income | \$2,500 | \$5,000 | \$5,000 | \$10,000 | \$7,500 | \$15,000 | \$10,000 |

The current guidelines provide the same grant amounts for both studio and one-bedroom units. It is proposed that the guidelines be revised to establish new funding amounts for studio units. The eligible amount proposed represents the market difference in price between these sized units and ensures that funds are better distributed based on unit size and cost of construction. Larger sized units which cost more to build, receive more funding, and smaller units, which cost less to build, receive less. Staff recommend that the tiered value of units still maintain a higher funding allocation for very low- and low-income rental units and place a value on subsidizing the deepest levels of affordability.

b. Implementing Total Funding Cap Per Project

In response to the resurgence of affordable non-market housing development, and the subsequent pressure on the VHRF, staff recommend placing a maximum funding cap on total eligible funds per project at \$500,000. Changes are proposed to the funding assistance guidelines to ensure funding is distributed equitably, and to provide the opportunity for the City to increase the amount of funding partnerships with non-profits.

Due to the increasing demand for VHRF grants in recent years, some eligible non-profit housing providers have been turned away from receiving funds for their project for that intake date due to oversubscription of the fund. Reducing the per-unit allocation of funds and setting a total funding cap per project will allow the City to fund more units and support more non-profit housing providers each year.

The VHRF supports affordable housing development in several ways. It provides non-profit housing providers with capital investments which they often do not have on hand. These grants help to lower overall development costs and deepen the affordability of the finished project. Grants from BC Housing and Canada Mortgage and Housing Corporation (CMHC) are also generally predicated on supporting projects that can secure additional funding partnerships such as those with the City of Victoria. Partnership with the City of Victoria through the VHRF leverages funding from senior governments for projects. While the City continues to play an important role as a supporting partner to local affordable housing projects, most project funding will be contributed by other levels of government. All existing supports for non-profits are maintained through a reduced grant amount from the City, while ensuring that the City can support the greatest number of applications.

During consultation, targeted stakeholders were supportive of these recommendations, and did not raise concerns that these changes would compromise potential viability of affordable housing proposals. Although non-profit housing providers and government funders would prefer to receive greater funding amounts per project, they supported the goal of ensuring equitable distribution of the grants to the greatest number of affordable housing developments. As this is a guideline, it is always at the discretion of Council to provide funding beyond the suggested maximum and to consider these situations on a case-by-case basis.

5. Maximizing Effectiveness of Government Funding Programs

Victoria has targeted the creation of at least 1,450 new homes that are affordable to very low, low and median income households by 2025. Most of these units may be realized through funding from senior government programs, as well as capital contributions from the VHRF. As all levels of government have different funding programs, improvements to the VHRF guidelines to acknowledge this may better facilitate affordable housing projects in Victoria.

a. Senior Government Funding Programs:

Nearly all the recent affordable housing applications to the VHRF have been funded by BC Housing's Community Housing Fund, which is a mixed-income program that serves very low to moderate income earners. Mixed-income programs achieve equity and diversity objectives, improve long-term viability of projects, and increase the total number of subsidized projects province-wide. BC Housing's Community Housing Fund program uses three income thresholds:

- 1) **Deep Subsidy:** rents are affordable to households receiving income and disability assistance and are set at shelter rates (e.g. \$375 for a single person).

- 2) **Rent Geared to Income (RGI):** rents are set at 30% of the specific tenants' income or minimum rent. These rents range from Deep Subsidy rates to at or below Housing Income Limits (HILs) as determined by BC Housing. RGI homes are provided at a wide range of rents, from \$375 per month for households on income or disability assistance, up to HILs rates, which in 2021 range from \$1,113 for a one-bedroom home to \$2,113 for a 4+ bedroom home.
- 3) **Affordable Market Rents:** rents are set at below market rates and are affordable to moderate income households as determined by BC Housing. These homes help to subsidize the RGI and Deep Subsidy homes on site and support long term operational viability.

BC Housing also publishes Housing Income Limits (HILs), to provide a common affordability metric that is widely used to determine eligibility for many affordable housing programs across the province, although it is not included within the current Community Housing Fund program. HILs are determined by BC Housing annually using CMHC average rents in the market area and are used to calculate affordable rents by 30% of gross household incomes.

There are also funding programs from the region and federal government, which are also mixed-income programs. The Capital Region's Regional Housing First Program includes an affordability mix of approximately 20% Deep Subsidy homes and 80% near-market rental homes.

The federal government has launched a National Co-Investment Fund which is administered by CMHC and provides funding for new affordable housing developments. However, no projects in Victoria have secured this funding source to date. The affordability metric used in this fund is 80% of the median market rent in the area.

b. Victoria Housing Reserve Fund and Affordability Targets

The City established Victoria-specific affordability targets within the *Victoria Housing Strategy Phase Two* based on renter median incomes which sets a maximum rent threshold by income bracket and housing type (number of bedrooms). The VHRF guidelines currently reflects these incomes in the following Table 3:

Table 3: Income Thresholds and Affordable Target Rent Range by Bedroom Size

| Targets | Income Threshold | Bachelor (\$375 to \$875) | 1 Bedroom (\$425 to \$1,050) | 2 Bedroom (\$575 to \$1,300) | 3 Bedroom (\$700 to \$1,750) |
|-----------------|----------------------|------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Very low Income | <\$19,999 | \$375 | \$425 | \$575 | \$700 |
| Low Income | \$20,000 to \$34,999 | \$500 | \$650 | \$850 | \$1,000 |
| Median Income | \$35,000 to \$54,999 | \$875 | \$1,050 | \$1,300 | \$1,750 |

c. Challenges

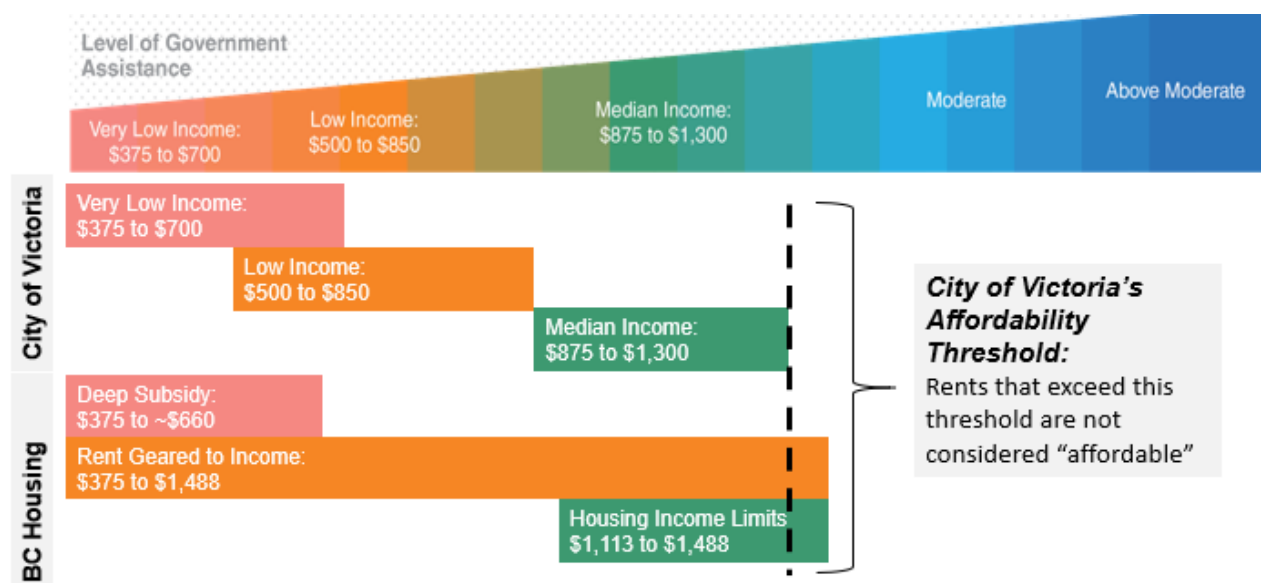
While the affordable housing programs of Victoria and other levels of government all have different definitions of affordability, they all share the same objective to bring the most affordable housing to residents in greatest housing need.

However, there have been some practical challenges experienced with the different affordability definitions of these respective funding programs. Most projects have experienced delays during

project negotiations and preparation of legal agreements due to the different definitions of affordability among government supporters. It has sometimes been challenging for applicants to communicate a project's affordability when it meets the definition of one program and not another. It has also meant that some projects (or some units within projects) have been ineligible for Victoria's grant program.

Using BC Housing's funding program as an example, the following Figure 3 illustrates the differences between its affordability categories and Victoria's, using a 2-bedroom home as an example.

Figure 3: Affordable Rent Comparison – Victoria and BC Housing



The issue currently being experienced is that the majority of rents used in BC Housing funding programs are slightly higher than Victoria's for every unit type. In particular, BC Housing's maximum rent for either RGI or HILS units is higher than Victoria's median household income rents by \$188 per month, for a two-bedroom unit. Rents which exceed the City's targets for median incomes are therefore not considered "affordable" by Victoria's definition and are ineligible for VHRF grants. Although BC Housing's rents are broader than the City's affordability threshold, these homes target renters in need in Victoria. Specifically, RGI and HILs rate units provide affordable housing to groups who were identified as vulnerable in the Victoria Housing Needs Report 2020, including low wage workers, seniors with fixed incomes or single parents.

d. Consultation with Non-Profit and Government Partners

The City consulted with non-profit housing providers and government funders to help solve these challenges. Several concerns were raised with the current situation:

- Increased development costs related to extended timeline and additional legal work required to secure affordability of the proposed housing units and enter into legal agreements, which reduces the impact of the Victoria Housing Reserve Fund and the long-term affordability of projects.
- Challenges with communicating the levels of affordability to the public when they are secured by BC Housing standards but not by City of Victoria's affordability targets.

- VHRF grants are a valuable capital source that helps to achieve project viability as well as to secure senior government funding or favourable financing. Currently, only units offered at BC Housing's deeply subsidized rates meet the City's VHRF eligibility for very low-income units. However, it is difficult for non-profits to receive VHRF grants for these deeply subsidized units, since BC Housing typically retains ownership of these units.
- There was one caution that tying the funding too closely to other funding programs that tend to change over time may be difficult. However, this can be resolved by considering the standardized definitions used across the province as "affordable." Currently the HILs rates defined by BC Housing are the most commonly used province-wide indicator for affordable housing programs. It was noted that this was the previous VHRF eligibility threshold used prior to the 2018 updates, and it enabled efficient approvals of VHRF grants to affordable housing developments.

e. Policy Solutions for Clarity

Victoria's affordability definitions and targets have been beneficial for setting clear expectations to the development industry when affordable housing is proposed in new developments. In balancing that with the above challenges experienced by non-profit housing providers, it is recommended that the City's affordability definitions and targets be maintained, but supplemented with guidance to help all funding programs more effectively work together so shared objectives can be achieved. A supplementary policy could state that homes rented at Deep Subsidy, Rent Geared to Income or HIL rates are deemed to meet Victoria's definition of "affordable housing".

It is proposed that both the VHRF guidelines and the Victoria Housing Strategy include this supplementary policy so the City's policy framework is consistent. In particular, an amendment would be needed to page 47 of the Housing Strategy with the following addition:

Notwithstanding the income targets provided above, to support the expeditious development of affordable housing, proposals which are owned and operated by senior government agencies and non-profit housing providers, where homes are rented at Deep Subsidy, Rent Geared to Income or Housing Income Limit Rates are considered to meet the City's definition of "affordable housing".

The funding assistance table in the VHRF Guidelines is proposed to be updated as follows:

Table 5: Proposed New Funding Assistance Table for Victoria Housing Reserve Fund Guidelines.

| Eligible Affordability Levels | | Eligible Amount Per Unit | | | |
|---------------------------------|--------------------------------|--------------------------|------------------|------------------|-------------------|
| <i>City of Victoria Targets</i> | <i>BC Housing Definitions*</i> | <i>Studio</i> | <i>1 Bedroom</i> | <i>2 Bedroom</i> | <i>3+ Bedroom</i> |
| Very Low Income | Deep Subsidy | \$7,500 | \$10,000 | \$15,000 | \$20,000 |
| Low Income | Rent Geared to Income | \$5,000 | \$7,500 | \$10,000 | \$15,000 |
| Median Income | Housing Income Limits | \$2,500 | \$5,000 | \$7,500 | \$10,000 |

*Notwithstanding the Affordability Targets established in the *Victoria Housing Strategy Phase Two 2019-2025*, housing units subsidized by BC Housing at Deep Subsidy, Rent Geared to Income and Housing Income Limit rates are eligible for grant funding.

6. Improve VHRF Application Process

The City maintains a bi-annual intake process for VHRF grant applications on March 31 and September 30. The current process for evaluating applications that have not yet received development planning approvals, such as rezoning and development permits, involves staff working with applicants to determine the most appropriate timing for consideration by Council. This sometimes results in a situation whereby some grant applications advance to Council for consideration prior to receiving planning approvals, while others are held back until planning approvals are in place.

Planning approvals that occur after grant application approval may result in changes to the project, that subsequently impact unit composition, affordability levels, and eligibility. This results in the need for a revised grant application to be re-submitted and additional staff time to re-evaluate the application and report back to Council. This makes it more difficult for Council to consider development and grant applications concurrently and has the potential to diminish VHRF funding prior to other applications being considered by Council.

One option to reduce this uncertainty is to require that grant applications not be submitted until after the rezoning and development approval process. Most stakeholders agreed that requiring development permit approvals prior to applying for the grant is worthwhile. However, it also has the potential to delay their ability to seek and confirm funding opportunities with BC Housing, CMHC, and other funding partners, and it may be harder for projects to proceed to development application stages if they do not have initial support from the City that helps them leverage other senior government funding sources. Stakeholders also expressed concern that parallel VHRF grant and land use applications may lead to a focus on the “users” of the land rather than on land use.

In considering this feedback, it is recommended that the application process be revised to advance grant applications that do not have development approvals in place to Committee of the Whole. Where tentative (preliminary) approval is provided by Council, the grant applications would be held while the development applications advance through the process, with final approval of grant funds to align with final development approvals from Council.

This process will create a more efficient process and allow Council to consider development and grant applications concurrently. Further, the tentative/preliminary Council approval may help applicants leverage funding from other levels of government. Final grant amounts can be adjusted during the final approval phase, to correspond to secured unit mix without the need for re-application on behalf of the applicant or multiple follow-up reports to Council.

OPTIONS & IMPACTS

Option 1 - Approve the recommended changes to the VHRF Guidelines, improve efficiencies of the grant application timeline and update the *Victoria Housing Strategy Phase Two* to acknowledge senior government funding programs (Recommended):

The proposed amendments to the Victoria Housing Reserve Fund guidelines will better support the fund’s long-term sustainability, enhance fulfilment of Victoria’s housing targets and ensure that affordable housing targets align with other funding from BC Housing and CMHC. The option also includes process improvements for application efficiency for projects that have not yet received development approvals when a grant application is made.

Option 2 - Decline some or all of the proposed changes to the Victoria Housing Reserve Fund Guidelines:

This option is not recommended as analysis and consultation has indicated that the current guidelines may reduce viability and the eligibility of non-profits for VHRF funding and funding from other levels of government. As a result, this option may negatively impact the number of new housing units created in Victoria, at a time where non-profit housing development is supported by provincial and federal funding partners.

Accessibility Impact Statement

The proposed updates to the VHRF have no accessibility impacts.

2019 – 2022 Strategic Plan

The proposed revisions to the VHRF guidelines aligns with the 2019 – 2022 Strategic Plan Objectives 1: Good Governance and Civic Engagement and 3: Affordable Housing.

Impacts to Financial Plan

The proposed changes to the VHRF guidelines will not have an impact on the Financial Plan.

Official Community Plan Consistency Statement

This action is consistent with the *Official Community Plan* policy directions of “Land Management and Development” and “Housing and Homelessness”.

CONCLUSIONS

The amendments to the Victoria Housing Fund Guidelines outlined in this report will promote its long-term sustainability, allow for the effective triaging of funding requests to help achieve Victoria’s affordable housing targets and ensure that affordable units receiving funding align with federal and provincial affordable housing targets.

Respectfully submitted,

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Report accepted and recommended by the City Manager.

List of Attachments

- Attachment A: Consultation Summary with Non-Profit Housing Providers and Funders
- Attachment B: Victoria Housing Reserve Fund Program Guidelines March 2021.