



Committee of the Whole Report

For the Meeting of November 14, 2024

To: Committee of the Whole **Date:** October 31, 2024

From: Susanne Thompson, Deputy City Manager and CFO
Karen Hoese, Director, Planning and Development

Subject: **Development Cost Charge Grant Policy for Non-profit Affordable Housing Providers**

RECOMMENDATION

That Council approve the Development Cost Charge Grants Policy (Attachment 1) to provide grants of up to 50% of residential Development Cost Charges for non-profit non-government affordable housing providers.

EXECUTIVE SUMMARY

As part of the Development Cost Charge (DCC) Program update to Council on December 14, 2023, staff were directed to develop a new grant program to offset the cost of the City's DCCs for non-government non-profit rental housing projects. Staff have prepared a draft DCC Grant Policy for Council's consideration.

The proposed DCC Grant Policy is part of the City's on-going efforts to reduce costs and enable non-profit housing providers to respond to the need for more affordable rental housing. Currently, high construction costs and elevated interest rates are challenging the viability of affordable housing projects. To support non-profit non-governmental rental housing providers a new DCC Grant Policy is recommended to provide DCC Grants of 50% of total levies for residential DCCs.

Grant applications would be reviewed and approved by staff to ensure they meet key eligibility criteria. At the time of building permit issuance, authorized DCC grants would be applied as a credit to the total Development Cost Charges payable to the City.

Over the last five years, the City saw roughly two affordable rental housing projects reaching the building permit issuance milestone each year. If a similar level of activity were to carry forward over the next two years under the updated Development Cost Charge Bylaw staff estimate the City would require annual funding of \$900,000 if the DCC Grant Program covered 50% of the total levies for residential DCCs. The proposed grant program can be funded for the first two years through the Housing Accelerator Funding (HAF) as it aligns with the City's HAF Action Plan endorsed by Council and would allow staff to monitor the program and report back in early 2027 on alternative funding options going forward.

The proposed DCC Grant Program aligns with the City's commitment to support non-profit non-governmental housing providers at a time when the viability of many projects is challenged by current market conditions.

PURPOSE

The purpose of this report is to present the Development Cost Charge Grant Policy for Non-Profit Housing for Council approval.

BACKGROUND

Both the Victoria Housing Strategy and the Council Strategic Plan identify the importance of enabling and supporting non-market housing and affordable housing partnerships. The Victoria Housing Strategy identifies an annual target of 350 non-market affordable rental housing units. At the same time, the City's Housing Accelerator Fund (HAF) work plan includes a commitment to introduce rental housing incentives to achieve three-year targets for affordable housing with the ability to direct HAF funds to support the development of affordable housing. To achieve these goals, the City will need to use various strategies to reduce costs and enable the development of non-profit affordable housing projects.

On October 12, 2023, staff brought forward a report to Council describing incentives the City could provide to support the development of non-market rental housing. At the time, Council directed staff to explore a 50% reduction in Development Cost Charges (DCCs) for non-market rental housing projects through the 2023-2024 Development Cost Charge Program Review. Subsequently, on December 14th, 2023, as part of a policy direction report for the Development Cost Charge Program update, Council directed staff to develop a new grant program that would offset the cost of DCCs for non-government non-profit rental housing projects.

In recognition of the Provincial Inspector of Municipalities' approval of the City's DCC Bylaw staff have prepared a draft DCC Grant Policy for Council's consideration.

ISSUES & ANALYSIS

To support non-profit rental housing the City continues to explore ways to enable affordable housing through improved processes and reduced costs. The development of affordable housing is generally comprised of both hard costs in the form of construction materials and labour costs as well as soft costs that include development fees, charges and consultant support. The hard costs account for most of the budget for building new housing, but soft costs are also considerable often totalling as much as 15 to 18 per cent of the hard costs of a project. The DCCs collected by the City are one component of soft costs that the City has direct control over at a time when non-profit housing providers are looking for all available supports to improve viability of projects.

Over the last several years, inflationary forces have contributed to a development environment where high construction costs and rising interest rates are making the viability of new and in-stream affordable rental housing projects extremely challenging. For this reason, the City is looking to create a DCC Grant Policy ("DCC Grant Program") to address the urgent need to support non-profit non-government housing providers.

DCC Grant Policy Structure

The proposed policy recommends a DCC Grant of 50% of total levies for residential DCCs for affordable housing projects where the applicant is a non-profit non-governmental housing provider.

The proposed DCC Grant Policy (Attachment 1) would provide a DCC grant for projects in the City of Victoria based on meeting the following requirements:

- Applicants must be a non-government non-profit organization that delivers affordable housing for very low, low, median or moderate-income households.
- Applicants must demonstrate that they will be the long-term operator of the proposed housing.
- Applicants must have submitted a complete development permit application.

The recommended DCC Grant Policy would assist non-profit housing providers that are most challenged to advance projects under current market conditions. Non-profit non-government housing providers are very limited in their ability to raise capital to account for rising costs. Their main option to gain funding is to increase overall debt associated with long-term borrowing for the project, but this approach can often push projects beyond key funding program requirements, resulting in a project no longer being viable.

Non-profit housing providers are also mission-driven with their own internal commitments to serve priority populations, and they typically rely on senior government funding to build housing; therefore, there is little risk associated with providing flexibility around the level of affordability required for these groups to access the grant. Overall, this approach empowers non-profit non-governmental affordable housing providers to bring forward projects and leverage senior government funding to meet the urgent need for affordable housing in the region.

Applicants would also be required to demonstrate how their project aligns with at least one of the following City of Victoria housing priorities:

- *Projects targeting housing for very low, low, median or moderate-income households.*
- *Projects targeting youth, seniors, single-parent families, or other equity-seeking groups and individuals facing barriers based on factors such as race, gender or ability.*
 - *Examples could include Indigenous people, newcomers, members of the 2SLGBTQIA+ community, racialized people, persons with disabilities, and unhoused people.*
- *Projects for individuals who are either experiencing homelessness or are at risk.*
- *Projects that are targeting family-friendly units (three-bedrooms or greater).*
- *Projects that exceed accessibility requirements of the BC Building Code.*

Application Process

DCC Grant applications would be submitted to the Planning and Development Department at the time of or following a Development Permit application submission. Applicants would be required to provide three key items:

1. Application form confirming key project and applicant information.
2. A brief letter that summarizes how the project aligns with eligibility and housing priorities described in the City of Victoria DCC Grant Policy.
3. The most recent annual report prepared by the non-profit organization describing housing activities, operations and governance.

Applications that align with the eligibility criteria would be provided a comfort letter from the Director of Planning and Development after the application receives the following: introductory bylaw readings, preliminary approval by Victoria City Council or completion of staff technical review, if subject to a Delegated Development Permit approvals process.

At the time of building permit issuance, the authorized funding would be applied as a credit to the total Development Cost Charges payable to the City. To receive the credit at the time of building permit issuance the affordable housing provider must provide the comfort letter from the Director of Planning and Development confirming DCC grant approval.

Financial Implications

Because the City does not develop or build affordable housing it is challenging to estimate the exact number of units that would be applying for a DCC Grant on an annual basis. However, a review of affordable housing projects that were issued building permits between 2019 and 2023 provides a general understanding of the demand for the proposed DCC Grant Program. Over that five-year period the average DCCs received from affordable housing on an annual basis was approximately \$575,000. In this time the City issued building permits for 11 different projects with roughly two projects achieving final building permit issuance on an annual basis.

By looking at the activity over the five years in combination with the new DCC rates for the City of Victoria it is possible to estimate potential financial impacts of the proposed DCC Grant Program. For example, assuming roughly 180 units per year were applying for building permit and required to pay DCCs under the 2024 DCC Bylaw there would be a corresponding cost of roughly \$1.8M in DCCs on an annual basis. However, if Council approved a DCC Grant Policy that provided a 50% reduction in DCCs for non-profit housing providers that would equate to approximately \$900,000 per year in funding.

Overall, this summary provides a high-level estimate of the financial impacts based on a 50% reduction in residential DCCs assuming a similar level of housing activity continues over the next several years. If the City saw a significant increase or decrease in affordable housing applications the funding demands could be higher or lower.

OPTIONS & IMPACTS

Option 1: Approve the proposed DCC Grant Policy to provide grants covering 50% of total residential DCCs (Recommended).

This option would allow for the City to provide greater support to non-profit non-governmental affordable housing providers at a time when projects are facing challenging development conditions. Also, this level of support could be accommodated under work plan and anticipated funding from the Federal Housing Accelerator Fund (HAF). The City could introduce this new program without impacting property taxes over the next two years providing further support for non-profit housing through the end of the HAF program.

Option 2: Approve a DCC Grant Policy that provide grants up to 100% of the total residential DCCs.

Approve the Development Cost Charge Grants for Affordable Housing Policy (Attachment 1) that would provide grants to support up to 100% of residential Development Cost Charges for non-profit non-government affordable housing providers.

Should Council wish to support the alternative direction where the City provides a DCC grant of up to 100% total residential DCCs for non-profit non-governmental housing providers, the estimated annual impact is \$1.8 million and only one year of funding from the HAF would be available. Therefore, staff would need to report back on alternate funding options earlier based on the increased funding requirements.

Accessibility Impact Statement

The proposed DCC Grant Policy would support the development of housing for populations in core housing need including persons with disabilities. Moreover, the proposed policy encourages projects that exceed accessibility requirements of the *BC Building Code*.

2023 – 2026 Strategic Plan

The proposed policy aligns with several of the housing directions in the Strategic Plan specifically the goals related to enabling non-market housing and partnerships to create more non-market housing.

Impacts to Financial Plan

This new grant program proposed can be funded by the Housing Accelerator Funding through end of 2026 based on this action being part of the approved HAF Action Plan Initiatives endorsed by Council on June 1, 2023. As it is not known how much annual funding will be needed, this approach will allow staff to gather that information over the next two years. After that time, staff would bring forward alternative funding options going forward.

Official Community Plan Consistency Statement

OCP Policy 13.4 highlights the City's commitment to consider all available tools to encourage more affordable housing across the continuum, including but not limited to incentives and allowances such as property tax reductions, grants, bonus density provision and streamlined processes.

CONCLUSIONS

The proposed DCC Grant Policy is part of the City's on-going efforts to encourage affordable housing. The proposed program would allow the City to offer financial support to non-profit non-governmental housing providers at a time when many projects are challenged by various market conditions. Moreover, the new program aligns with the City's efforts to introduce policies and supports to encourage housing supply across the spectrum as part of the City's Housing Accelerator Fund commitments. In closing, the proposed DCC Grant Program would allow the City to respond to the acute challenges non-profit housing partners are facing, while limiting taxation impacts of the program over the next two years.

Respectfully submitted,

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Susanne Thompson
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Report accepted and recommended by the City Manager

List of Attachments

Attachment 1 - Development Cost Charge Grant Policy