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**Committee of the Whole Report
For the Meeting of June 15, 2017**

To: Committee of the Whole **Date:** June 2, 2017
From: Jonathan Tinney, Director, Sustainable Planning and Community Development
Subject: Victoria Housing Reserve Fund Program Update

RECOMMENDATIONS

That Council direct staff to:

1. Implement all changes to the Victoria Housing Reserve fund approved at the November 24, 2016 Committee of the Whole Meeting; and
2. Further update the Fund Guidelines to incorporate the following changes developed during the consultation period:
 - add women and children to the priority target group
 - increase income limits for affordable home ownership projects
 - ensure financial health of project proponents
 - cap the funding window to two years
 - improve flexibility for how the fund may be used
 - require affordable home ownership projects to demonstrate how they are affordable and how they will remain so over the long term
 - expand funding eligibility criteria to include for-profit entities provided they enter into a partnering agreement.

EXECUTIVE SUMMARY

The purpose of this report is to provide further recommendations for Council's consideration on changes to the Victoria Housing Reserve Fund (VHRF) following focused consultation with affordable housing providers and the development community.

The focus group reviewed the updated documents in March and April 2017 and provided comprehensive feedback on the proposed changes. Comments were generally positive, and while some changes were not feasible for the City to incorporate through the reserve fund, staff believe a number of the changes are of value and could improve the strength of the program. Specifically, staff recommend the following additional changes to the VHRF program:

- add women and children to the priority target group
- increase income limits for affordable home ownership projects
- ensure financial health of project proponents
- cap the funding window to two years
- improve flexibility for how the fund may be used
- require affordable home ownership projects to demonstrate how they are affordable and how they will remain so over the long term.

A further change to expand funding eligibility criteria is also recommended; however, this recommendation did not originate from the focus group, rather it arose during the course of the consultation process.

Each of these additions will strengthen and expand the program and ensure Victoria's affordable housing targets are closer to being met. Further, they will provide more assurance around the value these projects will bring to Victoria and will ultimately lead to more supply and diversity of eligible affordable housing projects.

PURPOSE

The purpose of this report is to provide information, analysis, and recommendations on further updates to strengthen and expand the Victoria Housing Reserve Fund, following focused consultation with housing stakeholders.

BACKGROUND

The Victoria Housing Reserve Fund was created to provide capital funding to assist in the development of affordable housing for households with no, low, or moderate incomes to support community diversity and infrastructure.

The *Victoria Housing Strategy 2016-2025* identified a review and update to the Fund Guidelines while considering fund allocations and limits, criteria to encourage family-oriented units, and an evaluation of the fund for affordable housing projects outside of Victoria as a priority action for year 1, and after a staff report received at Committee of the Whole on November 24, 2016, Council made the following motions:

1. "That Council direct staff to update the Victoria Housing Reserve Fund Guidelines appended to this report in Attachment 1, based on the following changes:
 - a. an update to the grant structure by changing funding allocation for projects in the City of Victoria to a tiered model of:
 - i. \$10,000 per one bedroom or smaller affordable rental unit, and \$5,000 per one bedroom or smaller affordable home ownership unit;
 - ii. \$20,000 per two bedroom affordable rental unit, and \$10,000 per two bedroom affordable home ownership unit;
 - iii. \$30,000 per three+ bedroom affordable rental unit, and \$15,000 per three bedroom affordable home ownership unit;
 - b. a further update to the grant allocation for projects outside the City of Victoria but within the CRD to \$5000 per unit of any size, or an amount equivalent to host municipality contribution, whichever is smaller, from municipalities that contribute to the Regional Housing Trust Fund, although consideration will be given to a proposed developments proximity to Victoria and projects that benefit the City of Victoria;
 - c. the inclusion of a new application package containing updated administrative documents for applicants, which are appended to this report in Attachments 2-4, as well as a process document for staff attached in Attachment 5;
 - d. the creation of a tracking mechanism to monitor statistics pertaining to projects funded through the Victoria Housing Reserve, and to report back on these statistics as a part of the Annual Housing Report;
 - e. the appending of the Final Report Template to the Victoria Housing Fund Grant Agreement, and amendment of the Grant Agreement to include language referencing the requirement of submitting the Final Report by the 'due-by' date.

2. That Council direct staff to:

- a. undertake focused consultation with affordable housing providers and the development community to receive feedback on the proposed changes to the Victoria Housing Reserve Fund guidelines; and
- b. report back to Council as part of the 2019 budget request with consideration for future annual contributions to the fund to meet family housing targets.”

As part of the motion, Council directed staff to engage in focused consultation with affordable housing providers and the development community on these changes (Motion 2.a.). This staff report highlights recommendations provided by the focus group for further changes, including rationale for each.

ISSUES & ANALYSIS

Focus group

A request for participation was sent to a wide range of housing stakeholders, with seven respondents ultimately agreeing to participate in the review. Participants were invited to review the proposed documents and provide feedback either through email, or if warranted, an in person group meeting. Members of the group submitted feedback via email and no member deemed an in person meeting necessary.

The members of the focus group were as follows:

Name	Title	Organization	Organization Type
Kaye Meiliship	Executive Director	Greater Victoria Housing Society	Non-profit housing provider
Kathy Hogan	Executive Director	Urban Development Institute – Capital Region	Development
Alanna Holroyd	Project Manager/Developer	Real Homes Development Company	Development
	Executive Director	Greater Victoria Rental Development Society	
Debra Yip	Consultant, Affordable Housing	Canada Mortgage and Housing Corporation (CMHC)	Government (federal)
Armin Amrolia	Executive Director, Development Strategies	BC Housing	Government (provincial)
Kathy Stinson	Chief Executive Officer	Victoria Cool Aid Society	Non-profit housing provider

The focus group represents a range of stakeholders within the affordable housing realm, and each brought different areas of expertise to bear on the changes.

Overall, response to the changes was positive. The tiered model of funding received strong support, as did the inclusion of funding for affordable home ownership projects and the proposed reporting system. The inclusion of a stated fund for projects outside the City of Victoria was raised as a concern for one group member, who stated that if the City concentrates (and perhaps

increases) funding in the City better outcomes for the City may be achieved. No other concerns with funding external projects were raised.

The group brought forward several suggestions, some of which were useful but which do not require formal incorporation to the guidelines, including considering the target population and needs of the individual over the needs of the non-profit society. Other suggestions recommended have been previously considered by Council and thus are not being recommended in this report, such as waiving DCCs for affordable housing projects; however, a number of the suggestions were both useful and applicable, and as such, staff are recommending their formal inclusion into the updated guidelines.

Proposed Additions

1. Adding women and children to the priority target group

Rationale: In addition to being a high-needs population group, women and children are also a core target population for BC Housing Management Commission. Including this group as a priority would better align the City's objectives with the Province's.

2. Increasing income limits for affordable home ownership projects

Rationale: The current affordability thresholds identified on the VHRF Guidelines identify low income housing as housing that targets individuals earning at or below the Housing Income Limits as established annually by BC Housing, while moderate income housing targets households earning at or below the median income level for the Census Metropolitan Area of Victoria. As the cost of housing is currently significantly out of sync with local wages, there is a range of affordability that is not being met within these thresholds which includes individuals who may be earning slightly higher than the median income level, but still not earning enough to purchase a home at market value. It is for this reason that staff recommend widening the definition of affordability for affordable home ownership projects to include a slightly higher margin of income levels. Having flexibility in income thresholds for affordable home ownership projects would make more middle income earners able to enter into home ownership, and subsequently free up more rentals as households move along the spectrum. It would also encourage a wider range of housing projects to be developed.

Funding criteria could be determined on a case-by-case basis with the proponent being responsible for making the case for affordability. By remaining flexible, Council could, at its discretion, reduce the maximum grant amount for projects that are 'less affordable' (closer to market value or having sale restrictions for less time), versus projects that are more affordable (significantly below market value and/or remaining affordable longer); as well, implement a maximum cap for eligibility at 10% below market value (which matches a number of BC Housing-financed affordable home ownership projects that have been established throughout BC).

3. Ensure financial health of project proponents

Rationale: In order to ensure the Victoria Housing Reserve Fund finances projects that will provide value and be viable in Victoria, staff recommend Council adopt changes to the guidelines and application process to ensure non-profit societies are in good financial health. The application could require documentation that the society is in good standing with the CRA and is in compliance with the BC Society Act. Societies could be required to provide copies of audited financial statements including management letters for the past three years of operations. Requiring additional financial documentation is in line with both the CRD and BC Housing's funding qualification criteria.

4. Capping the funding window to two years

Rationale: To ensure funds remain available for new projects and do not get tied up with projects that do not ultimately get built, it is recommended that there be a time limit of two years from funding approval to fund issuance. Proponents could apply for an extension should extenuating circumstances arise.

5. Improving flexibility for how the fund may be used

Rationale: The VRHF guidelines currently state that funds are to be utilized for construction, development, purchase, or other one-time start-up costs at the discretion of Council, and that funds are never allowed to be used for operating costs; however, in instances where projects have already secured significant capital funding, there may be instances where more flexible application of funds could keep a project viable, or could significantly reduce rents. Staff recommend that Council consider broadening the eligible use of the fund, provided the pro-forma or operating budget can demonstrate how the proponent will keep the project viable or affordable following the dispersal of the grant. It is recommended that the guidelines more broadly state that the fund is designed to assist in the development or retention of affordable housing, and that a project will only be eligible for one grant in the lifetime of the building. Inserting wording to this effect would create more flexibility in how the fund could be used, but would ensure the fund is not conflated with ongoing subsidy.

An example for how this could work: a \$10,000 per-unit grant applied to rents would reduce a unit's rent by \$167/month (\$10,000/5 years/12 months). There are many ways the operator could show how the project would remain viable once the grant is expended: for example, through incremental rental increases or attrition in other units. The fund could be used to reduce rents for discrete periods of time, such as while tenants are pursuing employment training, experiencing financial hardship, or awaiting income changes such as Old Age Security payments. Essentially, there are innumerable gaps the grant could fill to promote the retention of housing and prevention of housing insecurity and homelessness if the City built in flexibility in its eligible applicable costs.

6. Requiring affordable home ownership projects demonstrate how they are affordable and how they will remain so over the long term.

Rationale: A number of the focus group participants asked for more clarification on what the City defined as 'affordable home ownership.' As well, the participants inquired as to what type of model would be acceptable to the City and whether the City would require units to remain affordable in perpetuity. As was demonstrated by the City of Victoria's affordable home ownership workshop held in January of this year, and which explored three different models of affordable home ownership in BC and Alberta, there are a diversity of affordable home ownership models in existence. These models include shared equity, those that have resale restrictions, units that remain affordable in perpetuity or for a certain number of resales or for a set period of time, and others. As the City is just beginning to contemplate involvement in these projects and does not yet have the benefit of long-range experience or evidence of what works in this city, staff recommend Council consider evaluating each project on its own merits as a first step.

For each application, the applicant would be required to demonstrate how the units will be affordable and for how long, and to describe how the different aspects of the program would work from financing to administration to resale. Staff would then evaluate the affordability of the units and provide an assessment of how closely the project meets established City of Victoria housing targets. Council could then decide to accept, request modifications, or deny an application for funding based on the evaluation of the proposal. In this way, the City can 'leave the door open' for unique projects that meet affordability targets while still retaining ultimate discretion on approval.

7. Expand funding eligibility criteria

Rationale: During the consultation period, a prospective VHRF grant applicant inquired with the City to determine eligibility for funding for a proposed affordable home ownership project. As the developer is not a non-profit, nor had plans to partner with a non-profit society, under the current guidelines the project would have been considered ineligible. However, the proposed project was to develop affordable home ownership units, which the City is encouraging in Victoria as demonstrated by the City-hosted affordable home ownership workshop held in January 2017, and by Council's approval of an affordable home ownership grant structure proposed in the VHRF updates.

The proponent advised that any monies received from the City would be used to offset the final purchase price of the housing units. Further, the proponent provided a letter confirming secured financing from BC Housing on the basis of it meeting BC Housing's criteria for affordable home ownership.

Staff felt that despite the project not meeting the current eligibility criteria for funding, the project as described had merit in terms of its ability to provide affordable housing to the City. The project was also likely to be precedential. It was staff's view that to turn down a project such as this on the sole basis of it not meeting current eligibility criteria would be short-sighted, and would contradict a number of the City's stated service goals, including the Strategic Plan's directions to Innovate and Lead, and to Make Victoria More Affordable, and the Housing Strategy's aim to improve the diversity of housing options in the City.

While the *Community Charter* does prohibit the City from granting a benefit or assistance to a business, a municipality can provide assistance if it enters into a partnering agreement where the business provides a service on behalf of the municipality. An affordable housing project that meets the City's long-term affordability policy objectives is a service of community benefit provided on behalf of the City of Victoria. The partnering agreement would operate in conjunction with a housing agreement and likely a covenant registered on title in order to secure and incorporate the terms and restrictions that would be placed on the property in order to maintain the City's affordability policy objectives over the long-term. Council must provide notice prior to providing assistance under a partnering agreement, as per section 24 of the *Community Charter*.

Applications submitted by for-profit entities would be evaluated by staff using the VHRF project eligibility criteria, so businesses or developers would be required to demonstrate their financial leverage and partnerships with entities such as BC Housing.

It should also be noted that both the Province (BC Housing) and the CRD Trust Fund do not restrict funding to non-profit owner/operators in all instances.

Staff recommend that Council consider updating the eligibility criteria of the fund as follows:

Current wording:

"Eligible applicants must be a registered non-profit society or partner with a registered non-profit society that will own and operate the housing."

Proposed new wording:

"Typically eligible applicants must be a registered non-profit society or partner with a registered non-profit society that will own and operate the housing. Exceptions may apply for affordable home

ownership projects, where it can be demonstrated that funding will directly offset the price of unit purchase; however, several restrictions apply. If you are *not* a registered non-profit society, please contact the City of Victoria to determine eligibility prior to submitting a funding application.”

At that point a conversation between the City and the proponent would be initiated, which would include a negotiation of the terms and the implications and responsibilities of entering into a partnership agreement.

2015 – 2018 Strategic Plan

The further revision of the Victoria Housing Reserve Fund aligns with the *2015 – 2018 Strategic Plan* Strategic Objectives 1. Innovate and Lead; 3: Strive for Excellence in Planning and Land Use; 6: Make Victoria More Affordable; and 13: Demonstrate Regional Leadership.

Impacts to Financial Plan

These new changes will have no further impact on the financial plan; however, as noted in the previous report to Council of November 24, 2016, applying the new tiered funding model to housing targets will require an increase in the annual contribution to the fund of \$714,000 beginning in 2019 (currently the existing reserves are sufficiently funded to meet targets over the course of 2017 and 2018 with no increase to the annual \$250,000 contribution).

As directed by Council, staff will report back as part as part of the 2019 budget request with consideration for future annual contributions to the fund to meet family housing targets. Due to the level of expense, this may include advisement on alternative income sources.

Official Community Plan Consistency Statement

This action is consistent with the OCP policy directions of “Land Management and Development” and “Housing and Homelessness”.

CONCLUSIONS

In addition to the changes approved-in-principle by Council to increase the fund to encourage more family housing, and including a reporting mechanism to measure the operational success of the fund, further improving the flexibility and scope of the fund while creating measures to ensure project viability will ensure a larger number and diversity of affordable housing types in Victoria are developed.

Respectfully submitted,

Lindsay Milburn
Senior Planner – Housing Policy
Community Planning

Jonathan Tinney,
Director,
Sustainable Planning and Community Development

Report accepted and recommended by the City Manager: _____

Date: _____

List of Attachments:

Appendix 1: VHRF Update – COTW Report November 24, 2017

Appendix 2: VHRF Guidelines

Appendix 3: Victoria Housing Strategy Action Tracker – June 2017