



CITY OF HAMILTON
HEALTHY AND SAFE COMMUNITIES DEPARTMENT
Housing Services Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	August 15, 2018
SUBJECT/REPORT NO:	Development Charge Exemption Request from Trillium Housing (HSC18040) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Kirstin Maxwell (905) 546-2424 Ext. 3846
SUBMITTED BY:	Paul Johnson General Manager Healthy and Safe Communities Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the request for Development Charge exemptions for the affordable units in the Highbury and Winona Developments by Trillium Housing, be denied;
- (b) That the General Manager of the Healthy and Safe Communities Department or his designate be authorized and directed to deliver and administer a municipal Down Payment Assistance Program, with an upset limit of \$1,800,175, for eligible purchasers of the two Trillium Housing Non-Profit housing developments (Winona and Highbury), in accordance with the program guidelines, attached as Appendix "A" to Report HSC18040;
- (c) That the General Manager of the Healthy and Safe Communities Department or his designate be authorized to approve and execute any agreements and ancillary documentation, in a form satisfactory to the City Solicitor, that are required to deliver and administer a municipal Down Payment Assistance Program for eligible purchasers of the two Trillium Housing Non-Profit housing developments (Winona and Highbury);
- (d) That the annual interest cost of \$61,000 (when the program is at capacity) of providing the Trillium Down Payment Assistance Program in accordance with the program guidelines, be absorbed within the Housing Services Division existing operating budget;

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Development Charge Exemption Request from Trillium Housing
(HSC18040) (City Wide) - Page 2 of 8**

- (e) That the initial, one-time cost of administration of the Trillium Housing Down Payment Assistance Program for the two Trillium Housing Non-Profit housing developments (Winona and Highbury), in the amount of \$100,000 be funded through the Municipal Down Payment Assistance Program Reserve (#112009); and,
- (e) That the matter respecting “Trillium Housing Non-Profit” be identified as complete and removed from the Audit, Finance and Administration Committee Outstanding Business List.

EXECUTIVE SUMMARY

Trillium Housing Non-Profit (Trillium) has requested the City’s support for its two affordable home ownership projects in Hamilton, primarily by providing development charge (DC) exemptions. Trillium has purchased two sites under a provincial program that repurposes surplus government land for community benefit. Trillium provides the Trillium Mortgage, which is a no payment, share-appreciation second mortgage, to income eligible purchasers to bridge the gap between the amounts purchasers can afford and the price of the houses.

The two Hamilton Trillium projects do not meet the DC By-law requirements for the affordable housing DC exemption, therefore, staff recommend denying the request for a DC exemption.

Trillium put forward an alternative proposal that the City invest in the Trillium Mortgages provided to qualifying purchasers through a shared appreciation loan. Staff is not recommending that the City provide Trillium with a shared appreciation loan, primarily because there is no adequate legal mechanism to secure the loan and recoup the funds in the event of a default.

Staff is recommending that the City administer a specific down payment assistance program (DPAP) for qualifying Trillium purchasers with an upset program limit of \$1.8 M and adhering to the program guidelines detailed in Appendix “A” to Report HSC18040. Trillium’s affordable home ownership model meets many of the City’s Housing Policy objectives and a DPAP is not likely to be a significant cost the City over the long run.

An average market appreciation of 3.5% to 5% would result in the City realizing between a minimal net loss of \$26,000 and a net gain of \$700,000 over a 15-year period after considering the cost to the City associated with loaning the funds.

Alternatives for Consideration – None

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The total loan amount could be set at any amount but staff recommend an investment of \$1.8 M which is equal to the City DC amount for each affordable unit, which Trillium has estimated as sufficient to provide approximately 26 additional affordable units (approximately \$70,000 per unit).

The financial impact over the life of the recommended program is dependent on the performance of the real estate market. Consistent with the City's external loan guidelines, staff has estimated interest costs based on the City's cost of borrowing. Since the term is dependent on when the initial purchaser re-sells the unit and could be one year or 20+ years, staff has used the 15-year rate as an approximation. The August 2018 15-year cost of borrowing is 3.31%. The City's external loan guidelines require a 0.25% administrative fee which brings the interest rate to 3.56%. For comparison, the current RBC prime rate is 3.70%.

An average market appreciation of 3.5% to 5% would result in the City realizing between a minimal net loss of \$26,000 and a net gain of \$700,000 over a 15-year period after considering the cost to the City associated with loaning the funds. Capital depreciation, which would result in a larger net loss, would be possible over the short term, but based on historical performance of the real estate market it is not likely over the long term. For a number of reasons, the 7% Canada-wide capital appreciation of the last 10 years should not be expected to continue. Thus, the 3.5% and 5% scenarios are the most appropriate scenarios to consider in the model. This is a moderately conservative approach.

The Housing Services Division would need to cover the costs associated with loaning the funds through the tax operating budget, estimated at an annual cost of \$61,000 when the program is at capacity.

In addition, there will be initial administrative costs for the City and Trillium of \$100,000 that will be funded through the Home Start Program Reserve (#112009), which would leave a balance in the reserve of \$266,292.

Staffing: There are no staffing implications associated with Report HSC18040. A DPAP for Trillium's qualifying purchasers could be administered with the existing staff complement of the Housing Services Division and Legal Services.

**SUBJECT: Development Charge Exemption Request from Trillium Housing
(HSC18040) (City Wide) - Page 4 of 8**

Legal: Legal Services staff would need to be involved in the execution of any the loan agreements with the purchasers as well as administration of the DPAP.

HISTORICAL BACKGROUND

Trillium and the Housing Services Division have been in discussions regarding the Trillium affordable home ownership model and Trillium's request for DC exemptions for some time. On February 2, 2018, after consulting with Legal Services staff, Housing Services Division staff informed Trillium that their two townhouse development projects do not qualify for DC exemptions under the City's DC By-law 14-153.

On May 17, 2018, Trillium addressed the Audit, Finance and Administration Committee, through item 6.2, requesting the City's support for housing affordability at Trillium's two affordable home ownership projects in Hamilton, primarily by providing DC exemptions.

On May 23, 2018, Council directed staff to "to report back to the Audit, Finance & Administration Committee by June 25 as to whether the City has the capacity to assist Trillium with Development Charges reductions."

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

By-law No. 14-153, Municipal Development Charges

The staff recommendation is consistent with the existing DC By-law 14-153.

The following are the sections of the DC By-law 14-153 pertaining to affordable housing:

1. (c) "affordable housing project" means a development or redevelopment that provides housing and incidental facilities primarily for persons of low and moderate income.

21. Notwithstanding any other provision of this By-law, the following types of development are exempted from development charges under this By-law, in the manner and to the extent set out below. Unless otherwise specified herein, the said exemption is equivalent to one hundred percent (100%) of the development charges otherwise payable under this By-law;

(f) an affordable housing project that: (A) either has been approved to receive funding from the Government of Canada or the Province of Ontario (including their Crown corporations) under an affordable housing program or has been approved by the City of Hamilton or the CityHousing Hamilton Corporation through an affordable housing program; and (B) such affordable housing project is not eligible for funding for development charge liabilities from the Government of Canada or the Province of Ontario (including their Crown corporations).

**SUBJECT: Development Charge Exemption Request from Trillium Housing
(HSC18040) (City Wide) - Page 5 of 8**

Provincial Policy Statement, Urban Hamilton Official Plan & Housing and Homelessness Action Plan

The definition of low and moderate income in the context of affordable housing is consistent among the Provincial Policy Statement, Urban Hamilton Official Plan and Housing and Homelessness Action Plan, meaning gross household income at or below the 60th income percentile for the City of Hamilton. The current 60th income percentile is \$81,300.

Urban Hamilton Official Plan

The Urban Hamilton Official Plan sets an annual target of 1291 “new ownership housing affordable to low & moderate income households” to 2031. The two Trillium projects will contribute approximately 65 affordable units, the units supported by second mortgages, towards meeting this target.

Housing and Homelessness Action Plan

The Housing and Homelessness Action Plan (Report CES11017(c)), approved by Council in December 2013, is a decision making framework for the full continuum of housing and homelessness services for the Hamilton community. The housing continuum includes affordable home ownership. The Action Plan supports incentives for new affordable housing and promotes the supply of affordable ownership housing:

Strategy 1.2

Explore the potential for new incentives and funding programs and expand and promote more broadly existing City incentive programs to increase the supply of affordable housing (e.g., capital grants and loans, tax deferrals, waived development and other charges, etc.).

Strategy 2.1a)

Encourage mixed housing and mixed income development in all urban neighbourhoods by: increasing opportunities for rental, social and affordable housing in areas that currently offer limited opportunities.

Strategy 2.3

Increase homeownership opportunities for renters, including social housing tenants (e.g., down payment assistance programs, rent-to-own initiatives, and education on purchase process, etc.).

RELEVANT CONSULTATION

Legal Services Division was consulted on the interpretation of By-law 14-153 the City's 2014 Development Charges By-law and the legal implications of the different options for

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Development Charge Exemption Request from Trillium Housing
(HSC18040) (City Wide) - Page 6 of 8**

supporting Trillium. Legal's comments informed the recommendations and were integrated into this report. Staff from the Financial, Planning, Administration and Policy Division reviewed and contributed to this report.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Trillium Housing Affordable Ownership Housing Model

With the rapid increase in housing prices over recent years, some low and moderate income earners may require some type of subsidy or financial support to purchase and manage the ongoing costs of a home.

There is a lack of availability of ground-related affordable ownership homes in Hamilton, either newly built or resale (CMHC Industry Roundtable 2018). In June 2018, the CMHC average price for a newly completed single detached home in Hamilton was \$531,907 and the average resale price of all types of homes was \$509,639. A home of \$509,639 would require a household income of approximately \$110,000 to afford, making it out of reach for a significant proportion of the population.

In the Trillium affordable home ownership model, to enable those with low to moderate incomes to afford the homes, Trillium and their social impact investors provide no payment, share-appreciation second mortgages to the purchasers whose incomes qualify for the Trillium Mortgage. The Trillium Mortgage reduces the amount of first mortgage that the household must obtain from a financial institution, thus reducing the monthly mortgage payment amounts to a level the household can afford. The amounts of the Trillium Mortgages are based on a complete assessment of each family's housing need and financial situation. When the homes are re-sold, Trillium and their investors receive the principal plus a relative portion of any capital appreciation.

Development Charges By-law No. 14-153

Trillium's request to the City is for DC relief for roughly one half of the units in their two projects, approximately 65, which equates to \$1,800,175. Under DC By-law 14-153 a project must meet both the definition of "affordable housing project" and other criteria to qualify for a development charge exemption. A project must be "primarily for persons of low and moderate income." In the legal context "primarily" means only a very small percentage of the overall development should be occupied by persons who are not of low and moderate income. Approximately half of each Trillium project is expected to be sold to households of low and moderate income if Trillium receives support from the City equal to the DCs on the same number of units. As this does not meet the "primarily" threshold, the Trillium projects do not meet the first DC By-law criteria. The DC By-law refers only to projects and does not allow for individual units to be treated independently.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Development Charge Exemption Request from Trillium Housing
(HSC18040) (City Wide) - Page 7 of 8**

Since the Trillium projects do not meet the definition of "affordable housing project" it is not necessary to consider the other DC By-law criteria related to the affordable housing exemption. Further, there is no wording in the DC By-law that would enable DC reductions rather than full exemptions.

Through Trillium's May 17, 2018 presentation to the Audit, Finance and Administration Committee, Trillium requested that Council consider viewing each project as two separate projects and provide support only to the units that will be sold according to the affordable model. The DC By-law does not provide for this interpretation. Trillium is a non-profit organization and under the *Municipal Act, Section 106*, the bonusing provisions do not apply. City staff does not support a one-off exemption due to the levy impact and inability to ensure that funds are reinvested into Hamilton after the eventual re-sale of the homes.

Provision of a Repayable City Loan to Trillium

At the May 28, 2018 meeting, Trillium put forward an alternative proposal that the City invest in the Trillium Mortgages provided to qualifying purchasers, similar to the amount of the DC exemption, in the amount of \$1.8 M. As the Trillium Mortgages are repayable at the time a home is re-sold, the City would, at an undetermined future date, receive the principal amount of the investment and potentially earn a return through a share in any capital appreciation of the home.

Staff does not recommend that the City provide Trillium with a shared appreciation loan, primarily because there is no adequate legal mechanism to secure the loan and recoup the funds in the event of a default. The option of a trust agreement with Trillium was explored by Legal Services staff, but was determined not to provide sufficient security. Any other type of loan provided directly to Trillium, such as a simple term loan, has the same limitations. Only loans to individual purchasers that can be registered on title of the homes over the length of the loan are secure and are of little risk to the City.

Down Payment Assistance Program for Trillium

Instead of the shared appreciation loan that Trillium suggested, staff is recommending that the City develop and administer a down payment assistance program (DPAP) specifically for qualifying Trillium purchasers. This approach is consistent with City practice in administering the DPAP.

A municipal DPAP for qualifying Trillium purchasers could provide financial assistance to Trillium purchasers while minimizing the financial risk to the City. The program will tie up City funds and will result in annual interest impacts to be funded by the City's Housing Services Division. The early years of the program will have anticipated costs while in the later years of the program, once the units start being re-sold, the City's Housing Services Division will realize annual net interest revenue.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Development Charge Exemption Request from Trillium Housing
(HSC18040) (City Wide) - Page 8 of 8**

A DPAP provides a down payment loan to purchasers who meet income thresholds to purchase homes with a maximum purchase price. In this instance, to be consistent with the Trillium Mortgage, the down payment assistance is in the form of a 25-year no payment but fully repayable loan. After 25 years the loan is repayable, along with a relative share of the capital appreciation of the home. If the program participant no longer meets the program requirements prior to 25 years (for example, selling the home, defaulting of the mortgage, no longer using the home as their principal residence, or renting the home to another occupant), the loan is repaid at that time to the City along with a percentage of the capital gains.

DPAP loans are secured by being registered on title to each property. In the event of a default there is equity in the home to repay any other mortgages and the City's mortgage. The Trillium DPAP would be administered in accordance with the program guidelines.

The advantages of this approach are that Trillium will be able to provide larger second mortgages to those with lower incomes, and provide Trillium Mortgages to a greater number of its purchasers (approximately 26 for an investment of \$1.8 M), reducing the amount of first mortgage purchasers need thereby creating affordability, and that it secures the City's funds.

ALTERNATIVES FOR CONSIDERATION

None

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Healthy and Safe Communities

Hamilton is a safe and supportive city where people are active, healthy, and have a high quality of life.

APPENDICES AND SCHEDULES ATTACHED

Appendix A to Report HSC18040 – Program Guidelines for Trillium Down Payment Assistance Program