



CITY OF HAMILTON
HEALTHY AND SAFE COMMUNITIES DEPARTMENT
Housing Services Division

TO:	Chair and Members Emergency and Community Services Committee
COMMITTEE DATE:	November 5, 2020
SUBJECT/REPORT NO:	Hamilton East Kiwanis Non-Profit Homes Inc. Subsidy Transfer (HSC20032) (Ward 3)
WARD(S) AFFECTED:	Ward 3
PREPARED BY:	Brian Kreps (905) 546-2424 Ext. 1782
SUBMITTED BY:	Edward John Director, Housing Services Healthy and Safe Communities Department
SIGNATURE:	

RECOMMENDATIONS

- (a) That the General Manager of the Healthy and Safe Communities Department be authorized and directed to enter into, execute and administer a rent subsidy agreement with Hamilton East Kiwanis Non-Profit Homes Inc. to transfer up to \$267,780 of social housing operating subsidy from the sale of up to 32 existing scattered units to rent supplements in newly constructed units located at 6 – 14 Acorn Street for a duration of 20 years in accordance with the terms and conditions contained in the Rent Supplement Term Sheet attached as Appendix “A” to Report HSC20032, in a form satisfactory to the City Solicitor;
- (b) That the value of the subsidy paid on the units at 6 – 14 Acorn Street be increased annually by the allowable rent increase guideline set by the Ministry of Municipal Affairs and Housing; and,
- (c) That during the period between the sale of the up to 32 scattered units and the rent up of the new units at 6 – 14 Acorn Street, the subsidy paid by the City of Hamilton to Hamilton East Kiwanis Non-profit Homes Inc. be applied to the development costs of 6 – 14 Acorn Street.

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.

EXECUTIVE SUMMARY

Hamilton East Kiwanis Non-Profit Homes (Kiwanis) operates 202 units of single detached housing. These units were built and funded under the federal section 95 programs. By request of Kiwanis' Board, the City of Hamilton began funding them as a provincial program which means that the subsidy has no end date.

Kiwanis is developing 60 new units of affordable housing at 6 – 14 Acorn. To generate equity for the new project, they are selling approximately 32 of their single detached units. The first two units have already been sold and the balance will be sold in 2021.

Staff recommend transferring up to \$267,780 of the subsidy attached to the units being sold by Kiwanis to be used as rent supplements in the new development at 6 – 14 Acorn. The transfer would take effect in the 2021 budget year.

Without the subsidy, the new units will be offered at 80% and 100% of Average Market Rent and the community would lose up to 32 Rent-Geared-to-Income units. Creating rent supplements in the new project would allow the City of Hamilton to count them toward their provincially mandated Service Level Standard.

It is recommended that the subsidy be increased by the rate of the Rent Increase Guideline set each year by the Province of Ontario to allow the number of households served to remain constant, otherwise the value would decrease each year as rents increase and eventually fewer households would be served.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The budgeted operating subsidy in 2020 for Hamilton East Kiwanis Non-profit Homes benchmarked former federal portfolio is \$962,862 (Dept ID 625026) the portion associated with 32 units is \$267,780.

The subsidy for 2021 for Hamilton East Kiwanis Non-profit Homes' benchmarked former federal portfolio is projected to be \$878,187 and the subsidy associated with 32 units is calculated to be \$133,589. The subsidy for 2021 will be substantially lower due to some mortgages being paid off and lower indices for benchmarking.

It is recommended that the transfer be based on the 2020 level because it will provide sufficient subsidy to replace all the units sold.

**SUBJECT: Hamilton East Kiwanis Non-Profit Homes Inc. Subsidy Transfer
(HSC20032) (Ward 3) - Page 3 of 6**

The recommendation recommends that up to \$267,780 be transferred. The final dollar figure will depend on how many units Kiwanis ultimately sells. Kiwanis must provide an equity contribution of \$10.5 M to the development and is planning to sell up to 32 units to generate sufficient equity.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Kiwanis operates 202 units of housing projects which were funded initially by the Canada Mortgage and Housing Corporation (CMHC). These housing projects were included in the 1999 Social Housing Agreement between the CMHC and the Province of Ontario and subsequently included as part of the devolution of social housing to municipalities in 2001. As part of the transfer, these federally funded housing projects became administered by the City, as Service Manager, pursuant to the *Housing Services Act, 2011* (the “Act”) for the remaining duration of the original operating agreements. These are commonly referred to as “section 95 projects”.

The section 95 federal program assumed that after the mortgage debt is retired, a housing project should be able to generate sufficient revenue to continue to provide rent-geared-to-income housing, without receiving further subsidies. However, some of these projects struggle to provide rents that meet deep affordability even with the existing subsidy, especially when compounded by capital repair pressures, high costs of unit turnover and the lack of adequate reserves and resources.

In 2007, at the direction of its Board of Directors, Kiwanis formally asked the City of Hamilton to replace the section 95 federal operating agreements for Kiwanis with the indexed funding model set out in the Act for provincial projects. This request was honoured and has resulted in increased subsidy year over year for Kiwanis, funded through the property tax levy.

The agreement to replace Kiwanis’ section 95 project operating agreements with the benchmarked funding model was not subsequently formalized in a written agreement between the City and Kiwanis. However, both parties have honoured the terms of the unwritten agreement since 2007.

In 2019, Kiwanis developed a new strategic plan which included the ambitious target of creating 1,000 new units by 2028. A key part of their strategy is selling single family homes and using the equity to partially fund development of new units.

**SUBJECT: Hamilton East Kiwanis Non-Profit Homes Inc. Subsidy Transfer
(HSC20032) (Ward 3) - Page 4 of 6**

In September 2019, Kiwanis approached Housing Services Division staff with a proposal to sell up 32 units and use the proceeds towards the development of their new project at 6 – 14 Acorn Street.

In November 2019, Council approved Report HSC19060 which included a recommendation to provide \$2,790,000 in funding from the Ontario Priority Housing Initiative (OPHI) for the Hamilton East Kiwanis Non-Profit Homes Inc. project at 6 -14 Acorn Street. That funding is dedicated to 20 of the project's 60 units and will bring rents down to 80% of Average Market Rent (AMR). The Report also approved approximately \$1.24 M through development charge relief and relief from parkland dedication fees. The scheduled completion date is March 2022. The current projected budget is \$23,198,015.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The *Housing Services Act, 2011* ("Act") requires that Service Managers pay subsidy calculated based on set formulas. This obligation continues for provincial projects even once their mortgage has been paid. There is no end date currently associated with this obligation.

The Act further requires that housing providers to obtain the written consent of the City, as Service Manager, prior to selling or mortgaging social housing units. As part of this consent, the City of Hamilton requests replacing each unit on a 1:1 basis, at a minimum so that service levels are maintained. In addition, the consent must be conditional upon a tenant relocation plan, satisfactory to the Service Manager, and the proceeds of sale must be reinvested towards the development of new housing.

RELEVANT CONSULTATION

Staff from Finance and Administration noted that while this approach does not allow the City to realize its full savings associated with the mortgages being paid off, they acknowledge that without the subsidy transfer at the 2020 level, the community would see a reduction in the number of RGI units available.

Staff from Legal Services confirmed that since the properties in question have reached the end of their operating agreement, the City of Hamilton is not required to provide funding. It was also confirmed that it is allowable for a new agreement to be created with Hamilton Kiwanis Non-profit Homes regarding the operation of the existing or new units.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

An agreement was never signed between the City of Hamilton and Hamilton East Kiwanis Non-profit Homes (Kiwanis) officially bringing their federal units under the

SUBJECT: Hamilton East Kiwanis Non-Profit Homes Inc. Subsidy Transfer (HSC20032) (Ward 3) - Page 5 of 6

Housing Services Act. Therefore, Service Manager Consent is not required for the sale of the units. Council approval is required, however, to transfer the subsidy attached to the up to 32 units being sold up to the amount of \$267,780 to their new project. 6 – 14 Acorn is designed with 60 units, 20 units of which will be offered at 80% of Average Market Rent (AMR) and 40 units offered at 100% of AMR. Applying the rent supplements beginning in 2021 will create rent-gear-to-Income (RGI) level affordability in up to 32 of the units. Without the subsidy, these units would not be affordable to many low-income households. Table 1 below shows the increase in affordability achieved through the subsidy transfer.

Table 1

Rents without Subsidy Transfer		Rents with Subsidy Transfer	
20 units	80% AMR	32* units	RGI
40 units	100 % AMR	28 units	100% AMR
60 units total		60 units total	

*the exact number of units sold could be lower, depending on the price paid by purchasers

If the subsidy is not transferred, Kiwanis' subsidy would be reduced by up to \$133,859 to reflect the reduction in service associated with the sale of units. The City of Hamilton is required to meet service level standards which stipulate the number of Rent-Gear-to-Income units it must maintain. The units have been counted toward the City's targets. If the units are sold and not replaced, the City's performance would be reduced by up to 32 units. Kiwanis has also been using the Access to Housing Waitlist to fill its former federal units. Without the subsidy, there would be no incentive or obligation for Kiwanis to continue that practice which could result in even longer times on the waitlist.

It is recommended that the subsidy be transferred at the 2020 level as the 2021 subsidy value is more than \$100,000 lower than the current level. If the lower value were transferred, it would purchase fewer rent supplements which would result in a net reduction of the number of RGI units.

It is further recommended that the transferred subsidy be indexed by the annual rent increase guidelines set by the province of Ontario to keep pace with rent increases, otherwise the value of the rent supplements will diminish year over year.

Notwithstanding that the unwritten agreement is in good standing, the Housing Services Division is currently working with Kiwanis to develop a new formalized operating agreement for the former federal section 95 units. This updated agreement will set out the requirements for considering and evaluating options to leverage the equity in these properties.

**SUBJECT: Hamilton East Kiwanis Non-Profit Homes Inc. Subsidy Transfer
(HSC20032) (Ward 3) - Page 6 of 6**

A time lag will exist between the time that Kiwanis sells the units and the completion of the new project at 6 – 14 Acorn. It is recommended that Kiwanis retain the subsidy associated with any units sold in the interim and apply it to development costs.

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 HSC20032: Term Sheet: Rent Supplement Agreement 6 – 14
Acorn Street