



Hamilton

INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	March 1, 2023
SUBJECT/REPORT NO:	Sufficiency of the Affordable Housing Funding Program (AHFP) (HSC23003(a)) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Michelle Baird Director, Housing Services Division Healthy and Safe Communities Department
SIGNATURE:	<i>Michelle Baird</i>

COUNCIL DIRECTION

The Emergency and Community Services Committee directed at their meeting January 19, 2023 “That the General Manager of the Healthy and Safe Communities Division report to the 2023 Operating Budget on the sufficiency of the \$4 M dollars of funding proposed for the Affordable Housing Funding Program , in the context of need with recommended alternatives for consideration at that time.”

INFORMATION

Housing Services Division presented Report HSC23003 – Affordable Housing Funding Program (AHFP) which sought to create a fund to support not-for-profit affordable housing providers in the creation of new dwelling units. The staff recommendation was to create an annual \$4 M fund funded from the net levy, referred to the 2023 Tax Operating Budget for deliberations.

There continues to be significant pressure to build new affordable housing in the City of Hamilton to alleviate the housing crisis. However, the majority of the funding available for capital and seed funding has restrictions tying the funding to not-for-profit organizations (NFP) who have limited equity to support new development. The financial

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pressures include pre-development fees/consultants to support moving developments closer to shovel ready status, Development Charges (prior to Bill 23 exemptions), financial support on joint funding applications such as Canada Mortgage and Housing Corporation (CMHC) Co-Investment applications, capital build costs, etc.

Building new affordable housing dwelling units is a significant cost which has grown significantly over the past years, for reasons including supply chain, inflation and financing costs. Current environment indicates construction costs of approximately \$500,000 – 600,000 per unit for new builds, depending on the type of development, consequently the requested \$4 M AHFP has the potential to fund the construction of 6-8 new units, exclusive of funding from other partners. Alternatively, this funding can leverage additional units subject to funding contributions from partners such as, housing providers, Federal Government and Provincial Government. New construction projects can take approximately 12-18 months to build once all planning approvals are obtained and building permit is secured. Important to note that the above scenario relates exclusively to the funding of construction, excluding obligations the City would have on such developments, including development charge exemptions and annual housing subsidy.

To have a significant impact on the housing crisis, on its own, the City of Hamilton cannot be a sole investor or funder of the solution to build new affordable housing. Success requires a partnership between the Federal and Provincial governments, the City and the affordable housing provider will require innovative financing models, new investment partners and creative financing solutions to create viable projects. The \$4 M ask represents the approximate average funding the City has contributed over the past five or so years where dollars each year can vary significantly. As the need for supplemental funding for affordable housing and homelessness is escalated, municipalities are likewise left to address competing demands in transportation, infrastructure, inflationary pressures, as examples, against a regressive form of taxation.

While the development of purpose-built rental housing is a pressing matter, and the supply of housing is a shared interest, staff has concerns that many of the proposed changes to the DC Act through Bill 23, compounded upon the changes made to the DC Act through Bill 108 (*More Homes, More Choice Act, 2019*) and Bill 197 (*COVID-19 Economic Recovery Act, 2020*), creates incentives to developers on the backs of municipalities and municipal taxpayers / ratepayers.

Bill 23 advances that several forms of development will receive an exempt from DCs:

- Affordable housing (rental and ownership);
- Attainable housing (which has yet to be defined);
- Non-profit housing; and

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- Inclusionary zoning residential units.

This legislative change will have a significant financial impact for local taxpayer/ratepayers that are still being quantified. In addition, the City has made commitments to existing projects currently in development, and existing obligations will materialize in 2023 and future years from programs such as the Rapid Housing Initiative Rounds 1 and 2, and other council-supported projects as outlined below. These commitments could be partially funded from the Affordable Housing Funding Program and/or Ontario Priority Housing Initiative (OPHI), or separately, but represent real costs and obligations for the municipality over and above new projects that would apply to the Affordable Housing Funding Program.

To summarize these known commitments, the City has approximately \$7.5M in known obligations to projects from the RHI 1 and RHI 2 funding streams, and another \$13.5M in development charge exemptions and other costs for other projects which will be payable in upcoming years should those projects go forward.

Background

On January 19, 2023 staff presented Report HSC23003 requesting the development of a funding program to support the development of new affordable housing dwelling units. As outlined in the report, the focus of this funding was to support through an RFP the following:

- Support the City in fulfilling its financial responsibilities in respect of Rapid Housing Initiative (RHI) funded projects;
- Development Charges not covered within Bill 23, or required prior to enactment of the DC exemptions;
- Pay for pre-development costs including site feasibility studies, consultants, etc.;
- To support non-profit organisations in need of funding to complete due diligence processes and acquisitions; and,
- Capital costs of new development.

Council Request

At the January 19 Emergency and Community Services Committee meeting, the report was approved, referring the AHFP to the 2023 Budget deliberations and providing additional direction to staff as follows:

“(g) That the General Manager of the Healthy and Safe Communities Division report to the 2023 Operating Budget on the sufficiency of the \$4 M dollars of funding, in the context of need with recommended alternatives for consideration at that time.”

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In regard to “sufficiency” of the funding, the Affordable Housing Funding Program of \$4 M would represent a minor investment forwards a need that requires a co-ordinated sustainable financing strategy.

The AHFP can:

- based on approximately \$500 K per unit to build new affordable dwelling units, the fund itself could support 6-8 new dwelling units, exclusive of any other funding partners. or leveraged equally with other upper levels of government funding may produce 12-16 new dwelling units; or,
- partially cover the City in fulfilling its financial responsibilities in respect of Rapid Housing Initiative funded projects. Currently, there are 4 Rapid Housing Initiative funded projects not complete and occupied; or,
- provide “top up” funding to projects already receiving funding support but not yet financially viable to construct; or,
- pay for pre-development costs including site feasibility studies, consultants, etc.;
- to support non-profit organisations in need of funding to complete due diligence processes, acquisitions and planning approvals; or,
- support the capital costs of new development.

The AHFP cannot:

- meet the Council approved Housing and Homelessness Action Plan of a stretch goal of creating 350 new affordable units per year. (With a per unit construction cost of new builds being \$500 K, capital build funding of \$175 M would be required yearly to meet the stretch goal, so this target must be achieved through significant partnership with community and upper levels of government);
- make any known non-profit affordable housing projects financially viable to move to construction.

While staff could support more opportunities with a greater level of funding of the AHFP in excess of \$4 M, staff tried to balance the financial ask between estimated historical yearly average funding against the many competing demands on the municipal budget.

Regarding alternatives for consideration by Council, any increase of funding allocated to the AHFP would increase the options for staff to consider, related to the above noted bullets.

For example, if funding was doubled to \$8 M, the AHFP could support

- The development of 12-16 new affordable housing units and potentially 24-32 units when leveraged; or,

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- Support a combination of funding bullets above such as covering RHI overages and supporting pre-development costs.

Existing City Financial Commitments for new builds

Through previous Rapid Housing Initiative rounds of funding, the following projects are not complete for various reasons including pandemic related delays, material supply chain issues, material availability, trade availability, required design changes, etc.:

Project	Units	Development Costs	City Funding (incl. DCs)	Upper level Gov't Funding	Rapid Housing Initiative Funding	Yearly Operating Subsidies
137 George Street	13	\$5,210,028	\$1,241,979	0	\$2,260,585	Funded through existing resources
35 Arkledun	73	\$26,440,087	\$5,394,152	\$8,100,000	\$12,945,935	Funded through existing resources
253 King William St.	24	\$14,700,919	\$420,542	\$1,900,000	\$6,475,844	\$144,000
412 Barton St.	15	\$7,722,551	\$608,790	\$2,520,880	\$3,850,000	\$90,000

Staff continue to work with the providers of the above noted projects to stay within budget however, final construction costs and potential overages will not be known until occupancy.

Outside of the Rapid Housing Initiative, the City has provided supports to other development:

60 Caledon – Caledon Community Collaborative

- Joint development between Kiwanis and Victoria Park
- 266 affordable units at 80% AMR – the upper level of affordable housing continuum
- Council approval of a \$9.1 M grant equal to the Development Charges payable

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Roxborough Development

- Proponent is building 107 townhouses and 200 apartment units
- As part of a Community Improvement Plan the proponent can access Homeownership Grant Program
- Eligible for grant to cover DCs for 107 townhouse units to a maximum of \$3.5 M.

Charlton Co-ops

- Corktown Co-ops (abutting) purchased 2 residential properties to create a new Co-op development of 17 units
- Proponent received \$820,000 in Ontario Priority Housing Initiatives (OPHI) to support pre-development costs
- OPHI requires occupancy by April 2025 failing which the City will be required to pay back the \$820,000 funding to the Province.

Development Charges for Non-profit and Affordable Housing

Ontario Bill 23, the *More Homes Built Faster Act, 2022*, provided a development charge exemption for non-profit housing developments. The Bill further provides for a future development charges exemption for affordable residential units, which will require municipalities to exempt units where rent is no greater than 80% of the average market rent as determined by the Province, and a future exemption for attainable housing units which has not yet been defined by the Province. These required exemptions are not accompanied by any upper level funding to offset the loss of cashflow to municipalities. In order to fund the growth infrastructure required to support the new population, this loss of revenue will need to be offset from other sources. While the exemptions for the future affordable and attainable housing exemptions cannot be estimated, Appendix "A" to Report HSC23003(a) is a list of potential new non-profit housing projects and their current development charge estimates.

Summary

To make a significant impact on the City of Hamilton housing crisis, the City of Hamilton cannot afford to do this on its own and requires partnerships with the Federal and Provincial governments, and affordable housing proponents bringing equity to the projects. Recently, new affordable housing developments are only undertaken by non-profit organizations and the ability to bring equity to the development has a direct relationship to the size of the organization and their assets.

Building new affordable housing is one of four pillars of the Housing Sustainability and Investment Framework. The other pillars include acquisition, retention of existing units and supports for individuals. There are significant pressures along the entire housing continuum and demand far exceeds available resources in each one of these areas. Ideally, investment in all pillars, as well as the City's existing obligations and

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commitments, should be considered as Council deliberates how much to invest in new affordable housing and the level of funding for the affordable housing funding program. It should be noted that while the Affordable Housing Funding Program focusses funding to support the creation of new affordable units, and this report is focused on sufficiency of the \$4M proposed for new the affordable housing funding program, there are other investments related to what it will take to end chronic homelessness in Hamilton that will be brought forward in a March report. Recommendations and resource requirements, and options for council's consideration to address all pillars and the entire housing continuum will be brought forward in a comprehensive way with the Housing Sustainability and Investment Roadmap that is coming forward in April.

To move the needle on the housing crisis, we need all partners, large and small, working towards the same goal with currently the most significant obstacle to overcome is the availability of funding to support the capital build, rent supplements and where necessary wrap-around supports.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report HSC23003(a): Affordable Housing Projects - Potential DC Exemptions