



CITY OF HAMILTON
HEALTHY AND SAFE COMMUNITIES DEPARTMENT
Housing Services Division
 and
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Chair and Members Emergency and Community Services Committee
COMMITTEE DATE:	April 20, 2023
SUBJECT/REPORT NO:	Loan to CityHousing Hamilton for its Affordable Housing Project at 8 Roxanne Drive (HSC19034(a) / FCS23037) (Ward 4)
WARD(S) AFFECTED:	Ward 4
PREPARED BY:	Brian Kreps (905) 546-2424 Ext. 1782 Kirk Weaver (905) 546-2424 Ext. 2878
SUBMITTED BY: SIGNATURE:	Michelle Baird Director, Housing Services Division Healthy and Safe Communities Department <i>Michelle Baird</i>
SUBMITTED BY: SIGNATURE:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department <i>Brian McMullen</i>

RECOMMENDATION(S)

- (a) That a loan to CityHousing Hamilton in the amount of \$19,396,979, representing the balance of financing for its project at 8 Roxanne Drive, be authorized and approved on the terms and conditions contained in the Conditional Loan Term document attached as Appendix "A" to Report HSC19034(a) / FCS23037, or such additional terms, conditions or amendments satisfactory to the General Manager, Healthy and Safe Communities Department, in consultation with the General Manager, Finance and Corporate Services Department; and,

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- (b) That the requirements of the External Loan Guidelines that loans may not be used to reduce debt, that organizations may hold only one outstanding loan with the City, that the interest rate must be based on the current serial debenture rate and that an administrative fee of 0.25% be charged are specifically waived with regard to the loan to CityHousing Hamilton in the amount of \$19,396,979 to finance its project at 8 Roxanne Drive; and
- (c) That staff be directed to establish a loan receivable on the City's balance sheet, not exceeding \$19,396,979, to record the corresponding CityHousing Hamilton liabilities regarding the long-term financing for the affordable housing development at 8 Roxanne Drive; and,
- (d) That the General Manager, Healthy and Safe Communities Department, or their designate be authorized and directed to execute and administer a loan agreement along with any ancillary documentation and amendments in a form satisfactory to the City Solicitor; and,
- (e) That the additional annual operating impact, estimated at \$571,959, related to CityHousing Hamilton's Roxborough housing units be included in the Housing Services Division 2024 tax operating budget.

EXECUTIVE SUMMARY

CityHousing Hamilton (CHH) co-developed, with the consortium Roxborough Park Incorporated (RPI), a mixed income, mixed tenure housing demonstration project in the McQuesten neighbourhood as approved through Report HSC19034. The project is designed to stimulate neighbourhood renewal while replacing most of the affordable community housing that was originally on the site.

The deal structure set out in a Master Development Agreement (MDA) signed November 2019 between the parties includes two key processes that are conjoined, a real estate transaction and a design-build contract. The land sale transacted in October 2022, while the design-build project reached substantial completion in December 2022. Lease up for the new CHH building located at the municipal address 8 Roxanne Drive is currently underway.

The total cost of the project was \$29,424,219. CHH has secured grants from Canada Mortgage and Housing Corporation (CMHC) in the amount of \$7,166,020 and the Federation of Canadian Municipalities (FCM) in the amount of \$1,430,610 as well as a loan from FCM in the amount of \$1,430,610. The total project costs were slightly higher than originally approved. CHH's success in obtaining funding from CMHC and FCM has resulted in a reduction of the amount of financing being required from what was originally projected. Furthermore, it allows the proceeds from the sale of the land to be applied to other CHH development projects.

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At its February 9, 2023 meeting, CHH's board approved a recommendation in a report (Report #17029(f)) that the City of Hamilton be requested to provide a loan for the balance of \$19,396,979. CHH paid the construction invoices from their Sold Units Reserve Fund. The funds will be used to make the Sold Units Fund whole.

Staff recommends that an interest bearing loan be extended to CHH for a term of 20 years at an interest rate of 2.14%. Operating subsidy of \$400 K was approved as part of Report HSC19034. The estimate was based on lower interest rates available at the time and a longer amortization period. Additionally, the Rent Geared to Income (RGI) subsidy was not included in the estimate. In order to allow CHH to pay the full cost of the loan and the RGI subsidy, \$208,269 in operating subsidy associated with the units that were part of the redevelopment will be transferred within the Housing Services Division budget to fund a portion of the operating subsidy required for 8 Roxanne Drive. It is recommended that \$571,959 be included in the 2024 Housing Services Division tax operating budget to fund the balance of the required operating subsidy.

Alternatives for Consideration – Page 6

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The City will advance a loan of \$19,396,979 to CityHousing Hamilton (CHH). The City will earn interest (2.14%) compounded semi-annually and paid annually. The loan interest will be distributed in accordance with City policies and procedures. The Terms and Conditions of the loan and its repayment are summarized in Appendix "A" to Report HSC19034(a) / FCS23037. The proposed 20-year amortization schedule would result in annual payments to the City of approximately \$1.2 M over the life of the agreement.

The original subsidy of \$400 K approved in Report HSC19034 was calculated based on a 35-year amortization and lower interest rates than are currently available. The sum of \$208,269 in Public Housing subsidy (Dept ID 625052) that was previously associated with the buildings that were redeveloped will be transferred within Housing Services Division budget to fund a portion of the subsidy required. It is recommended that an additional subsidy of \$571,959, required for CHH to make the annual debt payment and fully fund the RGI subsidy at 8 Roxanne Drive be included in the Housing Services Division 2024 tax operating budget.

8 Roxanne Drive is ready to be occupied. Therefore, the costs incurred in 2023 will create a pressure that will be addressed in the 2023 year-end report. Table 1 outlines the operating shortfall for 8 Roxanne Drive. Table 2 highlights the funding currently approved in Housing Services' 2023 budget that is available to fund 8 Roxanne Drive's operating shortfall.

Table 1 – 8 Roxanne Drive Operating Shortfall

CHH Operating Deficit	\$596,000
CHH RGI Subsidy	<u>584,228</u>
Total CHH Operating Costs, 8 Roxanne Drive	<u>\$1,180,228</u>
HSD 2023 Levy Approved HSC Report 19034	\$400,000
HSD 2023 Levy Transfer from Dept ID 625052	<u>208,269</u>
Subtotal of 2023 Funding Sources	<u>\$608,269</u>
2023 Funding Shortfall - Recommended for 2024 Budget	<u>\$571,959</u>

Table 2 – 8 Roxanne Drive Operating Shortfall and Existing 2023 Operating Budget

	Total Operating Subsidy Required	Included in 2023 Operating Budget	Recommended 2024 Operating Budget Increase
CHH Operating Deficit	\$596,000	\$400,000	\$196,000
CHH RGI Subsidy	584,228	208,269	375,959
Total	<u>\$1,180,228</u>	<u>\$608,269</u>	<u>\$571,959</u>

Staffing: N/A

Legal: Legal Services support will be required in drafting the loan agreement, negotiating terms, implementing the term sheet and ensuring registration of the security.

HISTORICAL BACKGROUND

CityHousing Hamilton (CHH’s) Board approved Report #17029(d) on June 10, 2019 which outlined the structure of its Roxborough redevelopment project. The proceeds of the land was identified as \$6,733,980 and the agreed upon development cost of the building set at \$29,225,000 which would require CHH to finance \$22,491,020.

On June 26, 2019, Council approved, through Emergency and Community Services Committee (ECS), Report HSC19034 which authorized CHH to sell approximately seven acres of its property which contained 73 Rent Geared to Income (RGI) townhouses and 30 market apartments. The sale was part of a development of mixed income and mixed tenure on lands which would include a 103-unit building to be owned and operated by CHH.

In Report HSC19034, Council also approved that \$400 K be added to the Housing Services Division’s operating budget to be provided to CHH to cover the estimated cost of servicing the mortgage after operating revenues and operating expenses.

The deal structure set out in a Master Development Agreement (MDA) signed November 2019 between the parties includes two key processes that are conjoined, a real estate transaction and a design-build contract. The land sale transacted in October 2022, while the design-build project reached substantial completion in December 2022. Lease up for the new CHH building addressed as 8 Roxanne Drive is currently underway and the first tenants began to move in mid-February 2023.

On February 7, 2023, through CHH Board Report 8 Roxanne Drive Funding Update (Report #17029(f)), an update on funding for the project was provided. The projects total cost of \$29,424,219 is being covered through a \$7,166,020 loan from CMHC, a \$1,430,610 grant from the Federation of Canadian Municipalities (FCM) and a \$1,430,610 loan from FCM. CHH's board approved a recommendation that the City of Hamilton be requested to provide a long-term financing loan for the balance of \$19,396,979.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Housing and Homelessness Action Plan

Hamilton does not have enough affordable rental housing units. In 2013, Council endorsed the 10-Year Housing and Homelessness Action Plan with the first outcome area to increase the supply of affordable housing. The City continues to fall below its targets for developing new units. CityHousing Hamilton's new development is envisaged by staff as a move in the right direction in relation to affordable units supply.

External Loan Guidelines

The City's External Loan Guidelines specify that loans may not be used to reduce debt, that organizations may hold only one outstanding loan with the City, that the interest rate must be based on the current serial debenture rate and that an administrative fee of 0.25% be charged.

RELEVANT CONSULTATION

Legal and Risk Management Services Division, Corporate Services Department

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

CityHousing Hamilton (CHH) co-developed, with the consortium Roxborough Park Incorporated (RPI), a mixed income, mixed tenure housing demonstration project in the McQuesten neighbourhood which substantially rebuilds the existing affordable housing and is intended to stimulate neighbourhood renewal. The deal structure set out in a Master Development Agreement (MDA) signed November 2019 between the parties includes two key processes that are conjoined, a real estate transaction and a

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design-build contract. The land sale transacted in October 2022, while the design-build project reached substantial completion in December 2022. Lease for the new CHH building addressed as 8 Roxanne Drive is currently underway, with tenant occupancy to begin in mid-February 2023.

The cost of the building was anticipated to be \$29,225,000 and the final cost was slightly higher at \$29,424,219. Originally, CHH was to apply the proceeds of the sale to the building resulting in requirement to obtain financing for \$22,491,020. CHH was successful in securing funding and loans at favourable rates from CMHC and FCM which allowed CHH to apply the value of the land sale to other development projects and reduced the value of the required financing to \$19,936,979.

CHH engaged potential lenders including Infrastructure Ontario to explore securing a loan for the balance of construction costs of \$19,936,979. In the past 18 months, interest rates have increased significantly. Ultimately, it was determined that the rates offered by these lenders would substantially increase the cost of servicing the debt. The City of Hamilton is the sole shareholder of CHH. As such, it is recommended that a loan to CHH be provided at a rate comparable to the long-term interest earned on the City's bank account of 2.14%. Given that the City of Hamilton is CHH's Sole Shareholder and is subsidizing the loan repayment, it is recommended the requirements that loans may not be used to reduce debt, that organizations may hold only one outstanding loan with the City, that the interest rate must be based on the current serial debenture rate and that an administrative fee of 0.25% be waived.

The operating subsidy of \$400 K originally approved in Report HSC19034 was based on an amortization of 35 years and in a period of record low interest rates. The subsidy estimate also did not account for the RGI subsidy required in a new build. With the revisions to the loan amount, interest rate and amortization period, there remains an additional cash flow shortfall of approximately \$196 K. In addition, the existing subsidy in the 2023 budget associated with the sold units is not sufficient to provide deep affordability and it is recommended that RGI subsidy of \$375,959 be included. As a result of these factors, the additional operating subsidy required of \$571,959 is to be included in the 2024 tax operating budget. Without the full amount of the operating subsidy, CHH would not be able to provide the units at rent-geared-to-income levels.

ALTERNATIVES FOR CONSIDERATION

Alternative 1: CHH could borrow the funds from a third party (e.g. bank or Infrastructure Ontario)

Pros: The City would not provide a loan to CHH which means the City would retain the \$19,936,979 and earn interest on the amount or be able to allocate the funds to another use.

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Cons: CHH would incur higher interest costs and since the City is the sole shareholder of CHH, those higher costs would be ultimately borne by the City taxpayers.

Financial Implications: The ultimate cost to City taxpayers would be higher under this alternative than the staff recommendation.

Staffing Implications: None

Legal Implications: CHH would need to secure funding from a third party and execute the necessary agreements. The City may need to be involved.

Alternative 2: The City could issue debt to cover the \$19,936,979 funding gap.

Pros: The City would not provide a loan to CHH which means the City would retain the \$19,936,979 and earn interest on the amount or be able to allocate the funds to another use.

Cons: CHH would incur higher interest costs and since the City is the sole shareholder of CHH, those higher costs would be ultimately borne by the City taxpayers.

Financial Implications: The ultimate cost to City taxpayers would be higher under this alternative than the staff recommendation. Additional debt could impact the City's ability to remain within existing debt policy limits

Staffing Implications: None

Legal Implications: Additional authority to issue debt may be required.

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 HSC19034(a) / FCS23037: Loan Agreement Term Sheet, 8 Roxanne Drive