

Report to Council



Date: April 23, 2012
File: 0710-40-00
To: City Manager
From: Community Planning Manager
Subject: Revisions to Rental Housing Grants Policy and Housing Opportunities Reserve Fund By-law No. 8593

Recommendation:

THAT Council receive for information the report from the Community Planning Manager dated April 23, 2012 pertaining to revisions to the rental grants program;

AND THAT By-law No. 10697, being Amendment No. 4 to the Housing Opportunities Reserve Fund By-law 8593 be forwarded for reading consideration;

AND FURTHER THAT Council Policy No. 335, being "Financial Assistance for Non-Profit and Affordable Rental Housing" be revised as outlined to the Report from the Community Planning Manager dated April 23, 2012.

Purpose:

The purpose of this report is to make changes to the Housing Opportunities Reserve Fund By-law No. 8593 and to the Council Policy 335 for the affordable rental housing grants in order to expand the use of these grants to generate new affordable rental housing.

Background:

On November 7, 2011, Council supported 25 recommendations from the Housing Strategy. Council was presented with a staff workshop on March 12, 2012 to review these recommendations and the background regarding the Housing Strategy.

The first recommendation from the Housing Strategy read as follows:

Continue to seek partnerships to achieve affordable housing using City owned land and the rental housing grants program. Expand these partnerships within the private sector.

Partnerships can include the use of City-owned land, funding and/or reducing the costs of the development process. There was a great deal of interest from all stakeholders around ways to achieve new "purpose-built" rental housing supply. Purpose-built rental housing is a term used by the Canada Mortgage and Housing Corporation (CMHC) to describe buildings that were built to be rental apartments or other attached housing forms with no intent to sell stratified dwellings. CMHC has used a building of three or more units to be the minimum size of purpose-built rental housing.

As a relatively young city, Kelowna does not have a rental stock that is characterized by purpose built rental housing. In fact, about 65% of Kelowna's rental stock is in dwellings that are not found within this building description. These include houses, duplexes, secondary suites or stratified apartments that are being rented. The latter are all shorter term rental housing and many are rented at much higher rents than average market rents, meaning they wouldn't be available to households who cannot pay more than \$1,000 per month for rent. Many rental households are paying far more than 30% of

A handwritten signature in blue ink, appearing to be a stylized 'N' or 'M'.

their gross income on rent and within this group, most pay more than 50%. This situation is unstable, and not sustainable for the long term.

Growth in Kelowna is forecasted to be about 1,000 additional households in the City per year to the year 2030 by the conservative forecasts that informed the current OCP. Based on the fact that about 30% of all households are tenant occupied, this means that 300 additional rental dwellings would be needed annually just to address new growth. Combined with the unstable rental stock that exists in the City and the significant numbers of lower income families, singles, and others, this means that in spite of current spikes in the rental vacancy rates¹, there will be a long term critical need for more permanent rental housing. Subsidized housing supply funded by the Province does not match the level of existing need and the market cannot afford to build low income housing without subsidy of some form. Therefore, the greatest opportunity for Kelowna to have a more balanced housing supply is to focus on the low end of market housing, which means purpose built rental housing (or starter priced homes)². New rental housing may still be out of reach for lower income households, but it would help release space in older buildings, creating more supply at the lower rent levels.

The City has had an affordable rental grants program since 2006, when it was recommended by the Housing Committee and approved by Council. The current rental grants program was intended to provide some relief, if only partial, to the costs of developing affordable rental housing. It is funded by annual tax allocations. City Council accepted purpose built rental housing as affordable rental housing in 2009, based on the fact that it is rent-controlled by the Province and that the market will determine the maximum rent that would keep the dwellings occupied.

One way to encourage new rental housing is to provide some relief from the initial costs of building it. This can be done in part by extending the existing rental housing grants program to purpose built rental housing. Consultation with builders and developers indicated that, without reducing the initial costs of building rental housing, or without significant equity, the private sector cannot deliver new purpose-built rental housing. Waiving DCCs was a popular suggestion, but Finance staff with the City cautioned that waiving the DCCs means the lost revenue must be recovered from somewhere, generally from taxation.

An issue that was raised by City staff was the historical prevalence of illegal four-plexes in the city. It was agreed that any building that may have added illegal suites, particularly those that result in four-plexes, should not be eligible for rental housing grants. The minimum building size to be eligible for the grants is therefore *five or more dwellings*. An OCP text amendment will also be brought forward to make this change to the definition of purpose built rental housing.

A key element that needed resolution was to determine how housing agreements could work when adding purpose built rental housing to the affordable housing grants program. Current practice requires any affordable rental housing that receives City grants to have a housing agreement in place with the City. Alternatively, non-profit rental housing would need to have an agreement of a similar nature with the Province. The private sector builders are not comfortable with a housing agreement, but it is the only tool available to the City to secure the affordable rental housing. In order to address this issue, it is being recommended that any rental housing grant that is received by a purpose built rental housing proponent would have to be refunded to the City, should the housing agreement be lifted from the property. This idea was supported by developers. Developers indicated that it takes

¹ due to the higher number of condominiums that are being rented

² The stock of starter priced homes has significantly improved in the last five years, compared to the rental supply. It is chiefly single detached homes that are out of reach for the income levels of most Kelowna households. For details, consult the Housing Strategy document at this link:

<http://www.kelowna.ca/CityPage/Docs/PDFs//Community%20Planning/Housing%20Strategy/2012%20Housing%20Strategy.pdf>

ten years for rental housing to deliver a profit and the changes to the rental grants program therefore aim to increase the economic viability of delivering new rental housing. Ten years would be the minimum recommended time-frame for these agreements. Lifting the notice of a housing agreement from a property or dwelling is done by a formal request and the approval of Council, regardless of the reason or time-frame.

The funding and process for rental housing grants is described by the attached flow chart. Changes proposed are also shown on the chart.

Staff has also drafted the revisions needed to the Housing Opportunities Reserve Fund By-law and to the Council Policy for the rental housing grants and these documents, with the changes indicated, are attached to the end of this report.

Internal Circulation:

City Clerk
Director of Finance

Legal/Statutory Authority:

Sections 188 and 189 of the Community Charter
Section 905 of the Local Government Act

Legal/Statutory Procedural Requirements:

Housing Opportunities Reserve Fund By-law No. 8593; a copy is attached with proposed changes shown.
Procedure outlined in Council Policy 335; a copy is attached with proposed changes shown.

Existing Policy:

Council Policy 335

Financial/Budgetary Considerations:

Existing budget

Personnel Implications:

Existing staff

Communications:

A media release would communicate the changes to the rental grants program, including the new timelines. Further, advertising that is funded for the program would be conducted in accordance with the proposed changes. These actions are subject to Council's approval of the changes presented.

Considerations not applicable to this report:

External Agency/Public Comments:

Alternate Recommendation:

Submitted by:



T. Eichler, Community Planning Manager

Approved for inclusion:

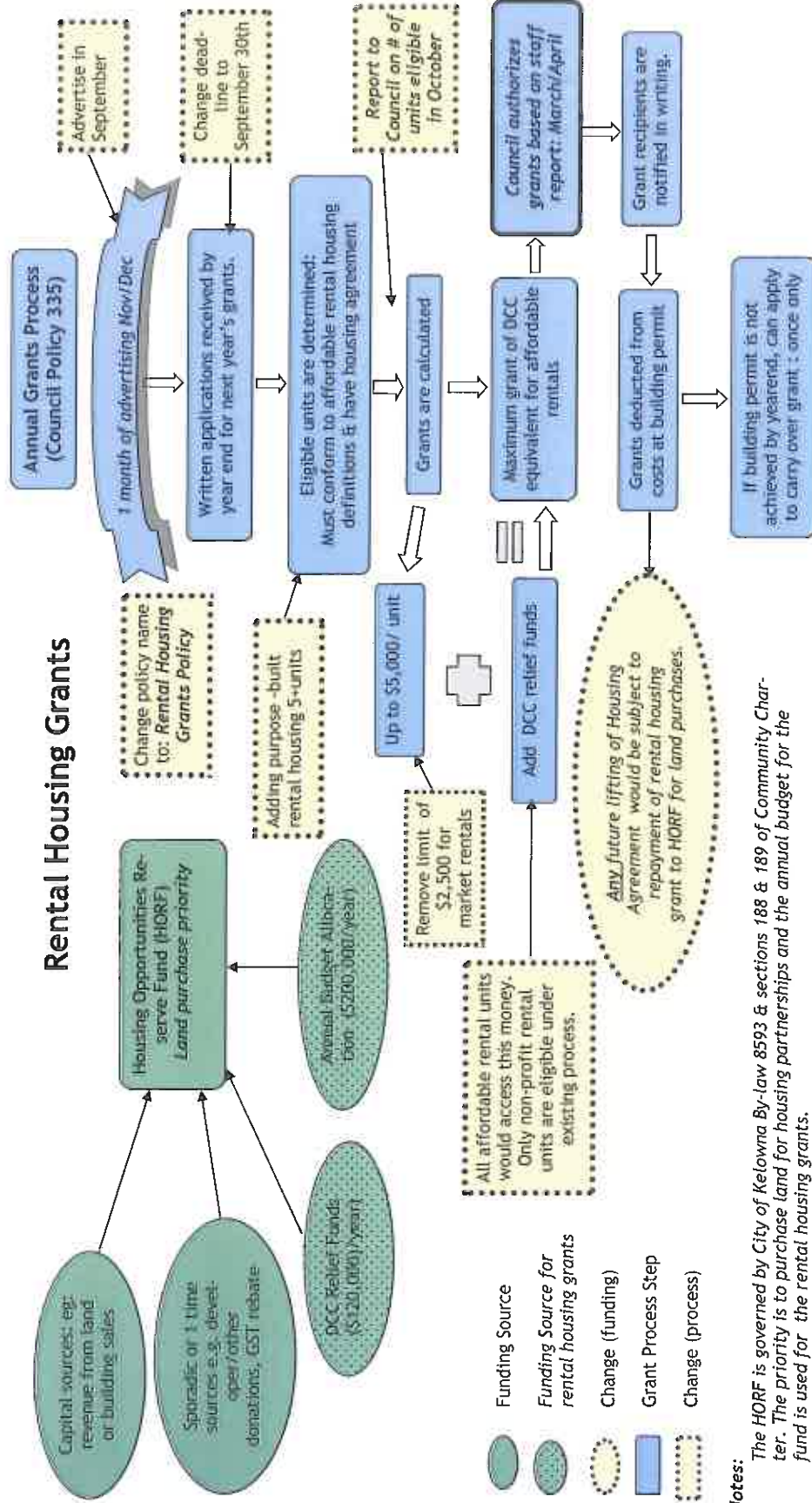


Signe K. Bagh, MCIP
Director, Policy and Planning

Attachments:

1. Chart showing rental grants process and funding sources.
2. Copy of Council Policy 335 *Financial Assistance for Non-Profit and Affordable Rental Housing* with proposed changes shown.

Rental Housing Grants



Notes:

- The HORF is governed by City of Kelowna By-law 8593 & sections 188 & 189 of Community Charter. The priority is to purchase land for housing partnerships and the annual budget for the fund is used for the rental housing grants.
- No Carry-over HORF funds or capital sources (e.g. land or buildings) can be used for grants
- Any unused grant funds from the HORF and the DCC Relief fund is carried over
- DCC Relief carryovers of any unused funds is for grants in subsequent years



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Council Policy

Financial Assistance for Non-Profit and Affordable Rental Housing Grants Policy

APPROVED July 24, 2006

RESOLUTION: R143/07/02/05
REPLACING: R738/06/07/24
DATE OF LAST REVIEW: November 2009

1. Applications for funding under this policy will be accepted until ~~December~~ September 31st-30th of each year. Applications should be submitted to the Community Planning Manager;
2. All applications will be reviewed and a report to Council will summarize eligible dwellings for rental housing grants by October 31st annually;
- ~~2.3. and Funding to be awarded~~ will be determined by April 30th each year;
- ~~3.4.~~ Sources of funding will be an amount allocated through the annual City Financial Plan for the Housing Opportunities Reserve Fund and an annually budgeted amount to provide some relief from fund waivers or partial waivers of development cost charges for affordable non-profit rental housing.
5. Funds allocated annually from taxation to the Housing Opportunities Reserve Fund (HORF) will be awarded up to the maximum annual budget allocation. Any funds that are not paid out in ~~rental~~ grants in a given year will return to the HORF to be used for other purposes set out in the Housing Reserve Fund HORF By-law;
- ~~4.6.~~ Un-used portions of the funding for the grants assigned to ~~reduce the amount payable i~~ provide additional relief from Development Cost Charges in any given year will be carried over and added to the next year's budget for rental housing grants;
- ~~74.~~ Funds may be awarded as follows, subject to the amount of money allocated available annually:
 - (a) Up to \$5,000 per dwelling that qualifies as ~~affordable, non-profit rental~~ affordable rental housing, as defined in ~~current housing policies~~ in the City's Official Community Plan;

~~Up to \$2,500 per dwelling that qualifies as affordable, rental housing that is not built and/or operated by a non-profit society;~~
 - (eb) An additional amount that, when combined with funds provided under parts (a) ~~or (b)~~, is not to exceed the equivalent of the applicable development cost charge per unit of rental housing;

~~Up to \$2,500 per dwelling that qualifies as affordable, rental housing that is not built and/or operated by a non-profit society;~~
 - (ec) All units that qualify for funding, based on the City's current definitions of affordable rental housing or core needs housing in the Official Community Plan, will need to be identified by a housing agreement with the City registered on the title of the property to confirm that the units will remain as affordable, rental housing.
58. The amount available per dwelling unit, up to the identified maximums defined in 47, above, will be determined based on the number of eligible units that have been applied for and the amount of money available in the given year;
69. Projects where the City has contributed land at little or no cost, by lease or sale, in order to secure affordable housing, would qualify to apply for the funding identified under 4-7 (a) ~~and~~ (b) and (c), above, up to a maximum dollar amount equivalent to the total development cost charges payable, less the market value of the land contributed by the City;
- ~~7-10~~ Consideration of each application for funding is contingent on there being a reasonable expectation that the eligible units will be constructed in the calendar year of approval. Where a development is being phased, each distinct phase will be treated as a separate application;

811. If dwellings authorized for funding under this policy do not reach building permit stage in the year that the funding was authorized, the applicant can apply to have the authorized amount carried over to the next year. Carryover requests will only be accepted for one year following the year the grants were authorized. Any carryover requests beyond one year will be treated as a new application for funding;
129. Authorization of funding and the amount applicable will be confirmed in writing by a letter from the City;
1013. At time of building permit issuance, the authorized funding will be applied as a deduction from the total development cost charges payable;
1114. The Financial Services Department will track funding under this policy against budget information annually and advise the Community Planning Manager accordingly;
15. As set out in 4.4 of the Housing Opportunities Reserve Fund By-law 8593, any request to lift the notice of a housing agreement from a rental dwelling that received a grant under this policy will be subject to repayment of the grant to the City directed to the Housing Opportunities Reserve Fund.
1213. The Community Planning Manager will report to Council on the distribution of available funding by March April — 31st 30th, each year.

REASON FOR POLICY

~~Long term ("purpose-built") rental housing is in short supply in Kelowna. If secured by a housing agreement, the OCP defines it as a form of affordable housing. This Policy provides the City with resources to partner with senior government and private sector funding to assist in the supply of low-income cost housing. The City has a defined and significant need for affordable rental housing. The goal is to maximize affordable rental units that can be generated with this approach where other sources of funding may be subject to a contribution by the City.~~

LEGISLATIVE AUTHORITY

~~Under provisions of Section 933 (12) of the Local Government Act, a local government may provide assistance by waiving or reducing a charge under this section (refers to Development Cost Charges for not-for-profit rental housing. Section 905 of the Local Government Act sets the parameters for housing agreements. Sections 188 and 189 of the Community Charter governs the use of reserve funds. Policies in the City's Official Community Plan define housing affordability and guide City initiatives for affordable housing. By-law 8593 - A Bylaw to Establish a Housing Opportunities Reserve Fund governs the source of funding for the reserve, defines affordable housing and provides direction for spending of these funds.~~

PROCEDURE FOR IMPLEMENTATION

Through the Community Planning Manager Annually as authorized by Council through this policy.