

Report

Date June 15, 2022

File: SP00074

Subject Municipal Contributions to Affordable Housing Projects

PURPOSE

To seek direction on possible financial contributions to the Sherman Road affordable housing project.

BACKGROUND

The Municipality of North Cowichan has been working with the Community Land Trust (CLT) since 2016 to facilitate affordable housing at two sites owned by the Municipality – 3191 Sherman Road and 9800 Willow Street. The sites were re-zoned in 2017 and development permits have been issued. The projects are expected to accommodate a mix of low and moderate income households, including housing for seniors, families, and women at risk of violence. The Willow Street project is planned for 22 apartment units and the Sherman Road project is designed for 95 dwellings comprised of townhouses and apartment units.

Although development approvals for the two affordable housing projects are in place, funding to construct the projects has not been secured. The CLT expected to obtain funding to build and operate the projects through the Canada Mortgage and Housing Corporation and BC Housing. North Cowichan was advised in late 2018 that the projects had received a “B letter”, meaning BC Housing intended to fund the projects, but that further changes would be required to comply with funding parameters. The CLT has worked with BC Housing since that time to adjust the projects to better comply with funding criteria but to date has been unable to secure the funding necessary for the projects to proceed.

On February 3, 2022, members of Council and senior staff met with representatives of the Province, including Minister David Eby (Attorney General and Minister responsible for Housing), Shayne Ramsay (CEO of BC Housing) and John McEown (Director, Regional Development, Vancouver Island Region). On behalf of Council, the following concessions were requested of BC Housing:

- Approval of a 50-year amortization for the housing project (as opposed to a 35-year amortization) to reduce the equity gap from \$3.5 million to \$2.0 million;
- Approval of a higher monthly operating subsidy than the \$475 per unit subsidy that BC Housing proposed in the fall of 2021; and
- Approval of funding outside of the next Community Housing Fund program intake, which may not take place until 2023 or later.

At the February 3, 2022 meeting it was stated that the Municipality is prepared to consider additional financial support for the affordable housing projects, beyond offering land, which could include:

- An additional equity contribution (beyond land) from existing reserve funds;
- Waiving development cost charges (DCCs), building permit fees and other municipal fees and charges.

Further communications have taken place with BC Housing and CLT since the February 3 meeting, and staff have been advised that the Sherman Road project is being re-assessed and have had indications that it could receive approval through the BC Housing's Executive Committee if the operating subsidy amount for the project can be reduced through municipal fee waivers and/or property tax exemptions. Although there has been no formal notification, indications are that the Willow Street project is unlikely to qualify under the Community Housing Fund Program because of the high operating subsidy it would require.

This report requests direction from Council on what additional financial contributions, if any, it is willing to provide to the Sherman Road affordable housing project.

DISCUSSION

Municipal Financial Contribution Options:

Council's primary contribution to the Sherman Road affordable housing project has been to provide land. The site that is being subdivided for the project has an area of 0.815 hectares (2.01 acres). There is no current appraisal available of land value, but based on the comparable parcels in the area the value of the raw land is estimated to be between \$1.5 and \$1.8 million. In addition, the municipality has contributed resources to facilitate the project by preparing a lease and housing agreement and assisting with development application processes (rezoning, development permits, subdivision).

The following have been identified as options for Council to provide additional financial contributions to the Sherman Road project:

1. Waive building permit fees

Estimated value: \$215,000 (based on 2021 construction values)

Considerations:

Building permit fees for new construction are specified in Fees and Charges Bylaw No. 3784 and are calculated based on the value of construction prior to issuance of a building permit. As a building permit application has not yet been submitted and processed, building permit fees haven't been calculated. However, the CLT has estimated the building permit fees using the bylaw rate and its estimated construction value (see above).

As building permit fees are established by bylaw, they cannot be waived by a resolution of Council. Municipal fees and charges are required to approximate the cost of providing a service, so it is not an option for Council to amend the Fees and Charges Bylaw to exempt a specific project or a class of development from building permit fees unless it can be demonstrated that there is little or no cost to the municipality for providing the build permitting and building inspection service. While it is not a viable option for Council to "waive" fees and charges for the subject project, the same result can be accomplished by giving a grant-in-aid for all or a portion of the building permit fee and other applicable fees and charges.

Grants-in-aid are administered in accordance with Council's Grant-In-Aid Policy (Attachment 1). The policy sets-out qualifying categories and eligibility criteria. Review of the policy indicates that the Sherman Road affordable housing project would qualify for a grant in aid. Typically any application would be reviewed following submission of an application by October 15 each year, however, Council has occasionally approved grants-in-aid outside of this process.

The total grant-in-aid budget is typically just over \$200,000 each year. Issuing a grant-in-aid to cover the cost of build permit fees or other fees and charges for the project would require an increase to the grant-in-aid budget.

2. Waive development cost charges

Estimated value: \$649,000

Considerations:

Development Cost Charges (DCC's) are intended to fund new and expanded infrastructure such as sewer, water, drainage, roads and parks that is associated with growth and development. The manner in which DCCs are calculated and levied is specified in the *Local Government Act* and Development Cost Charges Bylaw No. 3460. Development Cost Charges are applicable to affordable housing projects because, like other forms of housing development, they result in additional load on Municipal infrastructure.

There is provision in the *Local Government Act* for local governments to waive or reduce development cost charges for specified forms of development, including supportive housing, not-for-profit rental housing and for-profit affordable rental housing, provided the waiver or reduction is done pursuant to a bylaw defining developments that are eligible for such waivers. Such a bylaw would need to establish eligibility criteria under which other developments could potentially also be granted waivers of DCCs, which makes such a bylaw an awkward tool for dealing only with a specific project, as in this case. As with building permit fees, if Council wishes to waive or reduce DCCs for the Sherman Road affordable housing project without adopting a bylaw that opens up the potential for waivers applications for other projects, that could be accomplished by providing a grant-in-aid. Such a grant-in-aid also avoids underfunding of the DCC accounts, which would be a consequence of a waiver done pursuant to a newly adopted bylaw that opens up the potential for case-by-case waivers for defined eligible developments.

3. Grant permissive tax exemption

Estimated value: \$136,400 per year (based on 2022 tax rates and an estimated assessed value of \$25.8 million)

Considerations:

Council has adopted a permissive tax exemption policy and bylaw (Attachment 2 and 3) that guides which organizations will be eligible for permissive tax exemptions and the process for granting exemptions. The policy states that the primary consideration of whether to grant a permissive tax exemption is the benefit the organization provides to the community and requires that the organization fulfill some basic need or otherwise improve the quality of life for North Cowichan residents. Eligibility criteria in the policy that could apply to the CLT project at Sherman Road include, "d) properties that provide services to youth, seniors and special needs groups", g) properties used to provide public services under a formal partnership with the Municipality".

Permissive tax exemptions can be granted for up to ten years but are reviewed annually. The exemption may apply to all or a portion of the land and improvements and conditions may be imposed in exchange for the exemption. Any tax exemptions provided are "made-up" by other taxable properties within the municipality with the rates for municipal, regional district, schools, etc. being adjusted so that the required amount of taxes is still raised each year. Application for permissive tax exemptions are considered annually and must be submitted by August 1 for exemption from the following year's taxes.

4. Revitalization tax exemption

Estimated value: \$66,515 per year (based on 2022 tax rates and an estimated assessed value of \$25.8 million)

Considerations:

Revitalization Program Bylaw 3635 allowed eligible development to be exempt from the general municipal portion of the property tax for 10 years. Bylaw 3635 did not specifically exempt non-market housing or other forms of affordable housing, but did exempt supportive housing (class 3) and development with a density of 100 dwelling units per hectare or greater. Based on the density of the Sherman Road project, (approximately 117 uph) it would have been eligible for the exemption. However, the bylaw expired in March of 2019 and is no longer in effect. If Council wishes to grant tax exemptions using section 226 (revitalization tax exemptions) of the *Community Charter*, it would need to adopt a new revitalization program bylaw. The bylaw would need to identify the type of development that would be eligible and the location to which the bylaw applies.

5. Contribution from Affordable Housing Fund

Estimated value: Up to \$75,000

Considerations:

North Cowichan has an affordable housing fund with a balance of \$75,320. The fund holds financial contributions from development projects for affordable housing. As the affordable housing fund was specifically established to facilitate the development of affordable housing units, allocation of monies from the fund to the Sherman Road project is in keeping with the purpose for which the fund was established.

Other Funding Options:

6. Cowichan Valley Regional District (CVRD) Housing Service

Estimated value: To be determined

Considerations:

The CVRD's Regional Housing Service provides funding to incentivize the development of affordable housing and to leverage funding from other sources for the construction of affordable and attainable housing in the Cowichan Region. An allocation of \$391,000 from the Rental Capital Contribution Fund for the two projects has been discussed with the Cowichan Housing Society, but a formal application from CLT hasn't been submitted to date. CLT is aware that the application is necessary to secure funding and our understanding is that they are actively working on it. Any allocation would require approval from the fund's Allocation Committee and the CVRD Board. The application could request that the total allocation amount be directed at the Sherman Road project rather than splitting it between the two projects.

Summary and Conclusion:

This report identifies options for additional Municipal financial contributions for the Sherman Road affordable housing project. It is not known how much contribution from North Cowichan is needed, or how an additional contribution will influence BC Housing's funding decision. However, BC Housing's Director of Regional Development for Vancouver Island has advised that a financial commitment from North Cowichan would improve the financial viability of the project and thereby improve the chances of it being funded through BC Housing. A commitment in the form of a Council resolution is therefore recommended.

Some of the available options for supporting affordable housing should be applied more broadly through the adoption of bylaws and would not be appropriate or lawful for just the Sherman Road affordable housing project. It is recommended that bylaws for waiving or reducing fees, charges and taxes for affordable housing be addressed as part of a comprehensive affordable housing strategy rather than to provide funding support for individual projects.

The recommended approach for supporting the Sherman Road affordable housing project is to:

- a) Invite the CLT to submit a 2023 grant-in-aid application for up to \$432,000. This amount represents half of the estimated building permit fee and development cost charges for the project. It is recommended that only half of the building permit and DCC amount be funded through a grant in aid so that the project will still contribute to some of the administrative cost and off-site infrastructure cost associated with it.
- b) Invite the CLT to submit a permissive tax exemption application, following subdivision of the property, for up to half of the property tax payable for land and improvements at 3191 Sherman Road. It is recommended that the tax exemption be limited to half of the tax amount, so that the project is still contributing something to the municipal services the future residents will receive.

- c) Commit \$75,000 from the Affordable Housing Fund to the Sherman Road affordable housing project, payable upon issuance of an occupancy permit.

The recommended approach would result in over \$500,000 of additional funding for the project plus the potential of an annual municipal tax reduction of approximately \$68,200 per year. The commitment amounts can also be adjusted based on Council's preference. With the exception of the \$75,000 payment from the affordable housing fund, the financial contributions would be subject to future Council approval.

OPTIONS

Option 1 (Recommended Option)

THAT Council:

1. Invite the Community Land Trust to submit a 2023 grant-in-aid application for up to \$432,000 for the affordable housing project at 3191 Sherman Road.
2. Invite the Community Land Trust to submit a permissive tax exemption application for 3191 Sherman Road for an amount equivalent to half the annual property tax.
3. Commit \$75,000 from the Affordable Housing Fund to the affordable housing project at 3191 Sherman Road.

Option 2 (Alternate)

THAT Council:

1. Invite the Community Land Trust to submit a 2023 grant-in-aid application for up to [Council to specify amount] for the affordable housing project at 3191 Sherman Road.
2. Invite the Community Land Trust to submit a permissive tax exemption application for 3191 Sherman Road for [Council to specify amount].
3. Commit [Council to specify amount] from the Affordable Housing Fund to the affordable housing project at 3191 Sherman Road.

Option 3 (Alternate)

THAT Council not authorize any additional financial contributions for the affordable housing project at 3191 Sherman Road.

IMPLICATIONS

The recommended financial contributions for the Sherman Road affordable housing project, when combined with the land contribution, results in a Municipal contribution of between \$2.0 and \$2.3 million, or between \$21,000 and \$24,000 per dwelling unit, not including future tax exemptions. The grant-in-aid component (\$432,000) represents a total tax increase of 1.3%.

Additional financial contributions from North Cowichan won't necessarily ensure the project is ultimately constructed and built, but representations were made at the February 3 meeting with Minister Eby and BC Housing representatives that North Cowichan Council is prepared to provide additional financial support for the project if BC Housing relaxes its funding criteria. Without some additional financial commitment from North Cowichan, it is less likely that BC Housing will fund the project.

RECOMMENDATION

THAT Council:

1. Invite the Community Land Trust to submit a 2023 grant-in-aid application for up to \$432,000 for the affordable housing project at 3191 Sherman Road.
2. Invite the Community Land Trust to submit a permissive tax exemption application for 3191 Sherman Road for an amount equivalent to half the annual property tax.
3. Commit \$75,000 from the Affordable Housing Fund to the affordable housing project at 3191 Sherman Road.

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Attachments

- (1) Grant-in-aid policy
- (2) Permissive tax exemption policy
- (3) Permissive Tax Exemption Bylaw No. 3519