

The Corporation of the City of Kawartha Lakes

Committee of the Whole Report

Report Number CORP2019-028

Date: Affordable Housing Targets - Costing

Time: 1:00 p.m.

Place: Council Chambers

Ward Community Identifier: All

Title: Affordable Housing Targets – Financial Analysis

Description: Costing of the Affordable Housing Targets proposed in HH2019-008 presented on September 10, 2019.

Author and Title: Carolyn Daynes, CPA, CA Treasurer

Recommendation(s):

That Report CORP2019-028, Affordable Housing Targets - Costing, be received for information purposes.

Department Head:_____

Financial/Legal/HR/Other:_____

Chief Administrative Officer:_____

Background:

At the Committee of the Whole meeting of September 10, 2019 the following resolution was adopted:

HH2019-008

Affordable Housing Targets

Hope Lee, Manager, Human Services

CW2019-168

Moved By Deputy Mayor Elmslie

Seconded By Councillor Dunn

That Report HH2019-008, **Affordable Housing Targets**, be received;

That the affordable ownership and rental targets (Ideal Model) and the processes to encourage them outlined in Report HH2019-008 be adopted;

That the policy entitled Affordable Housing Incentives, appended to Report HH2019-008, be adopted, numbered and inserted in the Corporate Policy Manual; and

That this recommendation be brought forward to Council for consideration at the next Regular Council Meeting.

Carried

At the next Council Meeting of September 24, 2019 the Council resolved to do the following with the Affordable Housing Target report:

8.3.10 CW2019-168

A recorded vote was requested by Councillor Dunn.

CR2019-537

Moved By Councillor Dunn

Seconded By Councillor Yeo

That Report HH2019-008, **Affordable Housing Targets**, be received;
and

That the matter be referred to the Finance Division for a full costing.

	For	Against	Absent
Recorded			
Mayor Letham	X		
Deputy Mayor Elmslie		X	
Councillor Ashmore	X		
Councillor Dunn	X		
Councillor O'Reilly		X	
Councillor Richardson	X		
Councillor Seymour-Fagan	X		
Councillor Veale	X		
Councillor Yeo	X		
Results	7	2	0

Carried

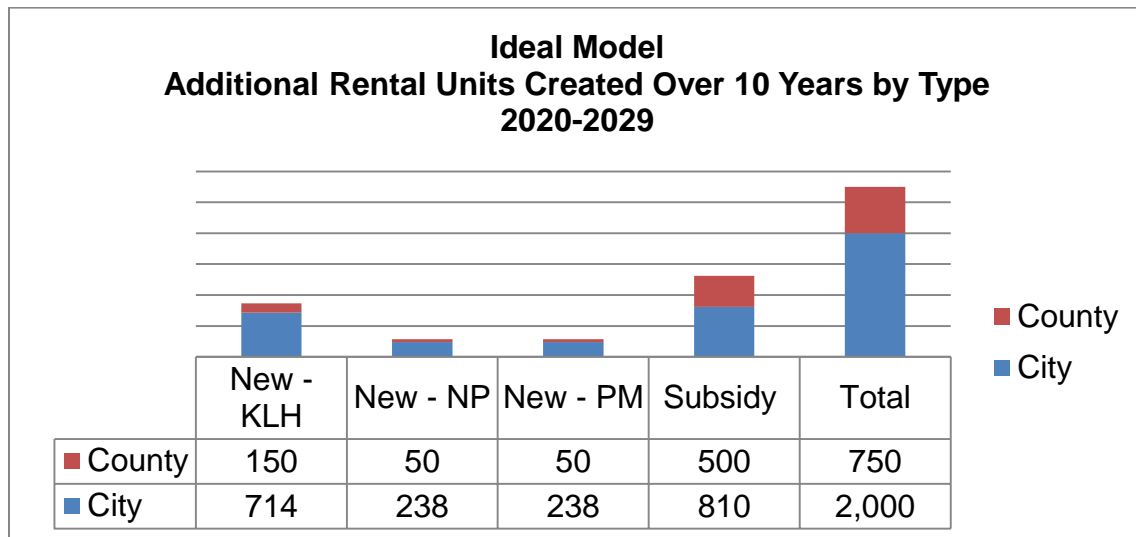
This report addresses that direction.

Rationale:

As stated in the Financial Impact section of the Report HH2019-008 “Affordable Housing Targets” (see Appendix B) the costing of the recommended “Ideal Model” is very complex. The plan could utilize a myriad of options to achieve the overall number of affordable units in the model chosen.

Increasing the number of units could be from new construction by KLH Housing Corp, construction by other non-profit service providers or private developers, home ownership subsidies, rent supplements, rehabilitation of current residential rentals, the creation of secondary suites, partnering with other agencies such as Habitat for Humanity or any combination thereof.

The new units to be created under the recommended Ideal model are shown in Figure 1 below. Under this model, KLH would target the creation of 864 new units over the next 10 years, 714 within Kawartha Lakes, and 150 within Haliburton County. Non-profit and private market developments would account for 238 new units each over the same period in the City while various subsidies or rent supplements would account for 810.



The plan, detailed in the Affordable Housing Target report, discusses various options to reach the targets but the actual plan and how it is accomplished will roll out over the ten year period based on opportunities that arise for funding, especially Federal and Provincial Grant funding.

There are too many assumptions to determine the exact costing given the vast number of choices that exist and the funding unknowns that are present. This includes estimated the cost of development incentives for the non-profit and private sector targets.

Housing staff have estimated incentive and construction costs per unit based on existing development projects. This provides Finance with a template to use to calculate construction cost, grant funding, incentives, KLH current funding of projects and the debt needed to be raised to finance the difference.

While the costs for each model are estimated in the calculations in Appendix 1, this does not include the actual revenue generated by these new units. The revenue from the new units, once constructed, under the Ideal model will total approximately \$7.17M annually.

The calculations, comparing the three models, are included in Appendix 1. This model requires a great deal of debenture financing that is not ideal given that any debt undertaken by KLH affects the overall debt limit for the City. It is only used as an illustration of the potential costing based on the given assumptions. In discussions with Housing staff it is apparent that their plan will include a mix of new construction as well as subsidy scenarios and assistance from the private sector and other non-profits. Therefore annually it is expected that Housing will provide a detailed plan that will be achieved in incremental steps rather than an inclusive 10 year plan.

This inability to provide precise costing for the target report is due to the unknowns that still exist and are detailed below.

1. The Federal and Provincial Grant amounts, over the next 10 years, are not known. As these grant figures become known it will be much easier to base a plan around some more solid figures. The government may provide a combination of capital financing for new builds or they may provide rental subsidies for housing clients. Until this is known it is hard to build a costing plan out over 10 years.
2. The cost of inflation will affect the cost of construction of new building development as well as provision of secondary suites and other construction related alternatives. That is an unknown in the presentation of this model and could affect the cost significantly.
3. The term of the debentures will be at least 30 years. If Infrastructure Ontario is used the option for a 30 year term and a 30 year amortization period is available. This means that the interest rate would remain the same for the 30 year period. There is an option for KLH to use another debenture vehicle, which could offer lower rates, however it is a 30 year amortization period with a 10 year term. This means that the debenture will come up for renewal every 10 years and thus exposing the Corporation to an interest rate increase. An analysis will have to be done on each project brought forward to determine the cost of borrowing.
4. Currently the interest rate for a 30 year debenture is approximately 3%. Finance staff can't commit to a 10 year plan that only builds a 3% interest rate into borrowing when it is not known what the interest rate will be in 10 years. An annual detailed plan will be much easier to cost out given interest rates prevailing in that year.
5. All Municipal incentives will have to be repaid through the City and County budgets and therefore this number will be an additional cost in operating budgets going forward. The cost of incentives will be included in operating budgets each year for consideration as projects come forward.
6. It is unknown at this time if there are private partners willing to invest in housing projects or be part of the provision of new units. A portion of the "Ideal Model" relies on private partners to build 288 units between the City and the County. Housing staff will have to investigate this as they move ahead in the plan. This has not been something that has been utilized in the past and therefore some additional work needs to be done before this can be put forward as an alternative. The cost impacts relating to private development will primarily be through incentives.

7. The Affordable Housing targets also assign 288 of the new units to non-profit housing partners. As with private developers, the cost impacts relating to private development will primarily be through incentives.
8. Finance Staff would like to note that the single biggest factor that prevents any accurate costing is the currently unassigned debenture limit of KLH. Under all three models detailed in Appendix 1 a significant portion of the remaining debt limit of the City will have to be committed to KLH. The City and KLH are under the same annual repayment limit and debt servicing ratio so any increase in debt payments in KLH affects the City's overall ability to borrow money. KLH needs a formal debt limit that is developed within a framework where all future debenture needs are analyzed for both the City and KLH. This will be coming forward in the City Financial Plan update that is being presented to Council in early 2020. It is already known that there are pressures on the combined City/KLH debenture limit given Water and Wastewater projects that are being mandated by the government as well as various projects that are part of the City's 10 year capital plan. Staff needs to balance the City and Water and Wastewater projects that require debentures with those debentures that will be required to achieve the targets in the Affordable Housing plan.

Finance staff will be involved in each facet of the plan as it is rolled out. A costing and financing analysis will be done for each project brought forward in order to achieve the targets by the end of the 10 year period.

Other Alternatives Considered:

As the current Affordable Housing plan only documents targets and does not provide a detailed plan, other than in concept, as to how these targets will be achieved there really are no alternatives. The detailed plan for each project will be developed annually as part of the budget process or as funding details are known. Finance will provide a detailed costing of each project as they are presented toward meeting the targets.

Financial/Operation Impacts:

As stated throughout this report the financial impacts of reaching the target will not be known until grant funding is known and a detailed plan presented to Council. This will be done annually or on a project by project basis. The KLH debt limit will govern the amount of debt that can be undertaken by the Corporation and therefore the amount of new construction that can be undertaken.

Relationship of Recommendation(s) to the 2016-2019 Strategic Plan:

The housing targets contribute directly to Exceptional Quality of Life, specifically to increasing the supply of affordable housing under the Improved Wellness, Well-Being and Community Health objective.

Attachments:

Appendix A – Costing by Model



Appendix A - Costing
by Model.pdf

Appendix B – HHs029-008 Affordable Housing Targets



Appendix B -
Affordable Housing T:

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Department Head: Jennifer Stover

Department File: Corporate Services