

MUNICIPALLY CONTROLLED CORPORATION

Issue

A business plan and financial model have been prepared to explore the feasibility of establishing a Municipally Controlled Corporation to advance development of below market rental housing.

Motion Proposed by Administration

That the business plan and financial model to create a Municipally Controlled Corporation focused on development of below market rental housing be accepted as presented.

Report, Analysis and Financial Implications

During the November 20, 2023 Regular Council meeting Council directed Administration to explore the creation of a Municipally Controlled Corporation to advance development of below market rental housing.

Background

Since approval of the Affordable Housing Strategy in 2020, the Town has implemented a number of actions to support the provision of diverse and affordable housing to meet the needs of residents. Despite these efforts there remains a persistent gap in the delivery of below market rental units in Okotoks. A forthcoming updated housing needs assessment identified a current deficit of 183 below market rental units, which is projected to increase to 279 units by 2031 to support households in core housing need. The figures are assumed to be underreported due to two key factors: Firstly, CERB payments during the pandemic which artificially inflated incomes for many individuals and families. Secondly, high inflation rates and substantial levels of immigration into Alberta have significantly impacted affordability.

Non-profit partners have limited capacity to deliver the number of units needed, and federal and provincial grant programs are competitive and often oversubscribed. The private sector is delivering some below market rental units as per Canada Mortgage and Housing Corporation (CMHC) financing terms, but in many cases these units will revert back to market rents 10 years after construction.

To address these challenges and advance delivery of below market rental units, the exploration of an arms-length Municipally Controlled Corporation (MCC) model was recommended as it represented an opportunity for the Town to leverage its land assets and increase its borrowing capacity outside of municipal debt limits. The versatility of an MCC to achieve multiple objectives, in addition to housing development, was also a key consideration in recommending this option.

Administration had began researching MCCs as an option to address Council strategic objectives including downtown development, housing and utility systems in 2022.

Administration engaged in dialogue with numerous municipalities, corporations and external financing institutions including Calgary Municipal Land Corporation, Jasper Housing Corporation, Chilliwack Economic Partners Corporation, Graham Capital, and others. Municipalities have established MCC's for a variety of purposes, and with varying mandates and governance structures, to address a problem or challenge that exists in their community.

- The Town of Cold Lake established a MCC to own and operate a primary care medical clinic to address challenges in attracting and retaining family doctors.
- The Municipality of Jasper has established a MCC to advance an affordable housing project through government grants, municipal, Parks Canada and private investment.
- The City of Wetaskiwin created a MCC to secure financing for construction of a new wastewater treatment plant to keep the debt off the City's balance sheet, while retaining ownership over the assets.
- The City of Chilliwack established a MCC to facilitate economic development and advance strategic redevelopment of their downtown.

As the affordable housing priority came into greater focus locally Administration engaged consulting firm MNP to prepare a business plan and financial model to explore the feasibility of establishing a MCC to advance below market rental development and overcome the challenges experienced by the non-profit sector. The business plan includes a market analysis, operational plan, financial plan, and risk assessment. It was informed by engaging with local builders, property managers, Westwinds Communities and internal Town staff. Town land assets were reviewed for inclusion in the MCC either to be used as leverage for debt financing or for development of an affordable housing project.

Findings

The Okotoks Municipal Asset Corporation (OMAC) business plan to advance below market rental housing construction is included as Attachment 1. The business plan explored the financial feasibility and critical factors required to develop an affordable housing project that could sustain OMAC operations while also maintaining below market rents. Property management and operations of units was assumed to be contracted to a third party with OMAC acting as the developer of the units. Three potential revenue models to achieve this outcome were identified in the business plan:

- Pathway A – 100% Affordable Rentals (at least 20% below market)
Pathway A focused on the critical factors required to develop a project where all units are offered at 20% below market rents, while sustaining OMAC operations. To achieve this outcome a large project of 110 units of lower cost stacked townhome construction is needed, requiring a 3.5 to 5 acre serviced parcel. Pathway A assumed that 47% of the project will be funded through federal and provincial grants, with the remainder of project costs be funded by a low interest loan from CMHC. A 15% equity contribution from OMAC and the Town, in the form of land, is also assumed. Under these assumptions, the project could achieve cash flow positivity five years after project start, with sufficient annual cash flows to also sustain OMAC overhead.

- Pathway B – Mixed Market Rentals (50% affordable, 50% market)
Pathway B focused on the critical factors required to develop a project where 50% of units are offered at 20% below market rents, and 50% of units are offered at market rents, while sustaining OMAC operations. The financial model analyzed the minimum project size required to achieve positive cash flows. The analysis indicated that a minimum two acre parcel with 60 townhome units is required to achieve cash flow positivity in nine years. It is assumed that a larger project, on land greater than 3 acres in size, could reduce the timeframe to achieve cash flow positivity. Pathway B relies on debt financing to fund the project. Interest rates and the amount of capital investment from the Town can influence the timeframe to achieve positive cash flows.
- Pathway C – 100% Commercial
Pathway C identifies an opportunity to generate profits by focusing on strategic commercial (e.g. downtown) developments first with land assets being used to secure funding from external funding sources and financial returns being reinvested into affordable housing projects or other community objectives. This pathway would not address immediate affordable housing needs, but could be a longer term solution to support affordable housing projects amidst scarce funding from federal and provincial governments. Pathway C has been explored previously through earlier MCC research indicating positive results; however this model was not analyzed in further detail by MNP as Council directed Administration to explore the feasibility of the MCC model to advance affordable housing first.

In all above identified pathways, a parcel of land upon which to undertake the proposed housing development, while sustaining OMAC operations, was not identified and does not exist currently within Town-owned land inventory. Each pathway represents a generalized concept which could be undertaken on a suitable parcel of land.

In Pathways A and B, the first project must generate sufficient revenues to not only maintain below market rents, but also to sustain OMAC operations. For this reason, the first project in either pathway must be larger in size, requiring a serviced parcel of land that is 3.5 to 5 acres in size. Significant capital contributions are required to achieve 100% affordable units for Pathway A, which will likely require repeated applications to federal and provincial grant programs. Pathway B relies on debt financing and a mixed market model which will take longer to achieve positive cash flows. Generally, positive cash flows for both the project and OMAC will be achieved faster when the project is larger, the capital contributions are higher, and interest rates are low. Strategic decisions regarding land allocation or acquisition to support a larger project, and capital investment are key to optimizing the financial performance of OMAC.

Conclusions

The business plan suggests that a large project and significant capital investment are required to launch OMAC via an affordable housing project. A 3.5 to 5 acre parcel of serviced land is required to support the initial scale of project required to sustain OMAC operations. At this time the Town does not have a suitable 3.5 to 5 acre parcel of land in its inventory that is

ready for residential development in the short-term. The Town must balance and consider the various land needs to support a growing community, which includes but is not limited to: affordable housing, educational, recreational and operational needs when considering budgeting for future land purchases.

The business plan assumes that nearly 50% of project costs will be secured through grants to advance a 100% affordable project. As federal and provincial grant programs are highly over subscribed, it is likely that repeated attempts will be required to access this funding. If OMAC were to be successful in obtaining grant funding there is no guarantee that the full amount required will be awarded. OMAC could pursue a mixed-market project funded through debt financing; however this option will likely take longer to achieve cash flow positivity. Interest rates will have an influence on the amount of capital contributions required and timeframe to achieve cash flow positivity.

The MCC model to advance affordable housing is a viable solution; however it will not address needs in the short term. The Town would either need to acquire a suitably sized parcel for residential development or work to bring existing parcels of land into a state of readiness for residential development. High competition for scarce federal and provincial affordable housing grants means multiple applications will likely be required to secure the required funding to advance a 100% affordable project, further delaying the time to project initiation. In addition, the annual operational costs of staffing the MCC should be considered in the potential delay in securing grant funding.

In the short-term it does not appear that an MCC model can overcome the challenges faced by non-profit providers in advancing affordable rental development, in particular the need for substantial capital investment. However, the MCC model does present an opportunity to generate revenues through other more profitable ventures that could be reinvested into social objectives such as affordable housing. This would be considered a strategic long-term approach to self-funding affordable housing projects.

Next Steps

Administration will report back to Council on potential short-term options to advance affordable housing development in Okotoks. This could include capital contributions, loans, purchase of units, below market land sales or other partnership opportunities.

As part of the Town's overall land strategy, Administration will continue to identify opportunities to acquire or maximize use of lands to meet community needs, including opportunities to advance affordable housing development.

Strategic Plan Goals

<input checked="" type="checkbox"/>	Responsibly Managed Growth	<input type="checkbox"/>	Demonstrated Environmental Leadership
<input checked="" type="checkbox"/>	Strong Local Economy	<input type="checkbox"/>	Enhanced Culture & Community Health
<input checked="" type="checkbox"/>	Organizational Excellence		

Equity/Diversity/Inclusivity Impacts and Strategy

Housing is a universal and basic human need and a key determinant of health and well-being. The Town is actively taking steps to improve the diversity of housing in Okotoks so that all individuals and families can find housing that meets their unique needs.

Environmental Impacts

Efforts to diversify the housing stock by providing more rental and below market housing options will serve to increase opportunities for Okotoks' workforce to also live in the community, thereby reducing commutes and contributing to a reduction in Greenhouse Gas emissions.

Governing Policies/Bylaws/Legislation or Agreements

Municipal Development Plan

Policy 5.2.3 Support and encourage the development of non-market affordable housing

- a) Identify municipal land assets and assess the potential of acquiring and using surplus lands for future affordable or special needs housing projects.

Affordable Housing Strategy

Action 2.10 Create a housing authority plan to develop, operate and maintain nonmarket rental and owner housing.

Action 2.11 Identify municipal land assets and use a decision-making tool to assess the potential of acquiring and using surplus lands for future affordable or special needs housing projects.

Community Engagement Strategy

Exploring the creation of a MCC to advance below market housing development is a key recommendation from the Affordable Housing Strategy. There are a number of policies in the Municipal Development Plan that support the Town's efforts regarding exploration of options to advance affordable housing development. Both documents were informed by extensive stakeholder and community engagement and best practices research.

This report is provided to Council as information at this time and no further engagement is required.

Alternatives for Consideration

n/a

CAO Comments

This report was commissioned to determine if the municipality entering the provision of affordable housing was a viable solution to address the communities affordable housing needs. In consideration of this option, the Town would need to be able to demonstrate that it has some advantage that the overall market can't address. What is clear in the analyses is that for units to be truly affordable a level of grant subsidization is required. To put this in perspective the province of Alberta in their 2024 budget committed \$840M for affordable housing partnership grants. Various service providers in Okotoks have been unsuccessful in accessing grants to reduce the costs of constructing affordable units. The amount the Town would need to be successful is well beyond what is currently available in grant funding. As such, the need for a housing corporation in the short term to address affordable housing is not a viable option. A land strategy for long term options should be a consideration amongst priorities moving forward however the Town should explore other short term strategies to advance affordable housing.

Attachment(s)

1. OMAC Business Plan
2. November 20, 2023 Council Report – Municipal Role in Housing

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