

MUNICIPAL ROLE IN HOUSING

Issue

Reliance on the non-profit and private sectors to deliver below market rental housing is not addressing the gaps that persist in the market.

Motion Proposed by Administration

That Administration be directed to initiate business planning and financial modelling in support of creating a Municipally Controlled Corporation in order to implement action 2.10 of the Affordable Housing Strategy Action Plan, thereby taking an active role in the delivery of below market rental housing units. This planning and financial modelling should be completed by March 31, 2024 and presented to Council by April 30, 2024.

Report, Analysis and Financial Implications

Affordable Housing Strategy

Council approved the Affordable Housing Strategy in late 2020, which provided a number of recommendations to address the affordable housing needs of current and future residents. Since that time, the Town has implemented a number of actions to support the provision of diverse and affordable housing to meet the needs of residents.

Table 1: Actions to Improve Diverse Housing Options in Okotoks

2021	<p><u>Adopted Housing Friendly Policies</u></p> <p><u>New Municipal Development Plan</u></p> <ul style="list-style-type: none"> • Increased density from 8 to 12 units per acre; • 40% of new housing required to be multi-unit; and • Numerous policies directed at increasing below-market affordable housing for low-income households, and enhancing overall diversity of housing to meet the needs of all households. <p><u>New Land Use Bylaw</u></p> <ul style="list-style-type: none"> • Reduced residential districts from nine (9) to two (2); • Housing of any type permitted; • Base zoning allows up to four (4) units on a parcel; • Eliminated minimum parking requirements; and • Eliminated requirement for a development permit for secondary suites (in most cases). <p><u>Implemented Grant Programs</u></p> <p><u>Secondary Suite and Accessory Dwelling Unit Grant Program</u></p> <ul style="list-style-type: none"> • \$10,000 per new suite;
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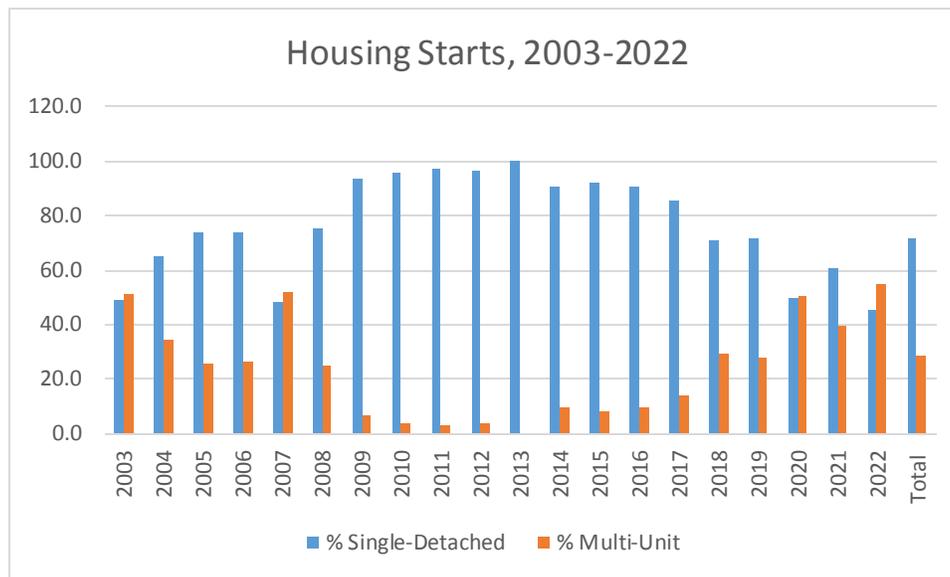
	<ul style="list-style-type: none"> • 25 new suites supported by grant to date; and • Nine (9) projects (and counting) on the program waitlist. <p><u>Below Market Housing Incentive Grant Program</u></p> <ul style="list-style-type: none"> • \$15,000 per door; • 10 new below market units supported by grant; and • Municipal investment was leveraged to secure provincial grant funding and low cost Canada Mortgage and Housing Corporation financing.
2022	<p><u>Infrastructure to Support Housing Development</u></p> <ul style="list-style-type: none"> • Significant efforts to advance water pipeline development (ongoing); and • Lifecycle replacement and capacity upgrades at Wastewater Treatment Plant to meet growth projections. <p><u>Okotoks Family Resource Centre Database</u></p> <ul style="list-style-type: none"> • New database to collect information on client needs; and • Allows the Town to begin tracking trends related to housing availability, those at risk of homelessness, and those experiencing homelessness.
2023	<p><u>Staff Resource Added to Implement Strategy</u></p> <p><u>D'Arcy Affordable Housing Site</u></p> <ul style="list-style-type: none"> • Completed site servicing to facilitate shovel ready projects; • Contributed an additional \$1.0M to off-set site servicing costs to project partners and support strong grant applications; and • Construction of 32 market rental units commenced. <p><u>Housing Database Development</u></p> <ul style="list-style-type: none"> • Working database to track housing inventory and trends to supplement housing needs assessments.

Persistent Gaps in Below Market Rental Housing

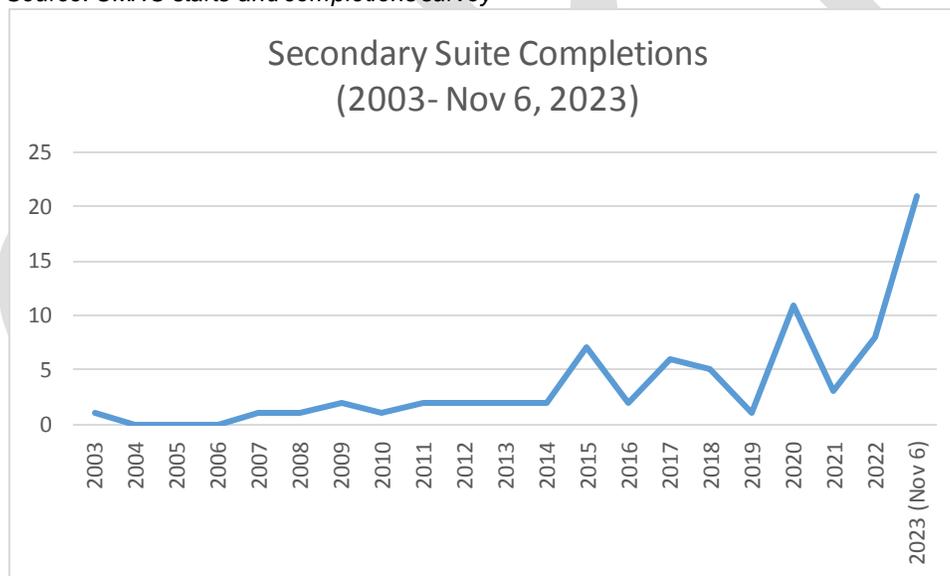
To date the Town's role in housing has been that of enabler and facilitator, leaving the delivery of housing to the non-profit and private sectors. The Town has implemented housing friendly policies, grant programs, and donated land to non-profit partners to enhance the diversity of housing in Okotoks. Progress has been made with this approach. In 2023, 70 units of purpose built rental (22 of which are below market) were added. The last time below market units were added to Okotoks housing stock was in 2009 and 2010 through municipal block funding by the province.

The Town's housing friendly policies and grant programs have contributed to significant progress in diversifying the overall housing stock and accelerating the supply of secondary suites. Between 2020 and 2022, nearly 50% of new construction starts were for multi-unit projects (duplexes, row housing, apartments) and to date there are more than 70 completed secondary suites and more than 40 suites under construction. About half of all suites under construction are new home builder

initiated, while the other half are projects initiated by homeowners in existing developed homes.



Source: CMHC starts and completions survey



Source: Okotoks building permit records

Though progress has been made, there are persistent challenges in advancing the supply of below market rental housing to meet the needs of residents. Okotoks has 151 units¹ of subsidized housing supporting 1.4% of households, compared to 3.6% in Calgary and 6% nation-wide². At the end of September, Westwinds Communities had 119 households on a waitlist for the 101 occupied units they operate in Okotoks. An additional 21 households have qualified for rental assistance benefits, but are unable to secure rental accommodation in Okotoks. The demand for below market housing

¹ Excludes seniors assisted living facilities

² Calgary Affordable Housing Service Plan <https://www.calgary.ca/service-lines/2023-2026-cityservices/affordable-housing.html?service-line-budget-bar-chart-serviceplanbudget-xview=2023&service-linebudget-bar-chart-serviceplanbudget-view-open=> [Accessed July 19, 2023]

greatly outstrips supply, and is assumed to be much higher than Westwinds waitlist figures due to the eligibility requirements that have not kept pace with inflation. Many households are facing housing affordability challenges due to inflation and sharp housing cost increases, but many have incomes that are too high to qualify for subsidized housing.

Challenges in Delivery of Below Market Rental Housing

Reliance on the non-profit and private sectors to deliver below market rental housing has a number of challenges. Favourable regulatory conditions, market demand, and attractive federal programs have sparked strong interest from the private sector in pursuing multi-unit and purpose built rental projects. This is positive; however the private sector is profit driven and will typically only offer units at below market if required through grant and financing agreements. Terms of these agreements typically range from 10 to 20 years after which the units revert to market rents. Furthermore, the Town has limited mechanisms to prevent rental units from converting to condominium units over time.

Westwinds Communities has a mandate to deliver affordable and seniors housing to communities in the Foothills region; however their core business is the operation of housing units. In Okotoks, Westwinds operates 82 units of social housing (seniors and community housing) on behalf of the province, and owns/operates 19 units of below market rental units. Since 2019, the Town has been collaborating with Westwinds to advance development of below market rental units at the D'Arcy affordable housing site. Both the Town and Westwinds have invested substantive capital and staff resources into these projects; however, a persistent lack of provincial and federal investment has been a barrier to advancing construction of units. Westwinds has a vested interest in adding below market units in Okotoks; however, they alone do not have the capacity (resource and financial) to deliver the number of below market units needed in Okotoks.

Opportunity – Expand Town's Role in Delivery of Housing

The Affordable Housing Strategy includes a recommendation that the Town explore the possibility of creating an arm's-length municipal housing corporation with a specific mandate to advance the planning, development, maintenance, and operations of below market units. This recommendation is further supported by the Town's 2023 to 2026 Corporate Business Plan that directs that this work be initiated in 2023. Based on these recommendations and progress monitoring, Administration conducted a review of various approaches to accelerate the supply of below market rental housing. Core to this review was exploring options to maximize use of Town land assets, as contribution of land assets is a key tool municipalities have to support below market housing development.

Administration reviewed four options for accelerating the delivery of below market housing using Town land assets: Town develops, Non-profit sector develops, private sector develops, Arm's-length municipally controlled corporation (MCC) develops. There were seven key criteria that were used to assess the effectiveness of the four options to accelerate housing delivery:

- *Competing priorities* – Ability to focus efforts on delivery of below market units in Okotoks.
- *Municipal debt limits* – Impact on municipal debt limits. The Town has limited options for generating revenue outside of property taxes, user fees and grants, and is limited in the amount of debt it can take on to finance projects.
- *Capacity* – The degree of capacity to take on below market housing projects.
- *Conflict with regulator role* – The Town is responsible for regulating the development of housing within its boundaries to ensure alignment with plans, policies, and safety code requirements.
- *Maintain units over long-term* – Ability to maintain below market units in perpetuity and to prevent loss of rental units through condominium conversions.
- *Address other community needs* – Ability to adapt and address evolving community needs over time, outside of housing.
- *Development expertise* – Ability to efficiently execute on all aspects of housing development (planning, procurement, financing, construction).

Table 2 below summarizes the evaluation of key criteria against the four options considered to advance below market housing supply using Town land assets. This analysis supports the recommendation to proceed to business planning and financial modelling to advance development of below market housing using Town land assets via an arms-length MCC.

Table 2: Options to Develop Housing Using Town Land Assets

	Town	Westwinds/Non-Profit	Private Sector	MCC
Competing Priorities	●	●	●	●
Municipal debt limits	●	●	●	●
Capacity	●	●	●	●
Conflict with regulator role	●	●	●	●
Maintain units over long-term	●	●	●	●
Address other community needs	●	●	●	●
Development expertise	●	●	●	●

What is an MCC?

MCC's are for-profit corporations that are controlled by a municipality (or group of municipalities) for the purposes of providing municipal services or facilities. They are regulated by the *Municipal Government Act*, *Business Corporations Act*, *Municipally Controlled Corporations Regulation*, and *Municipal Debt Limit Regulation*. A municipality may establish a controlled corporation if the business to be carried on meets one or more of the municipal purposes outlined under Part I, Section 3 of the *Municipal Government Act*. Two of these municipal purposes can be related to the provision of housing. Specifically, subsection 3(b) "to provide services, facilities or other things that, in the opinion of council, are necessary or desirable for all or part of the municipality", and subsection 3(c) "to develop and maintain safe and viable

communities”. Focusing on the delivery of housing also supports the municipal purpose in subsection 3(a.2) “to foster the economic development of the municipality”.

How could an MCC Accelerate Below Market Housing Delivery?

MCC’s provide a unique vehicle by which municipalities can form additional operating capacity to provide specialized services and expertise, leverage additional financial capacity to increase borrowing and with that, fund and execute new projects, and enable joint ventures with privately held corporations. The municipality can establish a specific mandate of the MCC in accordance with the municipal purposes outlined in Section 3 of the *Municipal Government Act*. As it relates to below market housing, Council could accept lower profit margins than expected by the private sector to achieve a social benefit.

While the corporation’s sole shareholder remains the municipality, the corporation operates separate of the day-to-day operations of the municipality. The operation of the corporation independent from Council creates opportunities or advantages that a municipality by itself could not facilitate:

- The MCC can borrow to finance development projects with a debt limit outside of the municipality’s debt limit. The creation of a MCC lifts the debt ceiling by using asset value leveraged to support private borrowing.
- The MCC can enter into partnerships/joint ventures with developers to assist in the construction of below market housing.
- Any profits made from MCC operations may be returned to the Town as additional revenue where it could be reinvested for other requirements or used to fund the operations of another branch of the MCC. For social objectives such as below market housing, Council could choose to accept lower profit margins than expected in the private sector.
- The conflict of interest where a municipality develops and approves development proposals is removed when the MCC creates and submits a project for approval by the municipality.
- Separate hiring opportunities and potential to allow the MCC to hire project managers, or staff the MCC with relevant project experience.

Next Steps

The recommendation in this report is for Council to direct Administration to undertake business planning and financial modelling to confirm the operational viability of a MCC focused on the delivery of below market rental housing using Town land assets.

Business plan requirements are outlined in Section 75.1(4) of the *Municipal Government Act*, with further details in the Municipally Controlled Corporation Regulation. Business plan requirements generally include:

- Costs related to establishing and controlling the corporation;
- Value of any assets of the municipality that are to be transferred to the corporation;
- Cash flow projection for the next three (3) years of the corporation’s operation;

- Services the corporation intends to provide;
- Names of shareholders of the corporation;
- Geographic location the corporation intends to provide services;
- Any potential environmental, financial, labour or other liability risk in controlling the corporation;
- Information demonstrating that the corporation will not be dependent on the shareholders for its ongoing operations;
- The impact of controlling the corporation on the municipalities financial viability; and
- A market impact analysis if the municipal control of the corporation would result in competition with similar services provided by the private sector.

The recommendation in this report does not authorize the creation of an MCC, but rather supports further detailed business planning to confirm operational viability. The outcome of the business planning and financial modelling will be presented to Council at a future meeting. Should Council be satisfied with the business plan and financial modelling, they may direct Administration to initiate the public hearing process as required by the *Municipal Government Act*, for Council to consider the establishment of a MCC for the purposes of developing and/or acquiring below market rental housing.

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 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 GHG emissions

Governing Policies/Bylaws/Legislation or Agreements

Municipal Development Plan

- Policy 5.1.5 Facilitate purpose-built rental housing
 - a) Encourage and incentivize purpose-built rental housing and explore measures to ensure housing is maintained for rental purposes.
- Policy 5.2.2 Create a Housing Reserve Fund

- a) Explore the possibility of creating a Housing Reserve Fund to support the construction and operation of affordable housing projects in collaboration with partners.
- 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 2.2 Establish a Housing Reserve Fund and collect funding to support the construction and operation of affordable housing projects in collaboration with partners. (Revenues can come from taxes, loan repayments, municipal land sales, or other sources such as cash or land donations.)
- Action 2.10 Create a housing authority plan to develop, operate and maintain non-market rental and owner housing.
- 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.

Public Participation Strategy

This report has been informed by the recommendations in the Affordable Housing Strategy and policy direction in the Municipal Development Plan.

The Affordable Housing Strategy was developed by the Affordable Housing Task Force and informed by a housing needs assessment, stakeholder and community engagement, and best practices research. The Municipal Development Plan was developed based on extensive community consultation and a formal public hearing process.

Alternatives for Consideration

Council to direct Administration to explore alternatives to accelerate the supply of below market housing in Okotoks.

CAO Comments

I support exploring the creation of a MCC to advance affordable housing initiatives within Okotoks. One of the key pieces to understand is why this gap is not being filled by the private market, and how the creation of a MCC will actually fill the gap. This work is essential to understanding how to best influence market conditions.

Attachment(s)

n/a

Prepared by:
Michelle Grenw ich, Social Planner
Lauren Gagatek, Planner
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