

Date: March 14, 2022	Originator's file: CD.06-DEV
To: Chair and Members of General Committee	
From: Andrew Whittemore, M.U.R.P., Commissioner of Planning & Building	Meeting date: March 30, 2022

## **Subject**

Development Charges Grants for Eligible Affordable Rental Housing Developments

## **Recommendation**

1. That a grant equivalent to the City portion of development charges to support affordable rental housing on a 500 unit pilot basis be approved as outlined in the corporate report dated March 14, 2022 from the Commissioner of Planning and Building entitled "Development Charges Grants for Eligible Affordable Rental Housing Developments".
2. That staff develop a Corporate Policy and Procedure for Eligible Affordable Rental Housing Developments to guide administration of the grant based on the approach outlined in the report dated March 14, 2022 from the Commissioner of Planning and Building entitled "Development Charges Grants for Eligible Affordable Rental Housing Developments".
3. That the report dated March 14, 2022 from the Commissioner of Planning and Building entitled "Development Charges Grants for Eligible Affordable Rental Housing Developments" be forwarded to the Region of Peel and that City and Regional staff examine opportunities to coordinate local and regional affordable rental incentives with a view to maximizing their impact on supply.

## **Executive Summary**

- Affordable rental housing addresses an important gap in the City's housing supply for low and middle-income households.
- Recently several affordable housing developers and the Region of Peel, have requested that the City provide financial relief, most notably, in the form of a DC waiver or exemption for affordable rental housing.
- City Council's recent approach has been to waive City development charges in certain instances on a request basis.

- A Corporate Policy and Procedure is proposed to establish and administer the grant for eligible affordable rental housing developments. The grant would effectively rebate the City portion of development charges paid on eligible affordable rental developments.
- The proposed grant is discretionary and would need to be temporarily funded from reserves and contributions. In the longer term, an operating budget needs to be established to support the program.
- A five-year time horizon is proposed for the program at a total cost of \$10M (or \$2M annually). It is estimated that the program could help in the delivery of 500 new affordable rental units.

## Background

Affordable rental housing addresses an important gap in the City's housing supply for low and middle-income households. Most housing producers however, encounter considerable barriers to deliver new housing at affordable rates.

The City has recently received a number of requests for financial relief to support affordable rental housing. While most housing producers are interested in a combination of reductions e.g. property taxes, parking rates, parkland dedication, planning/building fees, the most common request is for Development Charge (DC) waivers or exemptions.

In July 2019, Council endorsed the development of a Community Improvement Plan (CIP) to provide incentives for Affordable Rental Housing. The CIP was temporarily paused due to uncertainty around the impacts of the Covid-19 pandemic on the City's finances. In the meantime, Council agreed to provide DC relief to two Region of Peel Housing Development Master Plan (HDMP) projects. In 2017, the City approved the deferral of City DCs for 174 units at 360 City Centre Drive. In 2021, when ownership of the affordable housing units was transferred to the Region, Mississauga waived the development charges as approved by Council. The forgone DC revenue of \$2.9M was made up through a transfer from the Tax Capital reserve fund. Also in 2021, Council agreed to provide DC relief (estimated to be \$3,679,037) to support 150 Peel affordable rental units at 70 Mississauga Road. The second master plan project has not been built yet. Staff continue to monitor the timing of the project.

Non-profit organizations challenged with securing adequate funding upfront have also approached the City for financial assistance. In 2021, the City issued a building permit for ten additional transitional housing units for victims of domestic violence at Armagh House. Council had previously approved a DC waiver for the City portion of these charges (\$199,035.09).

The source of other requests is broad. It ranges from non-profit organizations developing seniors' or supportive housing as well as developers such as Daniels Corporation seeking to collaborate with a non-profit provider to include affordable units in projects under construction.

The City is currently managing requests for DC relief on an ad-hoc basis as there is no Council-endorsed guidance on the matter.

## Comments

The City's DC By-law does not distinguish between a rental apartment unit and a market condominium. Both are subject to the apartment DC category. **Table 1** below provides a breakdown of applicable City vs. Region DCs for small and large apartment units. The development charges are typically paid prior to the issuance of a building permit.

<b>Table 1 – City and Region Development Charge Rates</b>		
	<b>Development Charges Per Unit</b>	
	<b>Small Apartment*</b>	<b>Large Apartment**</b>
<b>City's DC (Feb 2022)</b>	\$15,995	\$29,285
<b>Regional DC In-Force</b>	\$26,200	\$49,540
<b>Total</b>	\$42,195	\$78,825

\*Small Apartment Rate for Peel DCs is applicable for units <=750 sf

\*\*Small Apartment Rate for Mississauga DCs is applicable for units <=700 sf.

Recent changes to the *Development Charges Act (DCA)* enable rental housing proponents to defer DCs over five years in six installments and non-profit rental housing development to defer DC payments over 21 annual payments. In 2021, the City set a zero interest rate charge for the deferrals to lessen costs for affordable housing development.

Despite the introduction of these measures, affordable rental housing producers continue to seek financial offsets to reduce development costs in order to provide more affordable units.

### **a) What Have Other Cities Done To Facilitate Affordable Rental?**

Mississauga is not alone when it comes to the challenges of facilitating more affordable rental housing. Many cities are grappling with this issue and have intervened in various ways.

In 2016, the City of Toronto introduced its *Open Door* Affordable Housing Program to accelerate affordable housing construction. It offers capital and incentive funding to private and non-profit affordable housing producers to reduce development costs. Offered on an annual competitive basis, *Open Door* provides City financial contributions in the form of capital funding and/or incentives such as exemptions from development charges, planning and building permit fees, parkland dedication fees and property taxes as well as fast track approvals for projects that meet the intent of the City's Official Plan. In 2021, approximately \$10 million in grant funding was available.

The Region of Waterloo and cities of Hamilton, Peterborough, Ottawa, also provide waivers or grants to offset development charges for affordable housing development. The City of Burlington is currently proposing a non-statutory exemption in its latest DC by-law for non-profit and cooperative housing developments in order to incent more affordable housing and lessen the burden of administering 21-years of installments provided under the Development Charges Act. The City of Brampton is also examining financial incentives for affordable housing through its citywide CIP.

The Region of Peel recently launched an Affordable Housing Incentive Pilot Program (AHIPP) which provides capital grants to private and non-profit developers building affordable rental housing with a focus on family-sized units. Up to \$7.5 million in funding was available in 2021. The program awarded financial support for 130 affordable rental housing units (52 in Brampton and 78 in Mississauga). See link: <https://www.peelregion.ca/housing/development/affordable-housing-incentives/>. A report to the Region of Peel Strategic Housing and Homelessness Committee is planned for June 2022, which will seek Committee's endorsement of recommendations on the future of the program.

**b) A Proposed Grant-in-Lieu of Development Charges for Affordable Rental Housing**

In order to facilitate more purpose built affordable rental housing in Mississauga, staff are proposing a program which would provide grants equivalent to the City portion of development charges based on the following two categories:

**Category 1:** Deeply Affordable Rental Housing Projects

**Category 2:** Below Market Rental Housing Projects

	<b>City's Proposed Affordable Rental Housing Program</b>		<b>Region of Peel's Rental Affordable Housing Incentive*</b>
<b>Monthly Rent Target (2021 rounded)</b>	Below 100% AMR	100-125% AMR	Under 135% Median Market Rent with emphasis on family-sized units
<b>1 Bedroom</b>	\$1,400		\$1,800
<b>2 Bedroom</b>	\$1,600		\$2,100
<b>3 Bedroom</b>	\$1,800		\$2,200
<b>Grant Type</b>	Covers 100% of City DCs	Covers 50% of City DCs	Score-based grant can be applied to Regional DCs or other expenses
<b>Minimum Affordability Period</b>	25 years		25 years
<b>Household Income Target (Average size)</b>	Under \$63,000		Under \$79,000

\*Current program framework under review by the Region

Recognizing the City's proposed grant program is more effective when the Region provides similar scale of relief, Table 2 illustrates how the City and Regional programs could work in tandem to reduce overall costs and to facilitate more purpose built affordable rental housing. It should be noted that staff are not recommending affordable ownership projects be included in this program because affordable ownership is the focus of the city's draft Inclusionary Zoning program. Moreover, other forms of supportive housing (non-profit development of long-term care (LTC) facilities, hospices, shelters and transitional housing) are not included because they are addressed separately in a report titled "*Development Charges Grants for Eligible Non-Profit Developments*" dated March 11, 2022 from the Commissioner of Corporate Services and Chief Financial Officer.

**c) Impact of DC Relief on Affordable Rental Housing**

There are many benefits to the proposed grant program. Staff estimate approximately 100 new affordable rental housing units could be created on an annual basis - including a mix of deeply affordable and below market rent categories. Discussions with non-profit rental housing proponents reveal that development charge grants, particularly when stacked with the Regional grant, can make a significant impact on the economic viability of the development. The proposed grants will enable rental housing providers to:

- lower the rental rates
- better compete when land is purchased on open market
- better plan their projects and ultimately reduce time and costs

Furthermore, by establishing a program the City will be able to:

- prioritize projects for DC relief eligibility
- provide more equitable treatment and transparency in decision-making
- better plan impacts to City revenues
- align any related decisions with the City and Region's strategic housing objectives and roles

**d) Corporate Policy and Procedure**

The establishment of a new Corporate Policy and Procedure for the Affordable Rental Housing program which outlines eligibility criteria, program details and administration process, is recommended.

In terms of eligibility, staff recommend applicants be limited to purpose built affordable rental projects developed by a non-profit corporation, or a private developer working in partnership with a non-profit provider or the Region of Peel. In the case of mixed income buildings, only the affordable units meeting the criteria above would be eligible for the grant.

The administration of the Affordable Rental Housing program will be supported by City finance and planning staff in partnership with the Region. Applicants will be required to submit an application. Successful applicants will be required to pay the City's DCs at the time of building permit issuance, with the DCs being subsequently reimbursed. In certain circumstances, the applicant may seek approval for a DC payment deferral agreement. Such agreements will be assessed on an individual basis and will be granted at the discretion of the Commissioner of Corporate Services.

The pilot program would have a cap of 500 total qualifying units or 5 years, whatever occurs first. A budget for the program will be included in the annual city budget process for Council's approval. The annual budget is estimated at \$2M per year but it could vary one year to the next based on the ability of non-profits to secure land. The Corporate Policy will address whether the issuance of grants can be delegated to staff.

In order to ensure good value for money, an annual report on the Affordable Rental Housing program will be prepared.

## Strategic Plan

The need to support affordable housing originates from the Strategic Plan 'Belong' Pillar. Two strategic goals relate to affordable housing – 'Ensure Affordability and Accessibility' and 'Support Aging in Place'. One strategic action links to the Housing Strategy: Action 1 – Attract and keep people in Mississauga through an affordable housing strategy.

## Engagement and Consultation

Staff have engaged with Regional staff to discuss the proposed grant framework given they already have an administrative process in place and that many of the projects are likely to qualify for both the Regional and City programs.

Staff have noted to interested developers that a report on DC grants was in progress for Council consideration. Some stakeholders have suggested the pilot program should be expanded to also consider parkland dedication and/or property taxes to create an even larger impact. Staff would like to observe the success of a DC-focused grant before other incentives are considered.

## Financial Impact

The proposed grant would be calculated based on the amount equivalent to the City's DCs payable for the affordable rental units of the development. The annual cost of the program is estimated at \$2M, detailed in Figure 1 below.

The Affordable Housing reserve fund #35596, was established in 2021. This new reserve fund will be initially funded from the Building Revenue Stabilization reserve (#30161). Grant monies will be paid from the Affordable Housing RF, at least up to 2024. After that, an annual tax funded budget will need to be established to fund the continuation of the program. Staff will continue to explore alternate revenue sources to support the program.

**Category 1 – Grant Equivalent to 100% of DCs - Deeply Affordable Rental Housing Projects**

Estimated Yield (units/year)	Proposed Approach	Financial Impact	Notes
50	Grant equivalent to 100% of Mississauga DCs	\$1.3M	assumed 20% small unit and 80% apartment

**Category 2 – Grant Equivalent to 50% of DCs - Substantially Below Market Affordable Rental Housing Projects**

Estimated Yield (units/year)	Proposed Approach	Financial Impact	Notes
50	Grant equivalent to 50% of Mississauga DCs	\$0.7M	assumed 20% small unit and 80% apartment

**Total Category 1 & 2 Grant**      **\$2.0M /year**

## Conclusion

Staff recognize the financial challenges with developing affordable rental housing in the city particularly for non-profit developers. Accordingly, staff recommend that a Corporate Policy and a grant equivalent to the City's DC payable be established. This would enable such requests to be dealt with fairly and transparently. The grant is provided at the City's discretion and would need to be funded through non-DC sources in order to make the DC reserves whole.

## Attachments

None



Andrew Whittemore, M.U.R.P., Commissioner of Planning & Building

Prepared by: Paulina Mikicich, Manager, Planning Innovation