
REPORT TITLE: Region of Peel Affordable Housing Incentives Pilot Program

**FROM: Andrew Farr, Interim Commissioner of Public Works
Janice Sheehy, Commissioner of Human Services**

RECOMMENDATION

That the Affordable Housing Incentives Pilot Program as set out in the joint report of the Interim Commissioner of Public Works and the Commissioner of Human Services, titled “Region of Peel Affordable Housing Incentives Pilot Program”, be endorsed;

And further, that Municipal Housing Facility By-law 41-2003 be repealed;

And further, that a new Municipal Housing Facility By-law be presented for enactment in accordance with section 110 of the *Municipal Act, 2001* as amended, and shall be effective on the date of enactment;

And further, that the Commissioner of Human Services and the Director, Housing Development Office, be authorized to approve and execute funding agreements, together with such further ancillary documents necessary for the Pilot Program, on financial terms satisfactory to the Chief Financial Officer and on legal terms satisfactory to the Regional Solicitor.

REPORT HIGHLIGHTS

- In April 2018, Regional Council approved the Peel Housing and Homelessness Plan, 2018-2028, including “Strategy Three: Provide Incentives to Build Affordable Housing,” which focuses on coordinating land use planning tools and providing financial incentives to increase affordable housing developed by the private and non-profit sectors.
 - Regional staff collaborated with the local municipalities and other stakeholders to develop the Affordable Housing Incentives Pilot Program (the “Pilot Program”), which utilizes the one-time preliminary funding approved through the 2019 Regional budget, and is designed to incorporate other senior level and local municipal funding sources and incentives as they become available.
 - The Pilot Program is designed to incentivize middle income affordable rental housing, which was identified as a need through the Region’s Peel Housing and Homelessness Plan, Housing Needs Assessment and local municipal housing strategies.
 - The Pilot Program will supplement other Regional affordable housing initiatives including the Region’s own affordable housing development program outlined in the Housing Master Plan and potential implementation of new inclusionary zoning legislation.
 - A new Region of Peel Municipal Housing Facility By-law is required to implement the Pilot Program (including a repeal of previous By-law 41-2003).
 - Results of the Pilot Program will be evaluated and, if successful, will be utilized to further refine and implement a longer-term affordable housing incentive program.
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Region of Peel Affordable Housing Incentives Pilot Program

DISCUSSION

1. Background

The Region of Peel is facing a rental housing crisis. At a vacancy rate of 1.2 per cent, and with limited rental stock being added to the market each year, potential Peel renter households face significant challenges to finding appropriate, affordable housing.

In April 2018, Regional Council endorsed the Peel Housing and Homelessness Plan 2018-2028 (the “Plan”), which introduced five strategies to help Peel residents get and keep housing, including Strategy Three: Provide Incentives to Build Affordable Housing. This strategy focuses on coordinating land use planning tools and incentives to increase affordable housing developed by the private and non-profit sectors. The strategy includes the immediate action to bring forward a framework for an affordable housing incentives-based program.

The Region retained N. Barry Lyon Consultants Ltd. (“Consultants”) to work with staff to develop the Affordable Housing Incentives Pilot Program (the “Pilot Program”). The work undertaken by the Consultants included a financial assessment, case study/best practices report, and direction for the design and implementation of the Pilot Program.

Through this report, staff seek Regional Council endorsement of the Pilot Program and approval of the updated Regional Municipal Housing Facility By-law that is required to implement the program.

2. Affordable Housing Incentives Pilot Program

a) Pilot Program Objectives

The primary objective of the Pilot Program is to increase Peel’s supply of rental housing that is affordable to middle income households with annual earnings of \$61,600 to \$110,500, with a focus on increasing supply of larger, family sized rental units. The program as designed would address an identified Regional and local municipal need and supplement the Region’s existing housing programs that focus on low income households (e.g. shelter services, rent supplements and housing allowances).

As a Pilot Program, the Region also aims to evaluate the conditions and results of the program, and to propose refinements in an annual report to Regional Council before proceeding with subsequent rounds. Through the evaluation process, the Pilot Program is intended to serve as a tool to better understand how to support affordable housing in Peel.

The long-term vision for the Pilot Program is a comprehensive approach to affordable housing that incorporates various forms of incentives from all levels of government – this is referred to as “stacking” of incentives. Regional staff worked closely with the local municipalities to ensure that the program would be flexible enough to allow for additional funding and incentives from Regional, local municipal, and other sources as they become available, and will continue to work towards a broader coordinated program.

Region of Peel Affordable Housing Incentives Pilot Program

b) Stakeholder Engagement, Financial Assessment and Best Practices

The design of the Pilot Program was informed by research undertaken by the Consultants and through ongoing collaboration with the local municipalities. Further, Regional staff engaged with private and non-profit developers through consultation sessions held in September 2019 and May 2020, to ensure the Pilot Program reflects key industry insights and applicable feedback. The Pilot Program was revised to reflect key industry insights, including support for a streamlined Regional/local municipal approach, additional information requested regarding administration of rental units, and recommended evaluation criteria to be considered such sustainable features.

The financial assessment supported a focus on middle income rental housing for the Pilot Program, following analysis of the funding required to subsidize housing of various forms in locations throughout Peel. The assessment suggested that depending on the location of the project and other variables, between \$31,000 and \$142,000 per unit would be required to incentivize housing of this type. With the preliminary funding for the Pilot Program made available through the 2019 Regional budget process, this equates to between 20-80 affordable units, or one to two housing projects.

The case study/best practices review analyzed incentives programs from other Ontario municipalities, including the City of Toronto, York Region, and City of Peterborough. This review provided insights into development, design and implementation of the Region's program. One key output of this review was the recommendation that the Region utilize a municipal capital facility by-law under the *Municipal Act, 2001*, as amended, rather than a Community Improvement Plan to implement the program.

Additional details regarding funding and implementation through a municipal capital facility by-law are provided in subsequent sections of this report, and the supporting research and analysis is available on the Region's Housing Policy webpage.

c) Pilot Program Design

The Pilot Program as proposed would support the development of middle income affordable rental housing by providing incentives to build affordable units. In each round, private and non-profit developers would submit applications that include development plans and justification for the level of incentives being requested. Once applications are received, Regional staff recommend a 3-stage application review process (Table 1).

All applications would be assessed using base eligibility criteria in Stage 1, which includes a requirement that the incentivized units are primarily larger unit sizes (2 and 3+ bedrooms), and that the entire building be operated as rental for the duration of the funding agreement. This ensures that successful projects contribute to an increase in Peel rental supply generally, in addition to the middle income affordable units, as compared to providing the incentivized rental units within a condominium building. The eligibility requirements were established to ensure that financial incentives are carefully targeted, and that the program is supporting the development of housing units that would not otherwise be produced by the market.

Applications that meet the base eligibility criteria would advance to Stage 2, where applications would be competitively scored based on preferred criteria, including deeper levels of affordability and proximity to amenities and areas of housing need. Using the

Region of Peel Affordable Housing Incentives Pilot Program

scores established in Stage 2, a committee of Regional and local municipal staff would undertake a review in Stage 3 to make final recommendations on the most appropriate and effective allocation of funds to achieve housing objectives. An outline of the Pilot Program eligibility and review process is provided in Appendix I.

Table 1: Pilot Program Application Review Process

Stage 1: Base eligibility	Stage 2: Preferred criteria	Stage 3: Committee review
Applications must meet the base eligibility criteria to be considered for incentives	Applications that meet the base eligibility criteria will be scored on the preferred criteria.	Applications and scoring will be reviewed by committee.
<p>Affordability threshold: Affordable units must be affordable to middle income households (at or below 170% of CMHC median market rent (MMR) by unit size (number of bedrooms) and local municipality; (approx. \$2700/month for a 3-bedroom unit, or \$2,050/month for a 1-bedroom unit).</p>	<p>Preferred criteria:</p> <ul style="list-style-type: none"> • Affordability below 170% MMR • Duration of affordability • Proximity to amenities • On-site features • Development timing • Value for money 	<p>A committee of Regional and local municipal senior staff will review the applications and make a recommendation on the most appropriate allocation of funds.</p> <p>Regional staff would report annually to Regional Council.</p>
<p>Tenure: All units must be rental tenure.</p>		
<p>Duration of Affordability: Affordable units must be maintained as affordable for a minimum of 25 years.</p>		
<p>Affordable unit suite mix: Affordable units must be comprised of mostly 2 and 3+ bedroom units.</p>		

d) Municipal Housing Facility By-law

While the Pilot Program was originally envisioned as a Community Improvement Plan, the best practices review supported the use of an alternative tool – a municipal capital facility by-law. Under section 110 of the *Municipal Act, 2001*, as amended, with a municipal capital facility by-law, municipalities may enter into agreements to support a range of municipal capital facilities, including affordable housing. A municipal capital facility by-law is also being used by the City of Toronto for its successful Open Door Affordable Housing Program.

The use of the municipal capital facility by-law is preferable to a Community Improvement Plan for several reasons:

- Flexibility – a municipal capital facility by-law can be updated with Council approval, whereas a Community Improvement Plan requires a public meeting and additional *Planning Act* requirements;
- Appeal rights – a municipal capital facility by-law cannot be appealed to the Local Planning Appeal Tribunal, and there is limited potential for legal challenge;
- Administration – many updates to the Pilot Program will not require an update to the municipal capital facility by-law.

Region of Peel Affordable Housing Incentives Pilot Program

The use of this tool also enables the local municipalities to provide incentives through the Region's program, as additional local municipal funding and incentives become available.

The Region's current Municipal Housing Facility By-law (41-2003) must be replaced in order to implement the Pilot Program and to maximize its benefit from relevant updates to the *Municipal Act, 2001* and regulations. Certain sections of the existing By-law are outdated and too restrictive, for example, the definition of affordable rental housing, and other sections must be added, such as the section supporting local municipal participation. The proposed changes will not affect existing programs or agreements.

e) Pilot Program Funding and Incentives

In its initial round, the Pilot Program would utilize the \$2.5 million in funding approved through the 2019 Regional budget process to provide capital grants to private and non-profit developers to support middle income affordable rental housing. As noted, the preliminary funding would be able to incentivize 20-80 affordable units, or one to two housing projects.

Staff is prepared to implement the Pilot Program with its current funding, however given the minor number of units that may be incentivized, there is a risk of limited interest and therefore insights from the evaluation of the first round. Recognizing this, it has been identified that additional funding of \$5 million would enable a more substantial and comprehensive evaluation of the Pilot Program and could be sourced from working reserves rather than from the 2021 tax rate while the program is being evaluated. Staff is considering options for a budget request as part of the 2021 Regional budget to further support the Pilot Program, while recognizing that some flexibility is required given the uncertainty regarding the financial impacts of the COVID-19 pandemic on potential funding sources.

Related to Regional funding and incentives for rental housing, the Pilot Program would be supported by the proposed zero per cent Regional development charge deferral interest rate policy for rental and non-profit housing required under Bill 108. For more information, a report titled "Development Charge Interest Rate Policy – Bill 108" is on the July 9, 2020 Regional Council agenda.

In addition to Regional funding, as noted, the objective is to ultimately achieve a comprehensive program that includes "stacking" of incentives to provide a streamlined suite of tools and incentives to support affordable housing development. As middle-income housing is a priority for both the Region and local municipalities, the Pilot Program offers an opportunity to collaboratively advance key housing objectives.

The following are examples of additional incentives that may be considered by the local municipalities as the program is implemented:

- Relief of planning application and building permit fees for the affordable units
- Relief from cash-in-lieu of parkland requirements
- Relief of development charges for the affordable units
- Exempt new affordable rental housing from local property tax for the affordability period
- Tax Incremental Grants for the affordable units
- City/town-owned land at discounted or no cost
- Reduced parking ratio
- Waive parkland cash-in-lieu for the affordable units

Region of Peel Affordable Housing Incentives Pilot Program

- Fast-tracking approvals
- Local municipal capital grants

Regional staff looks forward to ongoing engagement with the local municipalities through implementation to broaden the Pilot Program to include additional local municipal funding and incentives as they become available, as well as greater local municipal participation in the administration of the program.

Further, applicants would have the opportunity to seek out additional sources of funding, such as funding provided through programs offered by senior levels of government. Regional staff intends to integrate these funding sources into the program where possible to provide a seamless process for developers.

f) Implementation and Approval

Based on the review of best practices, an annual Request for Proposal procurement process is recommended to implement the Pilot Program. This will allow for more predictable administration of the program including delivery of funding.

Through this report, staff request that the Commissioner of Human Services and the Director, Housing Development Office, be delegated Council's authority to approve and execute funding applications for the Pilot Program, on financial terms satisfactory to the Chief Financial Officer and on legal terms satisfactory to the Regional Solicitor. Individual by-laws will be required to enable the agreements for each approved project, and staff propose annual reporting to Regional Council on the status of the Pilot Program.

RISK CONSIDERATIONS

As a new Regional initiative there is uncertainty regarding the outcomes the Pilot Program will be able to achieve, given current conditions including available funding and incentives. To mitigate this risk, staff engaged with industry stakeholders throughout the process, and will continue to do so through implementation.

Further, staff will monitor the uptake and insights resulting from the implementation of the Pilot Program, which will inform any changes that may be recommended to refine and improve the program in the future. Staff will also continue to engage with the local municipalities to support the incorporation of additional funding and incentives through the program.

FINANCIAL IMPLICATIONS

The Pilot Program is anticipated to facilitate the development of between 20-80 housing units, or one to two residential projects, fully utilizing the existing \$2.5 million budget. However, to meaningfully incentivize affordable housing and evaluate the potential of the Pilot Program, additional funding would be beneficial. It has been identified that additional funding of \$5 million would enable a more substantial and comprehensive evaluation of the Pilot Program and could be sourced from working fund reserves.

Recognizing the financial impacts and uncertainty arising from the COVID-19 pandemic, staff will consider opportunities to propose additional funding, through the upcoming budget process, in order to appropriately test program design and the viability of the Pilot Program as implemented. As described in the report, staff will monitor the uptake and results from the

Region of Peel Affordable Housing Incentives Pilot Program

implementation of the Pilot Program, to assess, revise criteria if required and evaluate impact, which will inform additional funding requests in the future.

CONCLUSION

The Affordable Housing Incentives Pilot Program is a new opportunity to support the development of middle income affordable rental housing in Peel. Pending endorsement of the Pilot Program as described in this report, Regional staff will continue developing the administrative components of the Pilot Program, with anticipated launch by the Housing Development Office in 2021.

APPENDICES

Appendix I – Affordable Housing Incentives Pilot Program Overview

For further information regarding this report, please contact Adrian Smith, Acting Chief Planner and Director, Regional Planning and Growth Management, ext. 4047, adrian.smith@peelregion.ca; Aileen Baird, Director, Housing Services, ext. 1898, aileen.baird@peelregion.ca; or Steven Dickson, Director, Housing Development Office, ext. 4323, steven.dickson@peelregion.ca.

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Reviewed and/or approved in workflow by:

Department Commissioners, Division Directors, Financial Support Units and Legal Services.

Final approval is by the Chief Administrative Officer.



N. Polsinelli, Interim Chief Administrative Officer