

# The Corporation of the City of Kawartha Lakes

## Council Report

Report Number SH2015-005

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**Date:** December 8, 2015

**Time:** 2:00 p.m.

**Place:** Council Chambers

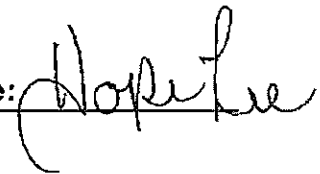
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**Ward Community Identifier:** All

**Subject:** KLHHC Phase 2 Regeneration Projects

**Author/Title:** Hope Lee, Manager of Housing

**Signature:**



### Recommendation(s):

**RESOLVED THAT** Report SH2015-005, KLHHC Phase 2 Regeneration Projects, be received; and

**THAT,** subject to the necessary by-laws and agreements being forwarded to Council for approval, and the successful completion of such planning and development processes as the City may require, the proposal by the Kawartha Lakes-Haliburton Housing Corporation (KLHHC) for reconstruction of twenty-five (25) of its older single and semi-detached housing units be approved, including the following project characteristics as described in Report SH2015-005:

1. The sale of twenty-five (25) single and semi-detached KLHHC housing units transferred by the Province to the KLHHC in 2001, with specific properties to be identified in subsequent reports to Council, and their replacement with twenty-five (25) newly constructed housing units to be rented as Rent-Geared-To-Income (RGI) units through a rent supplement agreement between the City and KLHHC; and
2. The completion of financing for cash flow and borrowing facilities in the City's own name, with the City then lending the funds to KLHHC; and
3. The municipal incentives proposed in Report SH2015-005 to support the two projects within which the twenty-five (25) reconstructed and nine (9) additional units will be created; and

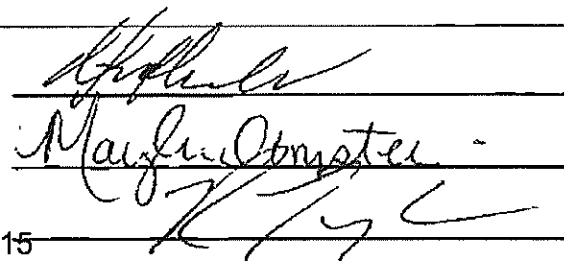
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**Department Head:**

**Corporate Services Director / Other:**

**Chief Administrative Officer:**

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**THAT** based on Councils approval above, the Manager of Housing, be authorized to submit the required information to the Ministry of Municipal Affairs and Housing in order to meet Ministerial Consent conditions; and

**THAT** the Director, Development Services and Chief Building Official be authorized to approve any of the required planning and permit applications, including in-kind municipal support, needed to implement the projects outlined in Report SH2015-005.

## **Background:**

Since 2007, KLHHC has explored the feasibility and developed a business plan to sell some, or all of their 16 single detached and 60 semi-detached units that are older and less energy efficient. KLHHC would then reinvest the proceeds into new, more efficient multi-residential affordable housing in Lindsay, with a goal of increasing the overall supply of affordable housing in our community.

Throughout 2013-15 KLHHC sold 18 existing KLHHC houses in Lindsay, (three of which were purchased by existing KLHHC tenants) and leveraged the proceeds to build 29 townhomes and stacked apartments (13-3 bedroom, 2-2 bedroom and 14-1 bedroom), 18 rented on a RGI basis and 11 rented at 80% of average market rents. Further affordable housing opportunities are occurring in the Phase 1 as a portion of the land was sold to Habitat for Humanity (Peterborough and Kawartha Lakes chapter) and they plan to provide 5 home-ownership units for moderate income families on a severed portion of the Phase 1 site. Habitat brings a successful track record of ownership development to this project. Two of the ownership homes are already under construction.

This first initiative of regenerating the KLHHC stock (referred to as Phase 1) has provided a successful template for future regeneration initiatives. The next phase, Phase 2, will sell 25 existing KLHHC houses in Lindsay and leverage the proceeds to build new.

## **Description of the KLHHC Phase 2 Regeneration Proposal**

### ***What the completed projects would look like***

The proposed site plans will be made available to Council through a copy of the KLHHC Business Plan once finalized by the Board.

#### **St Paul Street**

- **8 one bedroom apartments**
  - approximately 600 square feet each
  - 4 rented at a rate equivalent to the ODSP shelter allowance
  - 4 rented on a rent geared to income basis through a rent supplement agreement with the City
  - 4 of the 8 will include modifications for the physically disabled
- **8 two bedroom apartments**
  - approximately 800 square feet each
  - rented on a rent geared to income basis through a rent supplement agreement with the City

**Vacant Land in Lindsay (identified by KLHHC who is currently working toward presenting a conditional agreement of purchase and sale)**

- **5 one bedroom stacked townhouses**
  - approximately 600 square feet each
  - rented at a rate equivalent to the ODSP shelter allowance
- **5 two bedroom stacked townhouses**
  - Approximately 800 square feet each
  - Rented on a rent geared to income basis through a rent supplement agreement with the City
  - 3 of the 5 will include modifications for the physically disabled
- **8 three bedroom townhouses**
  - Approximately 1,100 square feet each
  - Rented on a rent geared to income basis through a rent supplement agreement with the City

***Affordability characteristics of units***

The proposed developments would have 34 units in total developed between the two sites; St. Paul Street, Lindsay (an existing KLHHC building, intensification project) and the purchase of private land, through new development, in Lindsay. The 25 replacement units must continue to meet the service level standard (SLS) and therefore will be rented based on a rent geared to income calculation to the tenant. As with Devan Court, this will occur through a rent supplement agreement between KLHHC and the City. The 9 additional one bedroom units will have rents established at a rate equivalent to the Ontario Disability Support Program (ODSP) shelter allowance. While renting its two newest communities, Whispering Pines and Devan Court, KLHHC found that many of the households on the waiting list for a one bedroom unit could not afford the “affordable rent” of \$657. That rent is established at 80% of the average market rent for the area. Many were in receipt of ODSP with a maximum shelter allowance of \$479. Therefore when considering target rents for these two new developments they were established making the development as a whole meet 80% rather than having each unit meet 80% on its own. This is an acceptable method using the Investment in Affordable Housing model (and its predecessor the Affordable Housing Program) which these (and all of KLHHC’s new developments) are modeled after.

***Financial Model – Capital***

Sources of funding for land acquisition and construction of the KLHHC units would include:

- proceeds from the sale of older existing units;
- contribution from KLHHC reserves;
- CMHC project development funding; and
- in-kind municipal support.

The KLHHC units would be affordable housing under the City's by-law framework for affordable housing. As such, they would qualify for in-kind City financial support toward their construction costs including an exemption from both development charges and building permit fees.

Financial details are provided under "Financial Considerations".

### ***Financing Model***

The City would be the lender both for construction financing and long-term financing, similar to the KLHHC project which finished construction September 2013 in the village of Haliburton and most recently Devan Court. The KLHHC would make payments against its loan from the City using the proceeds from the sale of its twenty five (25) older units (9 of which are already sold or vacant awaiting sale). It would also have a long-term loan from the City against which it would make debt servicing payments monthly from the project's annual operating budget. This approach to financing would eliminate the requirement for CMHC mortgage insurance, thereby reducing the project capital cost by approximately \$20,000 in respect of CMHC mortgage insurance application fees, legal and consulting costs.

The City would take out a debenture in order to provide long-term financing to the KLHHC. All debt servicing costs for the debenture would be borne by the KLHHC through its loan payments to the City. No tax support would be necessary.

Detailed financial information is under "Financial Considerations".

### ***Financial Model – Annual Operating and Capital Budgets***

Each year, the KLHHC requires municipal subsidy for operating and capital upgrade expenses for the twenty five (25) older units to be replaced under this proposal. A financial benefit to the City from the project would be that the annual municipal subsidy would no longer be needed, yielding a permanent saving for the City in its annual operating budget. The newly built housing would be financially self-sustaining. Details are under "Financial Considerations".

### ***Tenant Transition***

Implementation of the project would include strategies to minimize disruption for tenant households living in the twenty five units that will be replaced. This has worked well throughout the sale of the Phase 1 eighteen units. Any existing units that become vacant through a normal vacancy process are those listed and sold. Existing tenants would be offered new units before other households. Tenants would only have to move once the new units are ready for occupancy. A tenant able to purchase an existing unit would be given the opportunity prior to the unit

being offered on the open market. The tenant would be able to access the City's Home Ownership Funding subject to their eligibility and the balance in the fund.

### ***Ministerial Consent***

Under the HSA, the consent of the Minister of Municipal Affairs and Housing is a prerequisite for a project intended to replace housing units that used to be owned by the Ontario Housing Corporation and were transferred to the KLHHC in 2001. On July 29, 2015 consent was granted (included as Attachment 1) A). MMAH has expressed support for the KLHHC proposal given the intent to continue the RGI model in the now twenty five replacement housing units. The consent received is contingent on a detailed replacement plan being provided by KLHHC which is also approved by the City. Under the HSA, Ministerial consent must also have approval of the project by City Council given that the City is the Social Housing Service Manager under the Act.

### ***Next Steps***

In order to move forward a number of key steps would occur over the next 12 months including:

1. St Paul addition would be as follows:
  - a. Retain the Architect and have the architect undertake conceptual drawings to be used for consultation with municipal planners
  - b. Arrange a pre-consultation meeting with City planning and engineering staff (January/16)
  - c. Issue a construction manager proposal call and select contractor (Jan/16)
  - d. File minor variance application (Jan/16)
  - e. Hold information meeting for existing Flynn A tenants (Feb/16)
  - f. Minor variance approved (April/16)
  - g. Detailed drawings begin (late April/16)
  - h. Site plan negotiated (May-July/16)
  - i. Building permit submitted July/16)
  - j. Building permit issued and construction begins (Sept/16)
  - k. Construction completed (April/17)
  - l. Tenants move in (May/17)
  
2. Vacant land development would be as follows:
  - a. Obtain a conditional agreement and purchase agreement with 60 days due diligence (Dec/15)
  - b. Arrange a pre-consultation meeting with City planning and engineering staff (January/16)

- c. Issue a design/build or construction manager proposal call and select contractor (Feb/16)
- d. File minor variance application (Feb/16)
- e. Minor variance approved (May/16)
- f. Detailed drawings begin (late May/16)
- g. Site plan negotiated (June-Aug/16)
- h. Building permit submitted (Aug/16)
- i. Building permit issued and construction begins (Oct/16)
- j. Construction completed (May/17)
- k. Tenants move in (June/17)

During the next 18 months there will continue to be the sale of the balance of the 25 existing KLHHC homes in order to provide the necessary equity for these two developments. While it is expected that most, if not all, of the 25 existing homes will be sold by the time of occupancy of these two new developments, if there is the delay in the timing of the sales, as mentioned above, the City of Kawartha Lakes will be able to provide a short term cash flow loan to KLHHC until the 25 sales are complete. Sales already completed or underway contributing to Phase 2 are detailed in Financial Considerations.

### **Rationale:**

The project has the following advantages:

#### ***Regeneration of Aged Social Housing***

The biggest financial challenge facing social housing in Canada is the massive shortfall in funding required to sustain or replace existing housing stock, particularly older housing assets. In the KLHHC proposal, the largest source of capital funding derives from the asset value of the housing to be replaced. Federal and Provincial grant funds are not needed for the project to proceed and be successful.

#### ***Creation of Additional Affordable Housing***

The financial model is so favourable that it will enable the construction of additional affordable housing:

- nine (9) additional KLHHC units
- potential sale of some of the twenty five (25) existing KLHHC units under the IAH home ownership model.

This project assists the City in meeting some of its objectives and actions to accomplish the goals of the recently approved 10 Year Housing & Homelessness Plan:

- increasing the number of one bedroom affordable units
- increasing the number of accessible units
- adding affordable homeownership options
- ensuring the sustainability of existing stock

### ***Financial Benefits***

The project would have the following financial benefits:

- The proceeds from the sale of existing housing units would be the largest source of financing for the capital cost of the project.
- The proposed financing model, whereby the City would be the lender to the KLHHC for construction and long-term financing, eliminates the need for CMHC mortgage insurance, thereby reducing the capital cost. No municipal tax support would be needed for debt servicing costs. Because the lender is not a bank or other such lender, no securities will be held against the property by another organization.
- Based on the affordable housing model, the project will generate a modest operating surplus and contribute annually toward a capital replacement reserve.
- The KLHHC would achieve lower operating costs for the twenty-five (25) replacement units as compared to the existing units to be replaced.

### **Other Alternatives Considered:**

There are no other alternatives considered.

### **Financial Considerations:**

#### ***City In-Kind Financial Support to KLHHC***

The provision of in-kind financial support by the City significantly reduces the capital cost of the project, and has been at the heart of Affordable Housing projects since the beginning in 2005. It reduces the need for long-term debt financing and related annual debt servicing costs. The annual operating budget is reduced, thereby enabling affordable rents for tenants, and eliminating the need for annual municipal operating subsidies.

City bylaws already provide exemption from Development Charges and Building Permit fees. The proposal also considers waived fees for any rezoning or site plan approval applications, the need for a site plan security waived and other applicable levy or fee KLHHC may encounter.



In addition to the in-kind support above the affordable housing model provides for a reduction in property tax from the multi residential to the single residential tax rate. This reduction would be provided as a grant each year for the affordability period (40 years). This provides annual operating savings to KLHHC. That being said the City will still benefit from this property being developed as compared to the land remaining vacant.

***Project Capital Budget***

<b>Total Capital Cost of the two Projects</b>	<b>6,962,409</b>
Sources of Financing:	
- CMHC Seed & Project Development Funding contribution	240,000
- Proceeds of sale of 25 existing units (\$150,000 per unit)	3,750,000
- KLHHC reserve contribution	170,000
<b>KLHHC Requirement for long-term debt</b>	<b>2,802,409</b>

***Sale of Existing Units***

The 25 existing units being sold will be identified a) where there is turnover or b) where existing residents are able to purchase the unit. At the time of writing this report, 9 have become vacant. The table below details those 9 units:

Address	Type of Unit	No. of Bedrooms	Year of Construction	Closing Date
64 St David St	Single detached	3	1953	August 2015
140 King St	Single detached	3	1967	unknown
2 Kawartha Drive	Semi detached	3	1963	August 2015
4 Kawartha Drive	Semi detached	3	1963	October 2015
6.5 Kawartha Drive	Semi detached	3	1963	November 2015
12 Westwood Crt	Semi detached	4	1968	September 2015
20 Westwood Crt	Semi detached	3	1968	August 2015
24 Westwood Crt	Semi detached	3	1968	August 2015
22 Northlin Pk Rd	Semi detached	4	1968	unknown

***Long-Term Financing Model***

As already described, the City would be the lender to the KLHHC, both for construction financing and long-term debt. There would be no requirement for municipal tax support under this arrangement.

### ***Annual Operating Budget***

The Affordable Housing Program model ensures financial self-sufficiency to the extent that no municipal operating or capital subsidies are needed. The annual operating budget for each project includes a contribution to a capital replacement reserve (4% of revenue), which would be the source of funds for future capital requirements. As well, both projects project a modest surplus.

### ***Financial Benefit to the City***

As described here, there is a financial benefit to the City from this project, both in the near and long term.

#### **Summary of Financial Benefits for City in Year 1 (2017) (Estimated)**

Net increase in tax revenue	24,000
Decrease in City subsidy to support operating costs	110,000
Less rent supplement for 25 units	(140,000)
<u>Reduction in City subsidy for annual capital costs for 25 units</u>	<u>80,000</u>
Net financial gain for the City	74,000

Tax revenue to the City would increase due to the addition of thirty-four (34) housing units to the total housing stock in the City.

As already noted, the City would no longer have to provide operating and capital subsidies to the KLHHC for the twenty five (25) units being sold and replaced, resulting in annual savings of approximately \$110,000 and \$80,000 respectively.

Instead of operating and capital subsidies to the KLHHC, the City would provide rent supplement for the tenants, thereby ensuring continuation of the RGI model as required under the HSA. The estimated annual cost is \$140,000.

All factors considered, the net annual financial benefit to the City beginning when the new housing is occupied, would be approximately \$74,000.

### **Relationship of Recommendation(s) To Strategy Map:**

This proposal relates to the themes of Prosperity and Growth and Quality of Life in the Council-adopted Vision.

## **Review of Accessibility Implications of Any Development or Policy:**

It should be noted that none of the units under consideration for sale are wheelchair accessible. There is concern about the potential costs to KLHHC that might be generated by the recent Accessibility for Ontarians with Disabilities Act, Built Environment Standard. KLHHC's focus is on creating new accessible housing rather than undertaking costly renovations of existing homes which are over 40 years old.

Within the two new projects accessibility will be incorporated into the overall project design. In addition at least 7 of the new units will be barrier free.

## **Servicing Comments:**

The City's Development Services Department will work with KLHHC to implement and process the necessary applications and approvals to implement the proposed new developments. It is recommended that Council authorize the Director, Development Services and Chief Building Official to initiate and authorize any of the required planning and permit applications needed to implement Phase 2. The implementation of the required applications and permits to complete this program would include the waiving of applicable fees and charges outlined as "in-kind municipal support" in this report.

## **Consultations:**

Tim Welch Consulting  
Carolyn Daynes, Treasurer  
Development Services Staff

## **Attachments:**

Attachment 1      MMAH Consent Letter – Sale of 25 older KLHHC Homes



Kawartha's  
Ministerial Consent fo

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**Phone:** 705 324 6401 x 3102

**E-Mail:** hlee@city.kawarthalakes.on.ca

**Department Head:** Rod Sutherland, Director Health and Social Services

**Department File:** S48

Ministry of  
Municipal Affairs  
and Housing

Ministère des  
Affaires municipales  
et du Logement



Housing Funding & Risk  
Management Branch  
777 Bay St., 14th Floor  
Toronto, ON M5G 2E5  
Tel : (416) 585-7524  
Fax : (416) 585-7610

Direction du financement et de la  
gestion des risques du logement  
777, rue Bay 14<sup>e</sup> étage  
Toronto, ON M5G 2E5  
tél : (416) 585-7524  
télé : (416) 585-7610

July 9, 2015

Ms. Hope Lee  
Manager of Housing  
City of Kawartha Lakes  
P.O. Box 2600, 322 Kent Street West  
Lindsay, Ontario K9V 4S7

Dear Ms. Lee:

I am writing in response to your recent submission regarding the City of Kawartha Lakes (the "Service Manager") request for Ministerial Consent under sections 161(3) and (7) of the *Housing Services Act, 2011* ("HSA") for the sale of 25 Kawartha Lakes-Haliburton Housing Corporation ("KLHHC") scattered public housing properties.

We understand that this request is for Ministerial Consent to sell an additional 25 properties over and above the sale of the 18 scattered social housing properties for which Ministerial Consent was granted on August 20, 2013 and May 2, 2014. As you know, the proceeds of those latter sales helped to finance the construction of a new 29 unit rental project known as the Hick Court development in the Town of Lindsay.

We also understand that the 25 scattered public housing properties are included in KLHHC's original inventory of 76 scattered semi-detached and single detached public housing properties situated in the Town of Lindsay that it wishes to sell. The proceeds from the sale of these 25 properties would help finance a second new social housing construction within the next few years with a minimum of 25 rent-geared-to-income (RGI) replacement units located at a yet to be determined site.

Having considered, among other things, the material submitted, Ministerial Consent to the sale of the 25 public housing properties is granted subject to the following conditions:

- 1) The Service Manager (SM) shall maintain its Service Level Standards in accordance with the HSA.
- 2) KLHHC must hold the sale proceeds, net of reasonable transaction costs, for use in KLHHC's next social housing related construction project, details of which are to be provided to the Ministry by May 1, 2016.

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- 3) KLHHC must invest such sale proceeds in KLHHC's next social housing related construction project which will begin construction no later than May 1, 2017.
- 4) All RGI units sold must be replaced within the KLHHC's next construction project.
- 5) The SM must identify to the Ministry each of the properties for sale as they become available and will provide the Ministry with any requested details pertaining to the properties.
- 6) Once a purchaser for a unit is found, the SM shall provide the ministry with a draft copy of the agreement of purchase and sale before it is signed for review and comment, and reasonable consideration will be given to the ministry's comments.
- 7) Each of the agreements of purchase and sale will contain an "as is" clause.
- 8) All costs associated with the sales shall be borne by the SM, KLHHC and/or the purchaser.
- 9) The SM shall provide the ministry with a signed copy of each of the agreements of purchase and sale prior to closing and advise the ministry of any extension of the closing date.
- 10) The SM shall provide the ministry with details of each transfer within ten days of closing including a copy of the registered transfer so the ministry can advise CMHC of the sale and removal of each property from the social housing portfolio.
- 11) Responsibility for any losses etc., including settlement losses that the Province may suffer or incur under the Social Housing Agreement (SHA) in relation to the properties, is to be borne by the SM.
- 12) For any Federal/Provincial public housing properties that may be sold, the SM will remit any positive net share of the gain that may still be payable on removal, to CMHC in accordance with section 8(g) of the SHA.
- 13) KLHHC will only sell properties that become vacant as part of normal tenant turnover before a sale of the property is proposed except where the property is sold to the tenant.

This Ministerial Consent is for all future transfers of the 25 public housing properties in accordance with ss. 161(3) and (7) of the HSA. Once the above conditions have been complied with in relation to a property, a registerable form of this consent will be provided for that property.

An amendment to O. Reg. 368/11 will need to be pursued to discharge the new property owners and the Service Manager from their social housing obligations in relation to the properties.

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It is the Ministry's expectation that KLHHC will act in compliance with provisions of the *Residential Tenancies Act, 2006*, as well as any other applicable laws, in carrying out the sale of these properties.

Copies of all documents and confirmation of compliance with the conditions are to be forwarded to Alison Coke, Manager, Risk Management and Program Compliance, (416) 585-6472 or [alison.coke@ontario.ca](mailto:alison.coke@ontario.ca).

Failure to comply with the conditions outlined above will render this consent null and void.

Should you have any questions or concerns, please do not hesitate to contact me or Alison Coke, Manager of the Risk Management and Program Compliance Section, at the above noted contact information.

Yours truly,

  
Keith Extance  
Director

c: Alison Coke, Manager, Risk Management & Program Compliance  
David Stone, Risk Management & Program Compliance  
Warren Sleeth, Manager, Local Government, Eastern Region  
Mila Kolokolnikova, Team Lead, Eastern Region