To:	**Members of the General Committee**
From:	**Sheldon Laidman, Commissioner of Community Services**
	Richard Freymond, Commissioner Corporate & Legislative Services
Meeting Date:	**February 16, 2021**
Subject:	**Report CSSS21-003** **Governance Alternatives to Support Affordable Housing Development**

Purpose

To recommend an alternative structure to facilitate affordable housing development in Peterborough.

Recommendations

That Council approve the recommendations outlined in Report CSSS21-003, dated February 16, 2021, of the Commissioner of Community Services, as follows:

a) That Council support the recommendation of the February 5, 2021 KPMG Report to establish a Government Business Enterprise pursuant to Ontario Regulation 599/60: Municipal Services Corporations, to be responsible for the management and construction of affordable housing;

b) That staff be directed to implement the recommendations of the February 5, 2021 KPMG report using the timeline in the report as a guide and be authorized to do such things in relation to such implementation considered appropriate by the Commissioner, Community Services Department in consultation with the Chief Administrative Officer and Treasurer;

c) That up to $300,000 from the Social Housing Reserve Fund be used to undertake the implementation of the recommendations of the February 5, 2021 KPMG report;

d) That staff be directed to work with Peterborough Housing Corporation and Canada Mortgage and Housing Corporation representatives to determine the most effective and expeditious method to make application to the federal National Housing Co-Investment Fund for the funding of up to 1500 units of housing on Peterborough Housing Corporation lands to be completed through the newly established Government Business Enterprise;

e) That prior to the formal submission of the application to the National Housing Co Investment Fund, staff report back to Council on the full redevelopment plan for Peterborough Housing Corporation's lands to include:

   a. Projected unit counts on each property, phasing of the developments, and projected unit affordability;

   b. Financing and partnerships; and

   c. Tenant relocation plan and consultation plan for tenants and the public;

f) That up to $250,000 from the Social Housing Reserve be used towards the preparation of documents and plans necessary to meet the eligibility and application requirements of the National Housing Co-Investment Fund program; and

g) That any two (2) of the Mayor, Clerk, Chief Administrative Officer and Commissioner, Community Services Department be authorized to execute such documents considered appropriate by the Commissioner, Community Services Department in consultation with the Chief Administrative Officer and the Treasurer for the purposes of these recommendations in forms acceptable to the City Solicitor.

Budget and Financial Implications

The KPMG report's options analysis includes consideration of the financial implications of each option considered.

Under the recommended option, a total of $43.2 million in debt issued or approved to be issued associated with PHC's affordable housing projects would be removed from the City's consolidated debt leaving only $2.4 million in City debt associated with Peterborough Housing Corporation (PHC).

The recommendations associated with the pursuit of federal Co-Investment program funding and the debt to be incurred through the construction of those units would not be consolidated into the City's debt as this is one of the main purposes of establishing the Government Business Enterprise going forward. However, if for whatever reason, there was a future requirement to consolidate $327.0 million of debt issued with that of the City, it would have significant financial implications to the City's debt capacity. In essence, such an amount would effectively utilize 5% of the City's overall current capacity for a term of 50 years. In other words, if the City was fully utilizing its internal debt capacity of 15% (City is currently using about 13.5%) of own purpose revenues (Provincial legislation allows for 25%), adding $327.0 million of debt would automatically increase the debt capacity utilized to 20%, effectively leaving the remaining 5% for all other future debt requirements. Once the 25% threshold is reached, the City would be in a position of only issuing new debt as existing debt is retired. This would have very practical implications if the City wanted to debt finance any large capital projects.

The City’s most recent credit rating, published in November 2020, was issued as AA with a stable financial outlook. Although the creation of the Government Business Enterprise will mitigate the direct financial implications of issuing such a large quantity of debt, if there was a future requirement to consolidate the debt, Council should be prepared that the City’s credit rating could be negatively impacted. Establishing partnerships with the private sector will be an effective way to share risk.

The Social Housing Reserve is recommended to be used to fund both the implementation of the KPMG recommended option but also the preparation and submission of an application to the National Housing Co-Investment Fund. This Reserve has a balance of $2,257,021.45.

If the KPMG recommendation is to be pursued, it will be necessary to determine a new funding level for the remaining Peterborough Housing Corporation operations for the social housing part of their portfolio that they would retain. However, if asked to manage the existing and new affordable housing portfolio through a contract with the Government Business Enterprise (GBE), funding for the staff and other costs would come from the GBE.

Background

The 10-year Housing and Homelessness Plan, approved by Council in 2019, established ambitious targets for housing development for the City of Peterborough, as Service Manager for the City and County. To meet all housing needs to 2029, the report states that 580 new rent-geared-to-income supportive housing units are needed, and a further 2,680 below-market rental housing units to meet the needs of individuals and families with low incomes.

In 2017, PHC finalized a draft Capital Financing and Community Revitalization Plan that, if fully completed, would add 1,093 units to PHC’s portfolio of Rent Geared to Income and affordable housing – close to double their current total. This would be a substantial contribution to the City’s housing targets. It would also provide much-needed regeneration for buildings in PHC’s portfolio that are reaching the end of their useful life. This would be a massive undertaking as it represents a $468,000,000 total cost and $327,000,000 in anticipated debt to be financed.

Affordable Housing Development and Municipal Debt

While PHC is Peterborough’s largest provider of Rent Geared to Income Housing, they are also a local leader in affordable housing development. PHC has developed 287 affordable housing units in the City and County of Peterborough. Distinct from Rent Geared to Income units, PHC’s affordable housing projects operate under a different model without ongoing subsidy. These projects also have associated debt that forms a significant portion of PHC’s debt impact on the City of Peterborough.

The reason for this is that PHC’s financial statements are consolidated with the City’s financial statements; any debt taken on by PHC is a draw against the City’s non-tax supported debt capacity. This consolidation of debt is a limiting factor for future affordable housing development under PHC. The debt capacity issue is a significant barrier to moving forward with PHC’s Capital Financing and Community Revitalization Plan.

City staff, PHC staff and the PHC Board have met regularly since 2018 to discuss possible options to resolve this issue. PHC prepared a Business Case which recommended the creation of a Municipal Not-for-Profit Housing Corporation, which the proposal called “Newco”, that would allow PHC to borrow without impacting the City’s debt capacity. This “Newco” would essentially be given ownership and control over the existing affordable housing projects and would oversee the redevelopment of key PHC properties while PHC would remain as an organization responsible for the remaining core social housing projects. The remaining PHC would also be able to contract their services to the “Newco” for the maintenance and operations of the units now owned by “Newco”.

Review of the proposed model by the City’s auditors determined that a Municipal Non-Profit which is still indirectly or directly controlled by the City would not alleviate the debt issue. Control of the new corporation would mean that its debt would be consolidated with the City’s. To alleviate the debt consolidation altogether, the City would need to transfer the assets with associated debt to a corporation that is wholly independent of City control. PHC modified their original proposal to reflect this necessity of full separation from the City by proposing that the “Newco” be a standalone non-profit corporation without any formal control by the City. This approach would not be without risk mainly due to governance and control of the new corporation. Staff determined that further investigation was required to understand the potential risks and to investigate possible alternatives.

KPMG Report

In 2020, KPMG was contracted to conduct due diligence on the business case provided by PHC to identify any potential risks, and to identify alternative governance structures that could provide additional benefits or reduced risks. The report, titled “Governance Alternatives for Community Housing” is attached as Appendix A.

To begin, KPMG conducted a current state analysis, examining PHC's performance and potential for future growth. This analysis sought to understand PHC's capacity to implement their proposal, and ultimately to implement the Capital Financing and Community Revitalization Plan. Following this, KPMG reviewed PHC's proposal based on the proposed model's ability to alleviate the debt capacity issue, any associated risks, the extent to which the model provides the capacity to meet the City's priorities, and the anticipated financial performance. Finally, KPMG identified and analyzed alternative governance models.

The report outlines five possible options:

1. PHC Proposal

   This proposal would see PHC maintain its operation and control of social housing units while new affordable housing and existing affordable housing projects moved to a new Non-Profit

2. Full Separation of PHC from the City;

   This option would see all of PHC including existing social housing units, existing affordable housing projects, and all new development moved to a Non-Profit

3. Government Business Enterprise (modified Newco structure);

   This option would see PHC maintain its ownership and operation of social housing units while all existing affordable housing projects and new development owned and undertaken by a GBE.

4. Full Integration with the City of Peterborough; and

   This option would see all social housing, affordable housing, and new development incorporated directly into the City of Peterborough's corporate structure.

5. Status Quo

   Status Quo means PHC would continue to operate with a shareholder declaration from the City and all existing affordable housing projects and any new affordable housing projects would be undertaken by PHC in its present form.

The review evaluated each model based on its performance on three key criteria:

1. Provision of governance control over housing decisions afforded to the City, including the scope of construction activity and debt issuance;

2. Allowing the City to avoid consolidation of debt and reducing pressure on its borrowing capacity; and

3. Contributing to an overall increase/decrease in administrative costs for housing services.

PHC's proposal would accomplish the goal of avoiding consolidation of debt, but it would require the City to relinquish control over the activities of the Newco. As well, this option has the potential to increase administrative costs related to staffing for the Newco. The full separation of PHC from the City would see the relinquishing of governance control over a key municipal asset and priority.

There are three areas of concern related to loss of City control in Options 1 and 2. First, as an independent non-profit, the mechanism for control would exist only in an operating agreement. This operating agreement wouldn't necessarily exist in the framework of the Housing Services Act because the affordable housing units are outside the Housing Services Act's jurisdiction. Any operating agreement would have an expiry date, after which there may be a point at which the non-profit decided to pursue a different course which could include the conversion of affordable units to market units. The second area of concern is with the Newco's commitment to and alignment with the objectives in the 10-year Housing and Homelessness Plan. This plan, which received Council approval in 2020, is specific in its targets – while more affordable housing overall is required, the Plan focuses on creating permanent supportive housing as a key objective to help end chronic homelessness. Finally, if the non-profit proposed in either Option 1 or 2 were to fail, the debt would return to the City – a significant risk factor for those options.

The Government Business Enterprise (modified Newco structure) provides the advantage of the maintenance of City governance control over Newco. A GBE has three characteristics – it must engage in commercial activities, be controlled by government but has an independent legal existence from government. Debt related to existing and new development of affordable housing would be excluded from the City's debt. Furthermore, it would have the potential, through shared services, to limit additional administrative expenses.

Full Integration with the Consolidated Municipal Service Manager (City of Peterborough) is a best practice across the province, with 37 of 47 Local Housing Corporations structured as fully integrated with their Service Manager. However, it falls short in other criteria. It would require the City to directly issue debt, significantly impacting borrowing capacity, and would require substantial additional staffing resources to directly deliver services as the Local Housing Corporation.

The full separation of PHC from the City would provide debt consolidation benefits and would allow for a structure to undertake new affordable housing development. The primary drawback of this option is the lack of governance control as PHC would move to a Non-Profit status with no shareholder declaration over a key municipal asset and municipal priority.

Status Quo would see no changes to staffing or service delivery, with control over the organization continuing through the Shareholder declaration. This option would likely result in only smaller new affordable housing projects being able to be approved within the City's current debt policy.

Recommended Option: The Government Business Enterprise (modified Newco structure)

The evaluation determined that the option of a Government Business Enterprise (modified Newco structure) best met the requirement for all three criteria. This option would allow the City to be able to retain control over the planning, priorities, and activities of Government Business Enterprise by virtue of being the sole shareholder. As a government business enterprise, any debt incurred by the Government Business Enterprise would not be considered as part of the City's debt capacity limitations. This option would move all affordable units from PHC's portfolio into Newco, with all social housing remaining with PHC. KPMGs analysis shows that if all the affordable housing projects were transferred to the Government Business Enterprise, it would qualify as a Government Business Enterprise as this new corporation would require no municipal subsidy to operate. The transfer of these properties to the Government Business Enterprise would alleviate the impacts of these projects on the City's debt capacity while providing the clear opportunity to meet the goals of PHCs redevelopment plans. It would allow the new corporation to use various borrowing models, partnerships with the private sector, and to leverage these properties to be able to redevelop and add units. A plan would need to be established with PHC to not only transfer the affordable projects to the new corporation's ownership but also transfer key properties to be redeveloped over time. Shared service arrangements with PHC would provide the potential to reduce administrative costs associated with the Government Business Enterprise (modified Newco structure) option as well.

The transfer of properties to the Government Business Enterprise should result in no loss of or reduction in service to tenants as it would be expected that PHC would continue offering their tenant services to these properties that would be officially owned by the new Government Business Enterprise but actually continue to be operated by PHC. In addition, the overall plans to redevelopment PHC properties to meet the goals of the 10 Year Housing and Homelessness Plan for additional units would be done in a coordinated and staged manner to ensure no reduction in unit availability for existing tenants. Although further discussion and analysis is required, it is possible that the majority of tenant services, property management, and other services for the transferred and redeveloped properties would continue to be managed by PHC through contract resulting in few impacts to PHC's structure and operating budget.

Preparation and Submission of a National Housing Co-Investment Fund Application

The National Housing Co-Investment Fund is a federal government loan program meant to facilitate the construction of new affordable housing projects. The Business Case undertaken by PHC to redevelop its properties is largely predicated on funding through this program. The analysis by KPMG has established that the new GBE (Newco) is able to apply for this funding. While Newco is being formally established, it may be necessary for the City and PHC to take the lead on the preparation and even the submission of the application. This would require working with PHC to determine the most efficient and expeditious method to prepare an application to this fund. It is anticipated that the full implementation plan could involve $468,000,000 of construction value and $327,000,000 in debt financing. The overall plan would see key PHC properties redeveloped and transferred to the Government Business Enterprise (modified Newco structure). The funding from the Social Housing Reserve would allow for the preparation of necessary plans and documents needed for a complete submission. It would allow for the preparation of this submission while the legal and other implementation requirements were being undertaken to properly establish the Government Business Enterprise.

This application will see the redevelopment and intensification of key PHC properties. Staff are recommending that prior to the formal submission to the National Housing Co Investment fund that staff report to Council on the full redevelopment plan to include information on projected unit counts by property, projected unit affordability, tenant relocation plan, and consultation plan for tenants and the public.

Next Steps

If Council approves staff to move forward in establishing a GBE for the purposes of developing affordable housing, KPMG’s report outlines an 18-month timeframe for activities from pre-establishment to start of construction. This would include:

- Establishing a municipal services corporation under Ontario Regulation 599/06, which includes the appointment of the Newco board and the development of a business case, asset transfer policy and service agreements between the Government Business Enterprise, PHC and the City

- In alignment with the 10-year Housing and Homelessness Plan, creating specific plans for affordable housing construction, including different development models: private-public partnerships, third party private sector development and direct development by the Government Business Enterprise;

- Assessing the current capacity for project management in support of affordable housing development and social housing redevelopment; and

- Preparing and submitting an application for financing from the Co-Investment Fund.

Summary

The need for additional affordable and supportive housing is well documented in the 10 Year Housing and Homelessness Plan. There is also available land and redevelopment capacity owned by PHC. A Government Business Enterprise as recommended by

KPMG would alleviate debt capacity issues for the City, which in turn would enable new approaches to developing housing for those most in need. While the Government Business Enterprise is being created, the City could move forward to prepare an application to the Co-investment Fund in consultation with PHC, which upon acceptance, would be implemented by the Government Business Enterprise.

Submitted by,

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Attachments:
Appendix A: Governance Alternatives for Community Housing Development – Executive Summary