

APPENDIX A:

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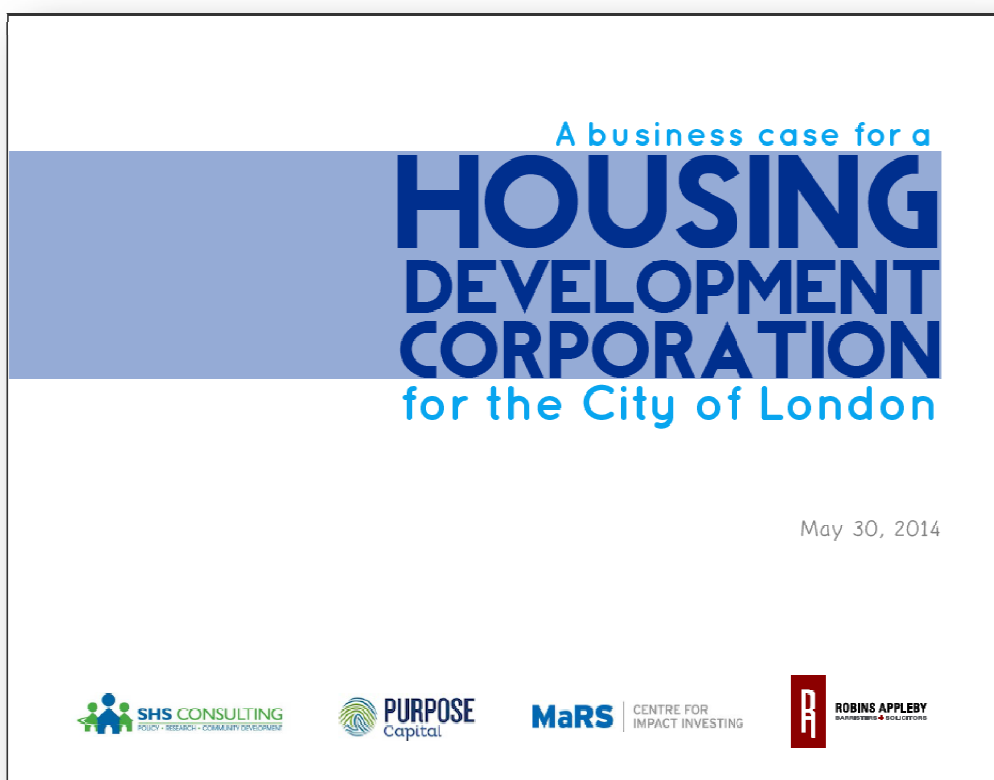
***An Business Case for a  
Housing Development Corporation (HDC)***

***May 30, 2014***

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This report, created by SHS Consulting, is available online at the City of London's webpage: [www.london.ca](http://www.london.ca) Search: HDC.

Hard copies of this report will be provided to members of Municipal Council through the Strategic Priorities and Policy Committee (SPPC) meeting agenda distribution.



APPENDIX B:

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***A Proposal to Establish a  
Housing Development Corporation, London (HDC)***

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**TABLE OF CONTENTS...**

**1.0 LEGAL PROCESS IN CREATING A MUNICIPAL BUSINESS CORPORATION**

- 1.1 ACTIONS TO CREATE AN HDC WITHIN THE MUNICIPAL ACT
- 1.2 REQUIREMENT FOR A BUSINESS CASE
- 1.3 FINAL PUBLIC PARTICIPATION SESSION
- 1.4 REQUIREMENT FOR PUBLIC CONSULTATION

**2.0 WHY AN HDC? THE PURPOSE AND OBJECTIVES**

- 2.1 WHAT WILL BE DIFFERENT THROUGH AN HDC?
- 2.2 HDC MANDATE
- 2.3 HDC KEY OBJECTIVES

**3.0 RELATIONSHIP BETWEEN THE HDC AND THE CITY**

**4.0 PROGRAM CONSIDERATIONS OF THE HDC**

- 4.1 PRIORITIES
- 4.2 HARMONIZATION OF EXISTING DEVELOPMENT TOOLS
- 4.3 LMHC (AND OTHER FUTURE SOCIAL HOUSING) REGENERATION
- 4.4 CREATION OF NEW AFFORDABLE HOUSING TOOLS
- 4.5 COMMUNICATIONS AND PARTNERSHIPS
- 4.6 ESTABLISHING NEW FINANCIAL INSTRUMENTS

**5.0 BUSINESS PLAN ASSUMPTIONS**

**6.0 AFFORDABLE HOUSING TARGETS**

- 6.1 HOUSING TARGETS
- 6.2 PDFP TARGETS
- 6.3 PDFP CAPITAL BASED HOUSING PROGRAMS
- 6.4 PDFP OPERATING BASED AFFORDABLE HOUSING PROGRAMS
- 6.5 THE GENERAL STATUS OF CURRENT OPERATING PROGRAMS
- 6.6 UNDERSTANDING HOUSING TARGETS

**7.0 HDC TARGETS AND DRAFT BUDGET CONSIDERATIONS**

- 7.1 PROPOSED PDFP WITH HDC TARGETS
- 7.2 DRAFT REVISED PDFP (2015-2020)
- 7.3 PRO FORMA BUDGET
- 7.4 THE RESILIENT COMMUNITIES FUND (RCF) AND THE HDC

## **TABLE OF CONTENTS...(Cont'd)**

### **8.0 HDC BOARD AND GOVERNANCE**

- 8.1 INITIAL BOARD OF DIRECTORS FOR THE HDC
- 8.2 BOARD OF DIRECTORS
- 8.3 PROCESS FOR SELECTION OF THE FIRST BOARD
- 8.4 DESIRED QUALIFICATIONS FOR DIRECTORS
- 8.5 CONFLICTS OF INTERESTS AND ACCOUNTABILITIES
- 8.6 BOARD MEETINGS
- 8.7 TERMS OF OFFICE
- 8.8 REMUNERATION OF BOARD MEMBERS

### **9.0 HDC ADMINISTRATION**

- 9.1 CURRENT RELATIONSHIP TO THE CITY OF LONDON
- 9.2 INITIAL CHIEF ADMINISTRATIVE OFFICER
- 9.3 ASSUMPTION OF CURRENT HOUSING DEVELOPMENT ACTIVITIES
- 9.4 OTHER REQUIRED FUNCTIONS AND COMPETENCIES

### **10.0 HDC SHARED SERVICES ARRANGEMENTS WITH THE CITY**

### **11.0 OVERVIEW OF APPROACH AND START-UP OF HDC**

- 11.1 START-UP AND TRANSITION OF THE HDC
- 11.2 REGULATORY REQUIREMENTS
- 11.3 HDC TRANSITION AND IMPLEMENTATION PROJECT TEAM
- 11.4 IMPLEMENTATION OF THE SERVICE TRANSITION FROM THE CITY TO THE HDC
- 11.5 HDC START-UP TIMELINES

### **12.0 OVERVIEW OF HDC WORK PLAN ACTIVITIES AND GENERAL TIMELINES**

### **13.0 OTHER HDC CONSIDERATIONS**

- 13.1 OWNERSHIP AND WIND DOWN
- 13.2 COMPLIANCE WITH ESTABLISHED AFFORDABLE HOUSING PROGRAMS
- 13.3 ALIGNMENT WITH HOUSING STRATEGIES
- 13.4 MARKETING AND COMMUNICATIONS
- 13.5 HDC AND THE COUNTY
- 13.6 FUTURE MARKET ADAPTABILITY AND MANAGING CHANGE

## 1.0 LEGAL PROCESS IN CREATING A MUNICIPAL BUSINESS CORPORATION

### CREATING A MUNICIPAL HDC:

The activities required to proceed with the proposed HDC will require further actions governed by the applicable legislative requirements and City policies and procedures.

#### 1.1 ACTIONS TO CREATE AN HDC WITHIN THE MUNICIPAL ACT:

Section 203 of the *Municipal Act, 2001* authorizes a municipality to establish a municipal services corporation for a municipal purpose such as a housing development corporation. Ontario Regulation 599/06 made under the *Municipal Act, 2001* sets out the requirements for establishing and operating a municipal services corporation. Compliance with the legislative requirements is important as failure to do so may result in cause for cancellation of the corporation's certificate of incorporation.

#### 1.2 REQUIREMENT FOR A BUSINESS CASE:

O. Reg. 599/06 requires that the City adopt a business case study before it uses its power to establish a corporation. The content of the business case study is not prescribed.

The HDC Business Case prepared by SHS Consulting is attached as Appendix A.

The HDC Business Case sets out the advantages, issues, options, and other considerations related to creating a housing development corporation. These include:

- the scope of the work to be conducted;
- the associated projected financial impacts;
- the proposed governance structure;
- the accountability framework with the municipality;
- directions from the municipality related to existing policies and services;
- understanding of assets, transfers, and related plans;
- ownership and related considerations for wind-up provisions;
- business policies, services, and labour considerations;
- competitive processes and access to information considerations; and
- other matters as deemed appropriate.

#### 1.3 PROPOSAL TO ESTABLISH A CORPORATION:

In response to the Council resolution of June 10, 2014, Civic Administration was directed to prepare a business plan, including a proposed implementation plan, for a Housing Development Corporation. This *Proposal to Establish a Housing Development Corporation* includes:

- a statement of the purposes and objectives of the HDC;
- the relationship between the HDC and the City;
- program considerations for the HDC;
- business plan assumptions;
- affordable housing targets;
- targets and draft budget considerations;
- board and governance;
- HDC administration;
- HDC shared services arrangements with the City; and
- Overview of HDC work plan activities.

#### 1.4 REQUIREMENT FOR PUBLIC CONSULTATION:

O. Reg 599/06 requires that the City consult with the public about a proposal to establish a corporation. In order to comply with the regulation, it is recommended that the both the HDC Business Case and this *Proposal to Establish a Housing Development Corporation* be referred to a public participation meeting at Strategic Priorities and Policy Committee, on August 27, 2014.

Subject to the outcome of this meeting, Council may determine what action it wishes to take related to the establishment of the HDC.

## 2.0 WHY AN HDC? THE PURPOSE AND OBJECTIVES

The justification for a Housing Development Corporation is identified in detail in the final *HDC Business Case* (Appendix A) and reflects the broad scope of opportunities available through an HDC model.

The 11 recommendations in the final *HDC Business Case* are addressed within this report within a more focused plan based on the City's competing priorities, needs, and capacities.

### 2.1 WHAT WILL BE DIFFERENT THROUGH AN HDC?

Currently, the City is limited in its governance tools for housing development. The *Municipal Act* allows these activities be pursued through a special purpose body.

The primary functions of the HDC will be the specialized focus, expertise, tools and competencies that exceed what currently exists related to affordable housing development including:

- The capacity to negotiate and engage in concept planning and innovation related to affordable housing development such as working with other orders of government and the private and not-for-profit sectors, bridging land and development opportunities including those related to schools, hospital, church land or other community based greyfield (commercial) land redevelopment;
- Negotiate, acquire, purchase, and sell lands and real property that include or support the goals of the HDC. These activities may either directly support affordable housing through revenues or indirectly through negotiated partnerships;
- Engage an independent board of experts in strategies and plans related to affordable housing; and
- Build and retain local industry knowledge in public and social housing regeneration and redevelopment.

The HDC, through a dedicated administration and expert board of directors would advance these core business functions through:

- Expertise and knowledge with a strong understanding of the local housing market and development opportunities;
- Legal tools as a business corporation that would allow the HDC to independently engage in acquisition and sale of land and housing, establish revenue generating activities (such as consulting), and manage costs outside of prescriptive policy framework;
- Financial instruments and the exploration of new tools needed to free available assets in public/social housing stock to enable regeneration and redevelopment of sites; and
- Direct development tools, such as public housing sites, surplus lands, or surplus bluefields (schools, hospitals, churches, etc.).

## 2.2 HDC MANDATE:

The core purpose for a Housing Development Corporation will be to centralize the knowledge, skills, expertise, and tools required to support the sustainable development of affordable housing throughout the London and Middlesex service area.

At its potential, the HDC can be a mechanism to engage in a full range of services and strategies as outlined in the HDC Business Case. These include direct development, direct construction, new financial instruments, land acquisition and sale, affordable housing consultation and promotion with all partners and sectors. As such, each of these potential capacities will be identified within the articles of incorporation as well as the mandate as defined within the plan:

<b>Core Mandate</b>	The HDC stimulates the development and sustainability of affordable housing throughout London and Middlesex.
<b>Supporting Mandates</b>	<p>The HDC supports the local need for revitalized and strengthened neighbourhoods, and diverse and inclusive communities.</p> <p>The HDC collaborates with all sectors to create and sustain affordable housing and stimulate economic growth.</p>

The work to be conducted by the HDC to fulfill these mandates is described within the following 2 Goals and 4 Strategic Directions:

- Goal 1: Improve and Enhance Current Programs** through....
- Strategic Direction 1:*  
*Co-ordinating and leveraging the deployment of federal, provincial, and municipal funding*
- Strategic Direction 2:*  
*Enhancing and better utilizing municipal incentives.*
- Goal 2: Build new housing development business functions** by....
- Strategic Direction 3:*  
*Being a developer of affordable housing and establishing revenue generating activities*
- Strategic Direction 4:*  
*Exploring and initiating innovative finance and investment tools.*

## 2.3 HDC KEY OBJECTIVES:

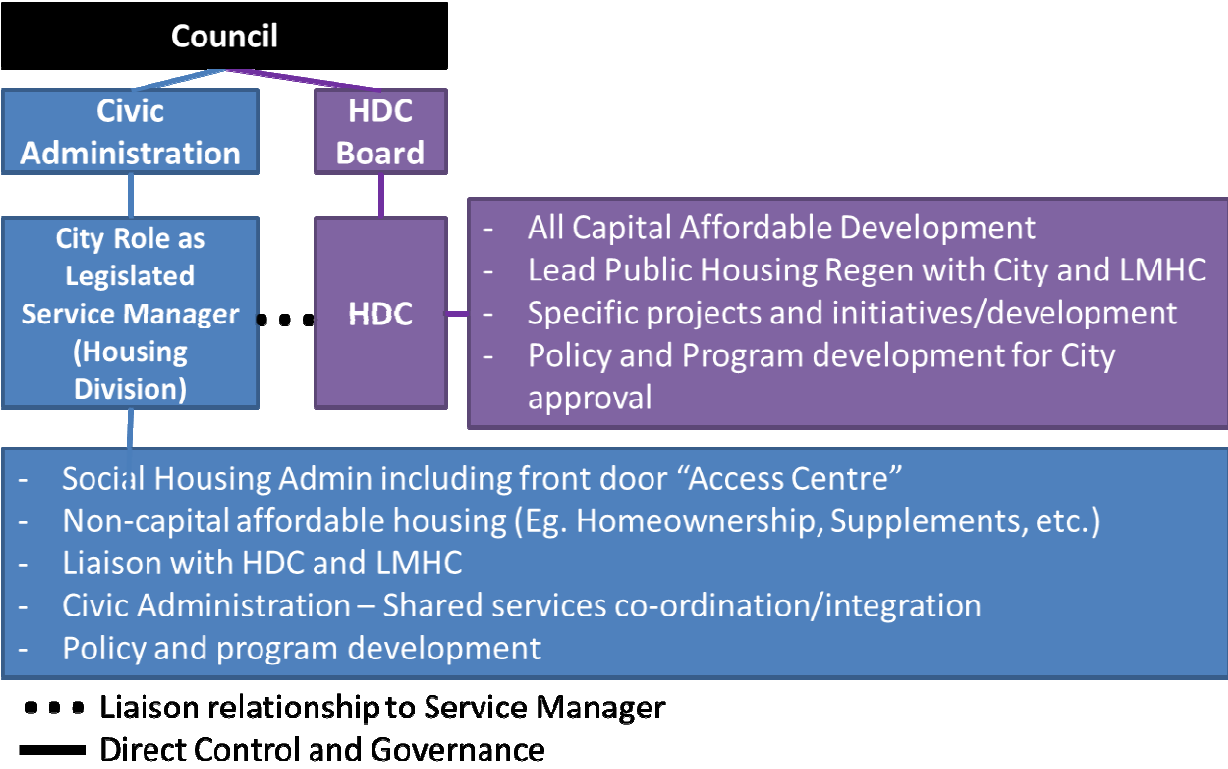
The following objectives of the HDC will be set out in its corporate documents:

- Assist in addressing affordable housing needs of low income households;
- Engage in housing development activities including but not limited to the design, financing, and construction management of housing;
- Seek out new resources, funding, and partnerships to support the housing stock needs of local low income households;
- Develop housing projects and/or programs to address affordable housing needs of local low income households;
- Promote co-operation, partnerships and initiatives between community agencies, the private sector and governments to improve access to affordable housing stock for low income households; and
- Receive, purchase, transfer, sell or dispose of any property necessary to attaining the objects of the Housing Development Corporation.

**3.0 RELATIONSHIP BETWEEN THE HDC AND THE CITY**

There are four relationships within the defined HDC model as it relates to City:

1. Work in collaboration with the City in advancing available affordable housing based on the needs and actions outlined in the 2013 *Homeless Prevention and Housing Plan*;
2. Interact with and report to the City as Service Manager related to provincial and federal funding, program transfers, reporting, and data management requirements for new affordable housing as well as potential future social housing regeneration and affordable housing operating programs managed directly by the City;
3. Adhere to the interests and accountability rules as laid out and amended from time to time by the City of London as sole shareholder, including partnership and shared service relationships to minimize administrative costs and maximize efficiencies of the HDC (including technology, facility, planning, and financial supports); and
4. Work in partnership with the City’s service and program areas related to the integration and advancement of affordable housing solutions, including Planning, Development, and Finance, as well as those within Housing Division’s Housing Access Centre.



These relationships recognize the City’s role as Housing Service Manager - the legislated delivery agent of housing related programs and services, and responsibilities related to local and provincial reporting requirements. Within the context of this report, the City’s Service Management duties are generally conducted within the Housing Division.

The balance of this report focuses on the transition, start-up and initial business activities of the HDC, noting the shared responsibility and funding relationship that will be maintained with the City.

These business plan requirements will be incorporated as necessary into the HDC’s governing documents.

## 4.0 PROGRAM CONSIDERATIONS OF THE HDC

### 4.1 PRIORITIES:

The initial areas of focus and priority for the HDC will include, without limitation, new policy development related to land sale and acquisition of property, new affordable housing strategies related to emerging local policies (e.g. Secondary Suites) and public housing regeneration/redevelopment.

### 4.2 HARMONIZATION OF EXISTING DEVELOPMENT TOOLS:

Currently the City manages housing development under a collection of municipal policies and by-laws that have been assembled over the past 12 years. These rules were intended to take advantage of local conditions and funding from other orders of government.

Existing New Build programs include the Affordable Rental Housing Program (relying on federal/provincial funding) and the municipal Convert-to-Rent/Rehabilitation Program, program and Housing Partnership Policy; all of which may access the City's Facilities Housing By-law and allowances within existing Community Improvement Plans.

The HDC will need to work with multiple areas of civic administration to ensure the capacity to develop affordable housing throughout London and Middlesex.

This priority addresses the *Housing Development Corporation Business Case* Strategic Direction 1: Co-ordinated Deployment of Funds and will ensure:

- The maximization of any new federal and provincial funding toward capital affordable housing developments; and
- Continued administration of municipal grants and loans.

### 4.3 PUBLIC (AND OTHER FUTURE SOCIAL) HOUSING REGENERATION:

The term "regeneration" is used within the housing sector to reflect the broad urban renewal integration of public or social housing stock through redesign of the housing property within its surrounding community, leveraging a mix of market and non-market tenancies, uses, and retention of required target units in a rehabilitated neighbourhood context. The scope of regeneration exceeds the boundaries of the specific property to consider neighbourhood and community needs and opportunities.

The funding of public housing regeneration may take advantage of the end of debentures and, as has been done in other large Ontario municipalities, seek to unlock the asset potential of land and other resources to help fund redevelopment activities.

Based on most recent Municipal Property Assessment Corporation (MPAC) valuations, London and Middlesex Housing Corporation (LMHC) properties are valued at over \$220 million with approximately \$2 million owing on the combined mortgages by end of 2015. LMHC holds title on these assets and the City does not issue debt against them.

The capacity to unlock /make available the assets of LMHC (and in the future, those of other interested social housing providers) to support the regeneration of properties will be a priority activity for the HDC. Public/social housing regeneration will provide the HDC with a business function and mechanism to maintain housing development activities and to increase affordable housing stock separate from available funding.

These activities will require:

- A formal agreement between the HDC, LMHC, and the City;
- An understanding of instruments that may be used to issue debt against the assets held by LMHC;
- The valuation of key properties to determine priorities for regeneration based on both needs and opportunities; and
- Separate project management.



#### **4.4 CREATION OF NEW AFFORDABLE HOUSING TOOLS:**

The approach used by the HDC in establishing new tools related to housing development will require a more comprehensive look at best practices, costs, and benefits.

As an example, the potential for a secondary suite affordable rental program provides a mechanism for lower cost per unit development but may also have higher administration requirements. These need to be explored and understood by the HDC within the revised corporate context.

This priority will address Strategic Direction 2 in the HDC Business Plan to “Enhance and Better Utilize Municipal Funds”.

#### **4.5 COMMUNICATIONS AND PARTNERSHIPS:**

The role of the HDC includes establishing the partnerships required to advance affordable housing across London and Middlesex. As described in the HDC business plan, this role is not directly attributed to targets but rather to increasing understanding and interest in the community related to affordable housing development.

In response to the proposed Housing Ambassador Program (Council Housing Leadership Committee, May 12, 2014), part of this function will include programs and communications to engage existing market rent providers to engage in affordable housing delivery across London.

In addition to housing development, partnerships may also include engagements with community based neighbourhood and business associations related to understanding needs and advancing affordable housing development.

Co-operative relationships with academia may be pursued to support the action oriented research and evaluation needs of the HDC, including the study of new innovation based tools and practices.

These activities address Strategic Direction 1 to “identify and secure or inform community partners about funding programs”.

#### **4.6 ESTABLISHING NEW FINANCIAL INSTRUMENTS:**

The HDC will carry over all financial tools and programs currently used by the City in leveraging New Build affordable housing development. These include policies and programs within the Housing Facilities By-law and Housing Partnership Policy, allowing for property tax and development charge considerations in affordable housing developments.

In addition, the HDC Transition and Implementation Project Team will establish a “rules and tools” task group to define the best practices available and any associated costs and implications related to tax considerations (including those on HDC related sales and acquisitions), reserve fund policies ensuring the HDC’s capacity to retain revenues within Council approved limits and uses – supporting affordable housing, transfers of surplus lands, and capacity to maximize incentives to allow for affordable housing development throughout London and Middlesex.

Any required new financial or planning policies supporting affordable development with the HDC will be subject to independent reports to Council with associated costs and benefit reviews.

## 5.0 BUSINESS PLAN ASSUMPTIONS

The following provides a general overview of business plan assumptions that have been taken into consideration in the design of the initial HDC:

### **Assumption 1: Existing Funding**

The Province is currently finalizing the next federal/provincial affordable housing funding and plans. It is expected that the funding and plans will be a continuation of the current Investment in Affordable Housing (IAH) allocation and program (but this is not yet confirmed). Based on this, it is expected that the City of London Service Management area should receive a similar \$13.6 million allocation over 4 provincial fiscal years.

This plan is also predicated on the continued municipal funding allocations to affordable housing at \$2 million per year.

### **Assumption 2: New Funding and Efficiencies**

A portion of the new target capacity is anticipated through enhanced municipal supports to affordable housing. These are described in various parts of the *HDC Business Case*, but most are summarized within its Appendix 4: Best Practices in Housing Development Models and Appendix 5: Overview of Municipal Tools and Incentives.

As part of the transitional work to the HDC, Civic Administration will explore its taxation, development, and planning programs and to explore any additional supports and incentives to affordable housing development.

### **Assumption 3: Public Housing Regeneration**

The redevelopment of priority public housing sites will be done in concert with London and Middlesex Housing Corporation (LMHC) and its tenants with community and stakeholder input. This regeneration work in other municipalities has been complex but rewarding to the communities, their residents, and the available stock.

These initiatives will be subject to separate studies which will be undertaken by the HDC working with LMHC and others. Valuations, priority setting, and planning will have upfront costs which will help establish the future redevelopment opportunities. Regeneration may also consider surrounding municipal land considerations, severances, consents, Ministerial approvals, etc. – all of which may have start-up related costs.

### **Assumption 4: Land Acquisition and Sale**

Among the initial functions of the HDC, will be acquisition, sale, and reuse of lands with any potential revenues supporting continued developments. These activities will require real estate expertise and strong working partnerships with the City's Planning and Realty Services offices. The potential for large-scale bluefield acquisitions (churches, schools or other institutional lands) may provide opportunities for mixed developments and partnerships but would also be subject to independent pro forma reviews and project plans.

### **Assumption 5: New Tools for New Build**

Currently, New Build affordable rental housing is supported at approximately \$150,000 per unit and Convert to Rent/Rehabilitation at approximately \$50,000 per unit. When averaged, recent New Build affordable housing has cost approximately \$100,000 per unit.

It is anticipated that, although these costs reflect value for money, there may be new approaches to New Build affordable housing development that can reduce the cost per unit. These could include potential future programs such as incenting secondary affordable units, working with private builders and developers on existing projects, or working with utility or other community programs on supporting affordability modifications for existing (in situ) tenants to maintain their existing housing.

Although the HDC will not directly advance the Resilient Communities Fund (RCF), there will still be requirements for the HDC to pursue alternative financial tools to support housing development. (See Section 7.4).

**Assumption 6: Responding to Increasing Development Costs**

London’s track record of New Build affordable housing through municipal and federal/provincial programs has been gradually impacted by rising construction and development costs.

Without a focused attention to new incentives, approaches, and partnerships, it is likely that rising development costs would require increased per unit incentives and reduce targets.

Over the course of the past 10 years, the per unit costs of construction and therefore affordable housing program incentives have risen, as reflected in the table below:

Project	Total Cost/Unit To Build New	New Build M/P/F Investment/Unit	Investment as Percent of Total
Ormah Gibson Towers (Homes Unlimited). Occupancy 2006	~\$130,000	~\$52,500  (under initial Pilot M/F/P funding.)	40%
Residenza Italia (Italian Seniors) Occupancy 2011	~\$173,000	~\$130,000  (under M/P/F AHP funding)	75%
129 Riverside (Riverside Development) Occupancy 2014	\$160,000	~\$111,000  under M/P/F IAH funding program	70%

The capacity to sustain costs without indexing of funding for affordable New Build development will rely on new tools, programs, and incentives that not only advance performance on targets but also explore new approaches to otherwise increasing costs.

These assumptions do not factor other external environment or other economic or policy factors that may impact rental housing development.

## 6.0 AFFORDABLE HOUSING TARGETS

### 6.1 HOUSING TARGETS:

The *London Community Housing Strategy, 2010* recommended that 1000 units of affordable housing be pursued between 2010 and 2015. The strategy and subsequent *Homeless Prevention and Housing Plan 2010-2024* broke this target into 700 units of affordable housing to be pursued by the City and that 300 units of supportive housing for people requiring supports to daily living be created by the Province under their housing responsibilities.

In response to these targets, Municipal Council directed that the City target be increased from 700 to 900 affordable units and that these units include a toolbox of approaches to meet the range of needs in the community. This increased the total target to 1200.

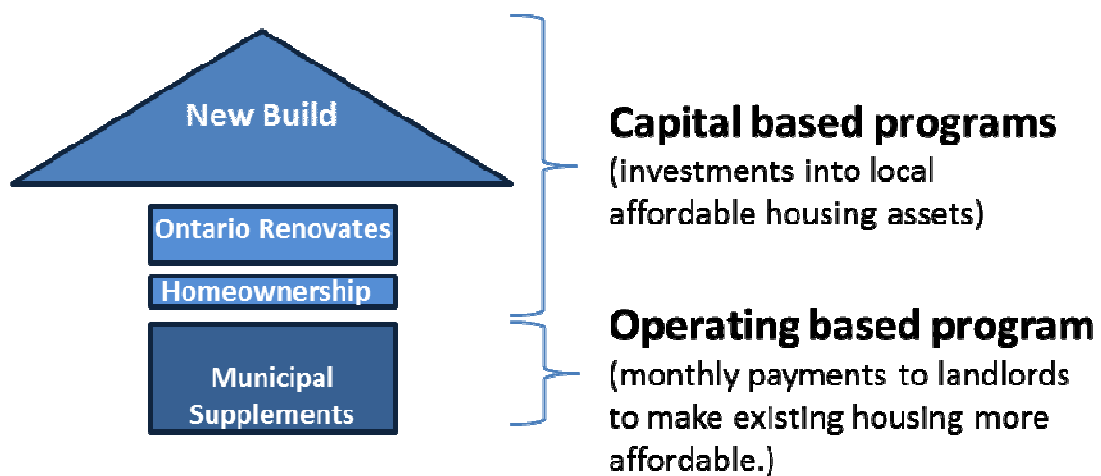
The *Homeless Prevention and Housing Plan* noted that the provincial portion of this target, 300 units, is difficult to measure and track given the changes in supported housing strategies within the health sector, especially related to community based care and the reallocation of mental health services and supports.

Provincial actions to advance de-institutionalization and increase integrated community living also rely on existing units within a strained affordable rental housing market.

### 6.2 PDFP TARGETS:

Targets are refined within the provincial Program Delivery and Fiscal Plan (PDFP) reporting tool, as approved by Municipal Council on November 21, 2011. This plan establishes housing targets based on actual available federal/provincial/municipal funding, through the Investment in Affordable Housing (IAH) program. The PDFP attempts to meet local affordable housing needs within available funding, strategies, and programs.

Based on the provincial program framework, the PDFP targets are divided into capital and operating programs.



Operating programs, such as the Municipal Supplements, have ongoing costs that support affordable housing on a month-to-month basis while capital based programs provide front-end one-time investments toward long term affordability.

### 6.3 PDFP CAPITAL BASED HOUSING PROGRAMS:

The development of new housing stock through capital investments has the greatest impact on long term unit availability, as well as asset/investment retention. Earlier reports on housing development reflected the economic, social, and community based value of capital investments; noting that there is often a lag time between development and access by tenants.

The PDFP target projection of 551 units was based on the period 2011 to 2015 and the following capital investment strategies:

*Ontario Renovates:* A program intended to support homeowners and tenants who meet a low income eligibility test, to make necessary accessibility modifications to their home required for them to retain their existing affordable housing.  
Target: 85 units  
Projected: 100

*Homeownership* A program intended to support renters who meet a low income eligibility test move to affordable homeownership through assistance with downpayments and closing costs on a modest home. Affordability levels are retained for the 20 years of the mortgage agreements and are protected in the event of a sale.  
Target: 30 Units  
Projected: 47

*New Builds: (IAH, Housing Partnership, Convert to Rent/ Rehabilitation)* “New Build” affordable housing (under the municipal/federal/provincial Investment in Affordable Housing program), as well as the 100% municipal *Convert to Rent/Rehabilitation* and *Housing Partnership Policy* create new affordable rental housing under 25 year operating agreements.  
Target: 231 Units  
Projected: 215

#### **6.4 PDFP OPERATING BASED AFFORDABLE HOUSING PROGRAMS:**

Operating programs refer to programs where costs and services occur on an ongoing basis and work best as a fast and short term solution to affordability where available stock, partners, and services can otherwise be secured.

*Municipal Housing Supplements* Municipal Housing Supplements are intended to incent local private market landlords with available rental housing stock at or around the average market rent to achieve a more affordable rental rate for eligible tenants. These tenants may be in situ, subject to the willingness of their landlords to participate in the agreements.  
Target: 205 Units  
Projected: 111

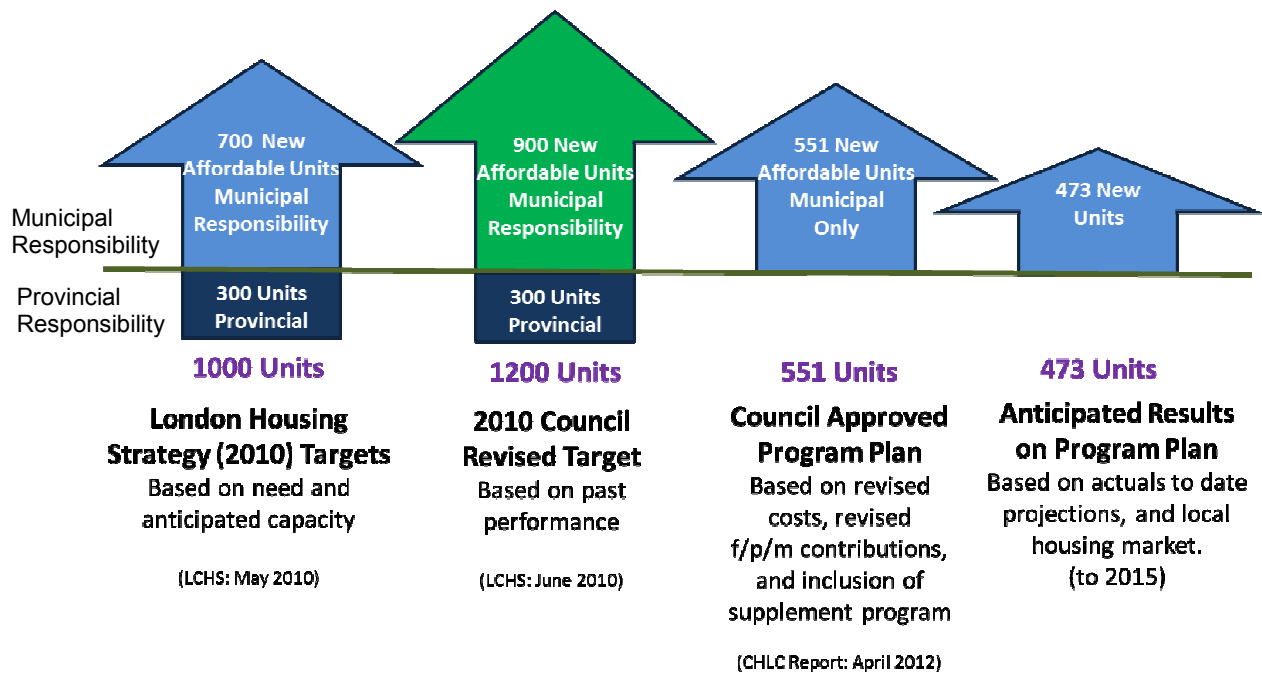
Supplement based programs provide short term support to tenants by reducing their rent under payment agreements directly with their landlords. The payment direction to the landlord is a critical component to ensure that the program is not an income supplement or considered a source of taxable income to the tenant.

#### **6.5 THE GENERAL STATUS OF CURRENT OPERATING PROGRAMS:**

Currently, there is a lack of available average to low rent market rental units in London. The supplement pilot project will therefore be limited to the 105 units under federal/provincial IAH funding and focused on housing with supports, (including through London CARES).

Further analysis of supplements and related targets and funding will be provided through a Civic Administration report in 2015.

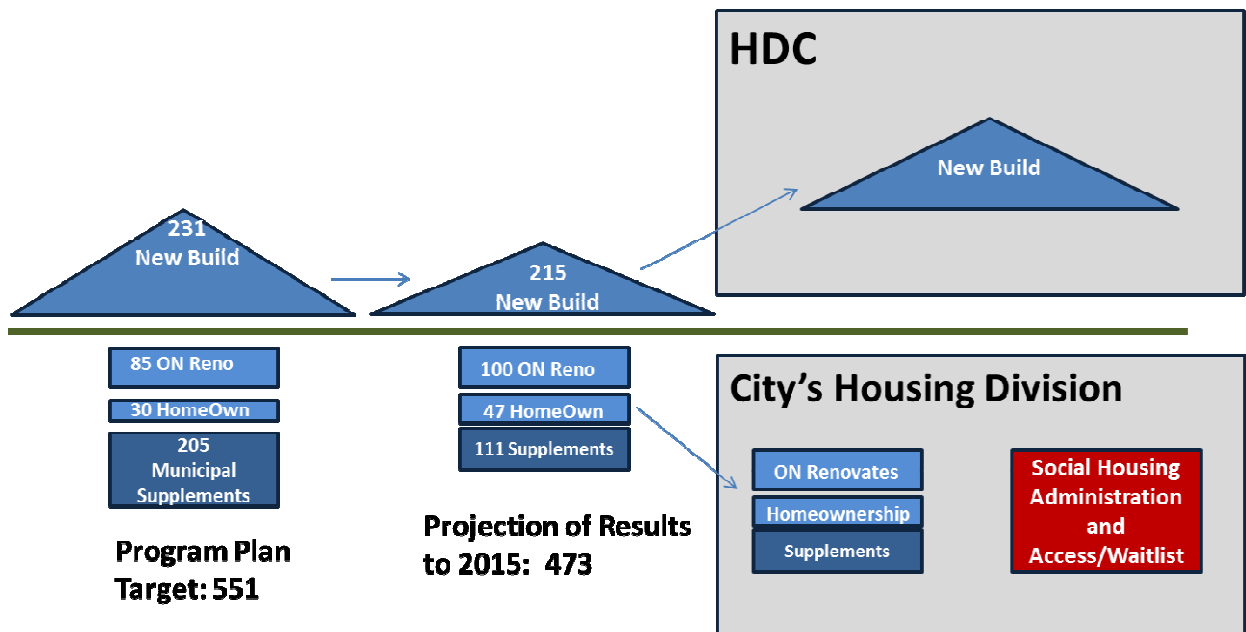
Currently, 473 units are projected on the PDFP target of 551 units:



### 6.6 UNDERSTANDING HOUSING TARGETS:

Within these targets and programs, the initial focus of the HDC will be on capital based New Build rental housing. Other operating and capital affordable housing programs will be retained within the City's Service Manager role.

The intent of the HDC is to outperform current PDFP targets and projected results related to New Build affordable rental housing.



**Note:** The City retains social housing administration, policy, reporting, and the City's designated Service Management duties.

It is anticipated that, public housing regeneration, sales and acquisitions, and other strategies will advance New Build targets beyond current levels.

## 7.0 HDC TARGETS AND DRAFT BUDGET CONSIDERATIONS

### 7.1 PROPOSED PDFP WITH HDC TARGETS:

The HDC Business Case notes the start-up and transition period will initially produce fewer units until activities related to revenue generation, land sales, a regeneration developments are able to occur.

Based on the above assumptions, proposed capacity with the final *HDC Business Case*, and likely graduated start-up and transition period, the draft PDFP for the period of 2015 to 2019 and extended to 2020 proposes the HDC be “contracted” to produce 350 new units of affordable housing. A revised draft PDFP for the period of 2015 to 2020 would therefore be as follows:

### 7.2 DRAFT REVISED PDFP (2015-2020):

PDFP	# of Units	2015-16	2016-17	2017-18	2018-19	2019-2020	Total
		\$	\$	\$	\$	\$	\$
Anticipated Fed/Prov \$ (Eg. IAH Extention)		\$ 3,400,000	\$ 3,400,000	\$ 3,400,000	\$ 3,400,000	\$ 3,400,000	\$ 17,000,000

#### F/P CITY MANAGED CAPITAL

ON Renovates	170	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (500,000)
Homeownership	45	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (100,000)	\$ (500,000)

#### F/P ADMINISTRATION

HDC Administration		\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (125,000)	\$ (625,000.00)
Balance F/P Toward Capital for HDC		\$ 3,075,000	\$ 3,075,000	\$ 3,075,000	\$ 3,075,000	\$ 3,075,000	\$ 15,375,000
CoL Contribution (From AHR)		\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	2,000,000	\$ 10,000,000
Less CoL Hsg Supplement *	110	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (250,000)	\$ (1,250,000)
CoL Contribution - Balance to HDC		\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 8,750,000
HDC							
<b>TOTAL FPM CONTRIBUTION TO HDC</b>		\$ 4,825,000	\$ 4,825,000	\$ 4,825,000	\$ 4,825,000	\$ 4,825,000	\$ 24,125,000
Total Units from HDC	350	50	50	50	100	100	HDC: 350 Units

\* Note: Municipal Supplement funding is secured through existing IAH allocations.

<b>TOTAL UNITS</b>	<b>675</b>	HDC: \$24 m as core F/P/M funding creating 350 units at approx. average of \$70,000 per unit.					
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The 350 units would reflect an average of the first 5 years and a starting point for the HDC, which represents a growth over current New Build capacity of approximately 215 units.

The ability to achieve an increased New Build unit target would only be possible through efficiencies in program design as well as the support of additional HDC programs and revenues and supportive City initiatives as outlined in the final *HDC Business Case*. These include redirecting revenues from parceling and sale of land associated with both public housing development (creating mixed affordability) as well as individual sales. These would support New Build. In addition, the proposed inclusion of lower cost, secondary suite unit development as well as continued conversion to rent would reduce the overall cost per unit.

The exploration of increased municipal in-kind programs and contributions to incent affordable housing (such as further property tax and various permit rebates) requires further exploration and development in concert with the activities of the HDC.

The further review of these revenue streams and incentives will be part of the activities of the implementation team to assess the best practice related to municipal policies supporting affordable housing.

### 7.3 PRO FORMA BUDGET:

The following chart of core federal/provincial/municipal funding does not reflect operating costs currently within the Housing Division or other Corporate areas related to supporting the City's other functions related to affordable housing.

These costs are anticipated to remain the same and, subject to shared services considerations, the associated budgets will be apportioned accordingly to support the HDC activities.

<b>Housing Development Corporation 2015 to 2020 Pro Forma (\$) Estimates from 2015 to 2019</b>					
	2015	2016	2017	2018	2019
<b>HDC Annual Revenue</b>					
HDC Admin from F/P funds	125,000	125,000	125,000	125,000	125,000
FPM Contribution to HDC for Dev't	4,825,000	4,825,000	4,825,000	4,825,000	4,825,000
TOTAL HDC Profit Generating Activities (Development Consulting Services Fees, sale of properties, land disposition, public housing land parcelling, revenues from developments)	-	-	100,000	400,000	500,000
Other Municipal Admin Funding to HDC Admin (Appropriation from City to HDC)	300,000	300,000	400,000	500,000	500,000
<b>Total Annual Revenue</b>	<b>5,250,000</b>	<b>5,250,000</b>	<b>5,450,000</b>	<b>5,850,000</b>	<b>5,950,000</b>
<b>Annual Expenditures</b>					
HDC Resources - Leadership	150,000	150,000	150,000	150,000	150,000
Other (Incl. expertise in affordable housing management and development)	200,000	200,000	300,000	430,000	450,000
Office Overhead	50,000	50,000	50,000	50,000	50,000
Housing Development Costs	4,850,000	4,850,000	4,850,000	4,850,000	4,850,000
<b>Total Annual Expenditures</b>	<b>5,250,000</b>	<b>5,250,000</b>	<b>5,350,000</b>	<b>5,480,000</b>	<b>5,500,000</b>
<b>Total Annual Net Revenue / (Loss)</b>	<b>-</b>	<b>-</b>	<b>100,000</b>	<b>370,000</b>	<b>450,000</b>

Although there are no anticipated new funding requirements associated with the process of establishing the HDC and maintaining existing targets, future new municipal funding requests from the HDC may be required related to specific HDC activities, development projects, or other initiatives.

This approach is similar to those used in economic development and other special purpose bodies where independent business plans based on new programs, innovations, or service partnerships are subject to separate considerations, Council approval, and resource allocations.

Specific policies may be required and defined within the shareholder direction related to financial tools that relate to the City's financial policies. These include reserve funds, retaining of revenues, and asset transfer policies.



#### **7.4 THE RESILIENT COMMUNITIES FUND (RCF) AND THE HDC:**

The Resilient Communities Fund (RCF) model was proposed in the *HDC Business Case* (Appendix 8) as a potential mechanism to attract new investors to affordable housing development.

The RCF is a conceptual model and engages existing financial investment tools aimed at social impact investing in the real estate and property investment market. The RCF proposes to work with those new investors and incent them to use these units as available affordable housing and requires a mortgage tool that would be administered to provide competitive mortgages to investors.

The capacity of generating funding for housing provides great promise in creating affordable rental units from within the existing rental market through alternative financing. At its core, the RCF model relies on the ability to attract real estate investors in the rental condominium market. This is a growing market in London and elsewhere.

The HDC should not directly pursue the RCF model but rather participate and support the creation of an RCF type financial tool by opening the concept to private investors for their development. The HDC can initiate discussions with private sector investors, other service managers, and key stakeholders to seek their interest in separately exploring an RCF type of funding and service model outside of the HDC.

The HDC can track units created through this concept where the function and services of the RCF are managed and delivered within the private sector.

## **8.0 HDC BOARD AND GOVERNANCE**

### **8.1 INITIAL BOARD OF DIRECTORS FOR THE HDC:**

An approval by the Council to establish the HDC will have to include the appointment of the initial or incorporating directors. The initial board will be charged with the management and supervision of the start-up of the corporation. For this reason, and not withstanding Council Policy 526, it is recommended that the initial directors be members of the Civic Administration. The board of directors will report to Council through the appropriate standing committee as needed or required. This interim board will remain in place until the set-up is complete and the council has selected and appointed the first directors.

### **8.2 BOARD OF DIRECTORS:**

The first board of the HDC shall be established with a minimum board of 3 members and a maximum board of 7 members - all of which will be members of the public identified for the competencies and expertise they will lend to the HDC.

The board of directors will act independently of the Council. The board will manage and supervise the management of the business and affairs of the corporation. Directors owe a fiduciary duty to the corporation and are required when discharging their duties to the corporation to act honestly and in good faith with a view to the best interests of the corporation and to exercise the care, diligence, and skills that a reasonably prudent person would exercise in comparable circumstances.

### **8.3 PROCESS FOR SELECTION OF THE FIRST HDC BOARD:**

In a manner similar to that which was used with the establishment of the first London Hydro board of directors, a recruitment committee will be struck to make recommendations to SPPC on the first board. Civic Administration will explore a panel that will include local industry experts. The goal of the recruitment committee should be to best identify candidates with competencies and expert skills that will support and advance the activities of the HDC.

### **8.4 DESIRED QUALIFICATIONS FOR DIRECTORS:**

Based on the recommendations of the Business Case, the recommended board of the HDC reflects no direct Council representation.

The legal duty of the directors is to oversee and guide the strategic management of the corporation and to act in good faith with a view to the best interests of the corporation, exercising care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. These qualifications should include:

- Financial and legal knowledge related to housing development and/or real estate transactions;
- A general understanding of accounting, financing, and taxation matters as they relate to housing development and development financing;
- A comprehensive understanding of the core business and objectives of the corporation;
- Strategic planning, including resource planning and partnership development;
- Understanding of affordable and social housing in an Ontario context;
- Corporate stewardship and risk management;
- General regulatory and service knowledge associated planning, development and related regulatory knowledge;
- Experience in a competitive business;
- Awareness of the local housing needs of persons with low income;
- Awareness and experience in the local (London and Middlesex as well as south-west Ontario and provincial) issues and environment in real estate, property management, and/or housing construction;
- Leadership and integrity; and
- Primary residency in London or Middlesex.

#### **8.5 CONFLICTS OF INTERESTS AND ACCOUNTABILITIES:**

Some different accountability and transparency requirements apply to municipal service corporations in comparison to other corporations. The HDC will be required to adopt and maintain policies with respect to the sale and disposition of land, hiring of employees and procurement of goods and services under section 270 of the *Municipal Act, 2001*. The corporation is deemed to be a local board for the purposes of some legislation including the *Municipal Conflict of Interest Act*. The directors and officers are deemed to be members for the purposes of the *Municipal Conflict of Interest Act*. The corporation is deemed to be an institution under the *Municipal Freedom of Information and Protection of Privacy Act*.

Board members of the HDC will be required to adopt a very clear and direct code of conduct to address defined actions and penalties (including legal action) for breaches of trust and ensure a full and complete understanding of conflicts related to competitive business ventures with the HDC.

#### **8.6 BOARD MEETINGS:**

The board will determine its meeting schedule at the start of the term and annually thereafter.

The board will report to Council on an annual basis and as required by the Council or secondary strategies or plans. It will be bound by the requirements set out in a Council approved shareholder direction and accountability rules.

#### **8.7 TERMS OF OFFICE:**

Board appointments will be for a 3 year term with an option to renew for an additional 3 years. The board composition will be staggered in order to achieve stability, continuity, and knowledge transfer. The approach to staggering the board will be established through the shareholder direction. No board member shall be appointed for more than two consecutive terms unless approved by Council for specific purpose.

#### **8.8 REMUNERATION OF BOARD MEMBERS:**

Board members will be recruited as volunteers without remuneration. Chargeable expenses and cost reimbursements will be addressed through the shareholder direction and be modeled on those used by the Board of Directors for London & Middlesex Housing Corporation.

## 9.0 HDC ADMINISTRATION

### 9.1 CURRENT RELATIONSHIP TO THE CITY OF LONDON:

HDC staff shall have a formal employment contract with its employees addressing salary, benefits, and related matters. These will be benchmarked against the management salary and compensation grid of the City.

### 9.2 INITIAL CHIEF ADMINISTRATIVE OFFICER:

During the initial transition period, the Chief Administrative Officer/Executive Lead of the HDC will be seconded from Civic Administration.

The recruitment of a permanent dedicated Chief Administrative Officer/Executive Lead is not anticipated until the 2015-16 project year and will be subject to requirements to be established within the Shareholder Direction and approved by Council in 2015.

### 9.3 ASSUMPTION OF CURRENT HOUSING DEVELOPMENT ACTIVITIES

The current municipal contract for a housing development consultant will be assumed and extended by the HDC to ensure continuity of local activities.

The longer term harmonization of these existing contracted services within the future role of the HDC will be determined through the implementation process.

### 9.4 OTHER REQUIRED FUNCTIONS AND COMPETENCIES:

The HDC Business Case pro forma reflects initial resource requirements of the HDC including:

#### *Land Valuation and Real Estate Expertise:*

Based on the priorities of the HDC, a key step in assessing the regeneration and redevelopment activities of LMHC properties will require expertise in land value, real estate, and housing development. These skills may be acquired through a service agreement but it will be to the advantage of the HDC to begin building this transferable knowledge in-house.

#### *Expertise in Housing Development and Related Financial Instruments:*

The pursuit of new funding models, development of financially viable housing programs, and understanding of related tax law implications will also be a core competency within the HDC.

These resource requirements have been accounted for in the pro forma budget estimates as assumed Year 2 and 3 expenditures.

## 10.0 HDC SHARED SERVICES ARRANGEMENTS WITH THE CITY

It is not the intent of this plan that the HDC acquire or conduct administrative work that is currently done by Civic Administration in support of housing development. As such, the HDC will require the continued support of the City in a variety of support functions and service areas.

Any exception to this would be addressed as required by specific purpose, such as the City no longer providing a service, a potential conflict of interest, or efficiencies in the direct delivery by the HDC.

The shared service requirements of the City include but are not limited to:

- Office Space to be provided within City space and preferably within the Housing Division to maximize linkages and efficiencies between HDC and City services.

Any costs associated with space alterations or set-up related to the initial start-up of the HDC will be managed through the Housing Division as per existing practices.

- Computer equipment, secure network connectivity, phone services, software will be supplied within the ITS services similar to existing. Any new equipment or services will be addressed in accordance with current practices for all City services. This includes any regular upgrades or changes based on procurement and suppliers.
- Stationary and other supplies will be ordered through the City's services and separately tracked where necessary;
- Services will be shared at no anticipated costs wherever possible with the City. This includes shared costs of common space, mail collection and distribution, printing, minor office supplies, and other tenant comforts. The HDC will be able to access to booking of services, meeting rooms, and other shared resources similar to existing City programs and services.
- Necessary financial and procurement supports and services will be available to the HDC through the City's corporate support services, unless it is deemed to be a conflict based on the nature of the request; and
- In the event of the HDC requiring independent services external to the City but otherwise provided by the City, these services will be separately funded by the HDC.

This list is not meant to be exclusive. The requirements listed above and other potential shared services are to be addressed in detail by the HDC transition and implementation project team.

## **11.0 OVERVIEW OF APPROACH AND START-UP OF HDC**

### **11.1 START-UP AND TRANSITION OF THE HDC:**

The start-up of the HDC will require specific actions to occur as required under the *Ontario Business Corporations Act*. These include name and address of the corporation, board structure, names, restrictions of the business, rights and privileges related to shares, and other required provisions.

### **11.2 REGULATORY REQUIREMENTS:**

To meet these minimum start-up requirements, it is recommended that the following actions be taken:

- The HDC be incorporated under the name "Housing Development Corporation, London";
- The HDC use the address of the Housing Division;
- The HDC be established with a minimum board of 3 members and a maximum board of 7 members, as outlined within the HDC Business Case;

### **11.3 HDC TRANSITION AND IMPLEMENTATION PROJECT TEAM:**

On an interim basis during transition and until such time as an external board of directors can be recruited, it is recommended that members of Civic Administration shall act as the initial board.

This approach will provide the initial incorporators information required under the *Business Corporations Act*, and the authority for any decisions that may be made during the initial start-up. It also provides project management oversight related to activities falling under Civic Administration responsibilities.

A Senior member of Civic Administration, to be appointed by the City Manager, will act in a seconded role as the initial CAO/executive lead of the HDC and as the project manager over the HDC transition and start-up.

To assist in these efforts, a Civic HDC Transition and Implementation Project Team will be established to develop and action the implementation plan as well as support any affordable housing activities during the transition period.

The above approach ensures the legal requirements to incorporate the HDC can be actioned and project and business activities can be initiated until such time as the HDC board is in place.

### **11.4 IMPLEMENTATION OF THE SERVICE TRANSITION FROM THE CITY TO THE HDC:**

The following actions will be undertaken by the initial board after incorporation:

- Establishment of HDC resources and project team (as above);
- Required reporting related to housing development actions would be directed to Community and Protective Services Committee;
- Preparation of all required policies, service agreements, and administrative tools required to establish the shareholder direction, accountability rules, and management practices of the HDC; and
- Oversight of current affordable actions that may be required until such time as the HDC is prepared to assume these responsibilities.

### **11.5 HDC START-UP TIMELINES:**

The initial business plan addresses the first 5 years of the HDC but does not include any specific development initiatives at this time. Specific initiatives that may emerge for action during the noted timelines will be subject to separate plans within the project. The proposed HDC first business plan will be mapped out as follows:

- 2014-2015: Phase 1: Creating the HDC - Transition and implementation activities;  
2015-2016: Phase 2: Start-up year under direction of first board; and  
2016-2019: Phase 3: First full years of HDC operation.

## 12.0 OVERVIEW OF HDC WORK PLAN ACTIVITIES AND GENERAL TIMELINES

### Phase 1:

#### Initial Activities: **To Spring 2015 (to first shareholder meeting) Focus on Operating and Governance Tools**

- Incorporation articles and bylaws,
- Initial/transitional board and CAO/executive lead appointment,
- Define project work plan and timeline details,
- Select and engage internal work team,
- Create detailed work plans,
- Research into best practices within the City,
- Define shareholder direction criteria, including financial, and risk parameters
- Define shared service agreements,
- Establish account and taxation requirements,
- Transition existing tools and policies to HDC project team,
- Create first board competencies and recruitment strategies,
- Receive and vet first board applicants
- Council approval of the initial board
- Establish initial space and resource requirements,
- Determine role and relationship and interactions with the City as Service Manager, partner, and shareholder,
- Conduct affordable housing development activities as required,
- Assume existing housing development service contract

### Phase 2:

#### Start-up Activities: **Within 2015-16 (to Spring 2016)**

##### **Focus on Development Tools and Resources**

- Engage first board through Council appointment,
- Prioritization of project initiatives,
- Work in partnership with the Service Manager to establish marketing and communication strategies related to engagement of stakeholders in affordable housing development and provision,
- Engage the board of LMHC and Service Manager in a shared service agreement related to public housing regeneration,
- Initiate valuation of LMHC properties to establish priority developments and supporting business model,
- Initiate specialized team supporting public housing regeneration to increase affordable units, replace designated RGI units, and include market housing and other community entities,
- Work with City on municipal policies to support affordable housing development, including those within the new Official Plan (creating new programs and policy framework),
- Define resource requirements related to affordable housing development, and
- Deliver and manage new affordable housing developments within available programs.

### Phase 3:

#### Stabilization Activities: **Within First 5 Years**

##### **Focus on Advancement and Market Strategies**

- Establish long term business plan (5 to 10 years),
- Establish secondary plans associated with specific development opportunities,
- Define community engagement role,
- Establish sustainable governance role,
- Create organizational strategic plan and measurable targets,
- Initiate consultation and support role, and
- Define long term organizational and resource needs and efficiencies.

## 13.0 OTHER HDC CONSIDERATIONS

### **13.1 OWNERSHIP AND WIND DOWN:**

In the event of wind down, all assets of the HDC will be transferred to the City.

### **13.2 COMPLIANCE WITH ESTABLISHED AFFORDABLE HOUSING PROGRAMS:**

All contributions of affordable housing development public funds shall be protected within liens, legally approved contracts, or other tools to protect investments, reflect financial accountability, and ensure program compliance.

All actions requiring the engagement of the City as Service Manager shall be conducted in accordance with the shareholder direction and through the designated Service Manager Liaison.

### **13.3 ALIGNMENT WITH HOUSING STRATEGIES:**

Housing targets are established within a variety of changing conditions and local environmental factors. The HDC shall both participate in stakeholder discussions related to market needs as well as respond to changes in local housing strategies.

The current *Homeless Prevention and Housing Plan*, and associated London Community Housing Strategy will stand as the driver of currently accepted local housing needs and plans. Future changes to the Council approved plan will be adopted by the HDC, recognizing the potential for changing local needs to require alteration to the priorities or programs of the HDC.

### **13.4 MARKETING AND COMMUNICATIONS:**

Wherever possible, the HDC will act as a local champion for affordable housing development. The HDC will work with the City and other key stakeholders as an expert representative of the local affordable housing development sector.

The HDC will work with other private, social, and public housing providers, advancing the need for affordable market rents in all sectors.

All housing strategies and programs that deliver below average market rent units within the key targets of the local Housing Strategy will be considered as affordable units counted within the community's achievement of its affordable housing goals.

### **13.5 HDC AND THE COUNTY:**

The HDC will work with the County of Middlesex and its lower tier municipalities in support of the development of affordable housing throughout the Service Management area. This relationship is specific to the development of affordable housing within the parameters identified in this report.

### **13.6 FUTURE MARKET ADAPTABILITY AND MANAGING CHANGE:**

The content of this report and division of duties, identification of key roles and responsibilities, and all related limitations are subject to future enhancement. Any changes or new opportunities will be reflected within the appropriate corporate documentation.