Appendix 4:
NBLC Study on Affordable Housing CIP

HOUSING BRAMPTON
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City of Brampton

City of Brampton: Opportunities, City-Wide, for Appropriate Community Improvement Plan(s) – Affordable Housing

November 2020

N. Barry Lyon Consultants Ltd.

City of Brampton

Opportunities, City-Wide, for Appropriate Community Improvement Plan(s) – Affordable Housing

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Disclaimer:

The conclusions contained in this report have been prepared based on both primary and secondary data sources. NBLC makes every effort to ensure the data is correct but cannot guarantee its accuracy. It is also important to note that it is not possible to fully document all factors or account for all changes that may occur in the future and influence the viability of any development. NBLC, therefore, assumes no responsibility for losses sustained as a result of implementing any recommendation provided in this report.

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Executive Summary

The City of Brampton retained N. Barry Lyon Consultants Limited (NBLC) to explore opportunities, city-wide, for the appropriate use of community improvement plans (CIPs) to incent employment growth and the delivery of affordable housing. This report assesses affordable housing, whereas opportunities to assess employment growth is dealt with under separate cover.

While Brampton was originally interested in pursuing a CIP to offer incentives for affordable housing, the Region of Peel has recently approved an Affordable Housing Incentives Pilot Program ("Peel Incentive Program"). NBLC has been assisting the Region of Peel with developing this program over the last year, which was unanimously approved by Regional Council on July 9th, 2020. The Peel Incentive Program will be administered through a Municipal Capital Facility By-Law ("MCFB") rather than a CIP. As explored in this report, a MCFB and a CIP are very similar tools that allow municipalities to offer incentives to achieve specific outcomes. Also like a CIP, a MCFB allows lower and upper-tier municipalities to participate in a single incentive program, which eliminates the need for both municipalities to have separate programs to achieve the same outcome.

The analysis in this report recommends that the City of Brampton begin to take steps to integrate with the Peel Incentive Program. This direction would reduce the administrative and financial burden that would result if Brampton proceeded with a separate affordable housing program. If Brampton prefers different affordability targets or other eligibility criteria that differ from Peel's requirements, which may come from Brampton's ongoing affordable housing strategy, the Peel Incentive Program is designed to allow for this nuance if necessary.

The Regional MCFB would allow the City to integrate with the Peel Incentive Program without any administrative resources, other than securing funding and allocating temporary resources to review and approve applications in partnership with the Region. It is therefore recommended that the City begin assessing the items identified in Section 4.1 of this report and begin to consult with the Region of Peel on final program implementation.

1.0 Introduction

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Given the above, Brampton is interested in understanding how the City might best participate in the Peel Incentive Program to achieve affordable housing objectives. This report provides an overview of the Peel Incentive Program, key background analyses that informed the program, and how Brampton might participate moving forward.

2.0 Background to the Peel Incentive Program

The following chapter assesses the background analyses that informed the Peel Incentive Program. This material is available on the Region's website:

- Peel Housing and Homelessness Plan: https://www.peelregion.ca/housing/homelessness/plan.asp
- Peel Housing Strategy: https://www.peelregion.ca/planning/officialplan/pdfs/2018/2018-housing-strategy.pdf
- NBLC Final Recommendation Report on the Peel Incentive Program: https://www.peelregion.ca/officialplan/review/pdf/nblc-final-report.pdf

2.1 Housing Need in Peel

In the spring of 2018, the Region of Peel successfully completed a Housing Strategy that included a Housing Needs Assessment. This analysis was undertaken with the aim of providing input into a renewed Peel Housing and Homelessness Plan as required by the Housing Services Act and to satisfy the requirement for a Housing Strategy as per the updated 2017 Provincial Growth Plan. The updated Peel Housing and Homelessness Plan (2018-2028) and the Peel Housing Strategy (2018) was endorsed by Regional Council on April 5th, 2018. One of the key recommendations of the Housing Strategy was to investigate the potential of implementing an incentive program to assist with the creation of affordable housing by the private and non-profit sectors at the thresholds identified by the Needs Assessment.

The Region's Housing Needs Assessment found that nearly 32% of all households in Peel Region were facing housing affordability issues, which is the highest proportion in the GTHA outside of the City of Toronto. The assessment determined that approximately 70% of low-income households and 30% of middle-income households were facing affordability challenges. These household groups correspond to the following definitions:

- **Low Income Households:** Households that fall within the 1st to 3rd income decile groups in Peel Region. These households generally earn a gross household income of $57,421 per year or less. These households can afford to pay no more than:
    - $1,259 per month for a rental apartment and $228,389 for a home purchase. The demand profiles within this group require both small and family size units, with roughly 65% requiring a two-bedroom home or larger.

- **Middle Income Households:** Households that fall within the 4th to 6th income decile groups in Peel Region. These households generally earn a gross household income of between $57,422 and $103,345 per year. These households can afford to pay no more than:
  - $2,584 per month for a rental apartment and $411,047 for a home purchase. The demand profiles within this group heavily favour larger family size units, with approximately 85% requiring a two-bedroom home or larger.

More housing that is affordable to these household groups is required to ensure housing is available to all Peel residents and to ensure that homelessness is prevented. The Needs Assessment undertook a demographic, socioeconomic, and housing projection analysis and established a minimum target of 2,000 new affordable housing units each year, which is roughly split evenly between the low and middle-income groups. This target would represent around 30% of all new housing units over the next ten years based on trends and projections. Within the low-income group, a range of options including permanent, transitional, and supportive housing was identified.

Overall, the housing market in Peel is not servicing these low and middle-income households as the supply of housing that is affordable to these groups is not keeping pace with existing or projected demand. The housing strategy also identified that there was a significant shortfall of rental housing supply being added to the market, at both affordable and market rates, resulting in very low vacancy (~1% at the time of study).

2.1.1 Updated Affordability Thresholds for Financial Testing and Program Design

The Region of Peel has updated the maximum rental rates and sale prices identified by the Needs Assessment for the 2020 calendar year. This was done through the Region's annual Housing Monitoring and Measuring Program. These updated thresholds are detailed within Table 1. Each affordability threshold is slightly higher than what was noted in the Needs Assessment due to this update.

While these maximum purchase price and rental rate thresholds are useful in understanding the need from a high level, they must be related to a unit size to ensure that the housing being supplied at these rates are not exclusively small suites and to ensure the Region's incentive program adequately targets and satisfies the demand characteristics noted by the Housing Strategy. Given the findings of the Needs Assessment, which found that demand at these affordable rates are weighted towards larger family size units, it is important to ensure that these types of units are provided within the affordability thresholds identified by Table 1. To account for this, NBLC and the Region assumed that these "maximum" thresholds directly apply to a family size unit within a development, or a 1,000 square foot three-bedroom home (Figure 1).

Table 1

Housing Needs Assessment Affordability Thresholds	
Household	**Affordability Threshold**
Ownership Tenure (Maximum Purchase Price)	
Middle Income	$411,870
Low Income	$229,852
Rental Tenure (Maximum Monthly Rent)	
Middle Income	$2,701
Low Income	$1,344

Figure 1

Ownership Housing

Middle Income: $411,870

Low Income: $229,852

1,000 Square Foot Three-Bedroom Unit

Middle Income: **$412** per square foot

Low Income: **$230** per square foot

Using per square foot values allow the thresholds to be applied to the suite mix and unit sizes in a building. For example:

A 1,000 square foot unit at $412 per square foot would cost $412,000. A 500 square foot unit would cost $206,000.

Rental Housing

Middle Income: $2,701

Low Income: $1,344

Peel MMR for Three-Bedroom Unit $1,587

Middle Income: **~170%** of MMR

Low Income: **~85%** of MMR

For rental apartments, CMHC reports the MMR for one, two, and three bedroom rental units across Peel Region. Converting the affordability thresholds to a proportion of MMR allow the thresholds to be applied to the suite mix and unit sizes in a building. See Table 2 for more detail.

Table 2

Affordable Rental Rates by Bedroom Type											
Suite Type	MMR	Middle Income					Low Income				
		Rent/mo.	%MMR	Mix	Sq. ft.	$/sf	Rent/mo.	%MMR	Mix	Sq. ft.	$/sf
1 Bedroom	$1,198	$2,050	~170%	15%	590	$3.48	$1,000	~85%	35%	590	$1.69
2 Bedroom	$1,366	$2,330	~170%	50%	725	$3.21	$1,155	~85%	40%	725	$1.59
3 Bedroom+	**$1,587**	**$2,701**	**~170%**	**35%**	**1,000**	**$2.70**	**$1,344**	**~85%**	**25%**	**1,000**	**$1.34**
Average	$1,418	$2,418	~170%	100%	800	$3.02	$1,150	~85%	100%	750	$1.53

It is also important to ensure that the rental rates are translated to a proportion of the CMHC Median Market Rent (“MMR”), to ensure compliance with senior-level government funding that uses this qualifying definition. The CMHC MMR is published annually by CMHC for major markets across Canada and captures all rental apartments in the market (old and new stock, new and long-term tenants) and reports on the median rates paid per-bedroom. The reported MMR is therefore often well below market rates or newly advertised units. Of note, many funding programs have recently switched from using the CMHC Average Market Rent (“AMR”).

As illustrated by Table 2, the affordable rental thresholds therefore relate to around 170% and 85% of the CMHC MMR for middle and low-income groups, respectively. This translates to an overall average of approximately $3.02 per square foot for the middle-income group and $1.53 per square foot for the low-income group. The suite mix noted in Table 2 is based on the findings of the Needs Assessment.

2.1.2 Market Context

The market in Peel Region heavily favours ownership housing over rental. Reviewing CMHC housing start data, rental apartments have accounted for roughly 5% of all new housing development in Peel Region between 1990 and 2018 and under 4% of all new housing activity since 2010. The vacancy rate for rental apartments is under 1% in Peel, indicating very little availability for households seeking rental accommodation. This situation is driving growth in rental rates and resulting in very little availability for households looking to rent in Peel.

Due to the fact that the market is providing a considerable supply of ownership housing, which includes low-density freehold and condominium homes (e.g. single-detached, townhomes) as well as condominium apartments (e.g. stacked townhomes, mid and high-rise apartments), the ownership threshold identified by the Needs Assessment should be well below market pricing. If the market were providing housing at these affordable thresholds, the Needs Assessment would not have identified a need.

For the rental market on the other hand, there has been limited new purpose-built rental supply brought to the market. The Needs Assessment has therefore identified a need for new rental housing at around market rates, which explains why the middle-income threshold is so high. The low-income rental threshold is well below market rates (85% MMR or around $1.54 per square foot).

The situation described above is not unique across the GTHA. The Region of York for example is considering financial incentives to encourage the construction of rental housing at 175% of the CMHC MMR, to stimulate rental housing investment. Similarly, the City of Toronto was utilizing the former Development Charge Rebate Program for rental housing delivered at 175% of the CMHC AMR prior to the program being cancelled by the Provincial government.

Generally, rental housing is challenged relative to ownership housing for many factors:

- Ownership projects will generate larger and faster returns than a rental building. Within a condominium building, developers can earn their return quickly once construction begins. A rental project will earn a relatively lower and stable cash flow for as long as they own the building, often taking many years of operations to pay back the initial investment.
- Rental projects are retained over the long-term, which introduces additional risk and uncertainty over rental income, operating expenses, capital repairs, new policy changes (e.g. rent controls), the future value of the building, and others. Ownership housing on the other hand will generate a sizeable return as soon as construction is complete, and the units have been transferred to the purchaser.
- Due to the long-term ownership of a rental building, rental developers must have the internal capacity to operate and manage a building over the investment period. Many condominium developers do not have these resources.
- Condominium projects will drive a higher land value, which makes it difficult for rental buildings to compete for land.
- Financing is easier to obtain for ownership projects. Typically, a developer must provide around 40% of a project's cost and the remainder can be financed. For condominium projects, revenue is collected through deposits on the sale of units, which will offset the required up-front equity. This does not happen for rental buildings, which will not collect revenue until the building is complete and tenants begin moving in.
- The above results in rental projects requiring a large up-front equity contribution, which can often be as much as twice the equity required for the same building that is condominium in tenure. This can be a significant barrier impacting the economics and attractiveness of a rental project.

These factors explain, in part, why rental housing does not happen on the same scale as ownership housing in the GTHA. In the current environment, rental housing remains attractive to a much shallower pool of market participants relative to ownership housing. These rental market participants often include REITS, pension funds, commercial developers, non-profit rental groups, and a small number of for-profit rental developers.

2.1.3 Existing Government Funding Programs for Affordable Housing

2.1.3.1 Rental Construction Financing Initiative (`RCFI`)

The CMHC RCFI program provides low-cost loans encouraging the construction of rental housing across Canada. CMHC is aiming to provide up to $13.75 billion in loans over the next nine years to encourage the construction of 42,500 rental units across the Country. Funding is allocated on a competitive basis and is not intended to be evenly distributed across the entire Country.

To qualify, a minimum of 20% of the units provided in a building must have rents at or below 30% of the median total income for all families in the reporting area for at least ten years. This corresponds to a rental rate of approximately $2,075 per month in Peel Region, or 130% of the CMHC MMR for a three-bedroom unit. There are also environmental and accessibility standards and the total rental income must be at least 10% below the gross achievable rental income.

The program offers:

- low interest rates (currently around 2%, which is often less than half the rate offered through a commercial lender);
- a 50-year amortization; and,
- other favourable lending conditions (higher loan to cost ratio, lower minimum debt coverage ratio).

These factors allow a rental developer to borrow more, reduce up-front equity requirements, and borrow more cheaply. These factors address many of the obstacles to developing rental housing.

Overall, the program is popular amongst developers. As of the writing of this report, there have been over 150 applications to the program from all over the Country, and 30 projects have been officially approved by CMHC to receive underwriting. There have been no applications to the program within Peel Region, however we understand that some developers are currently in preliminary talks with CMHC staff.

Given the modest affordability requirements, this program can generally be viewed as attempting to encourage market rental housing. As such, of the projects approved thus far, approximately 2/3 have been from for-profit developers, with the remaining 1/3 coming from non-profit groups and municipalities. It is important to understand that funding is delivered through a competitive process. There is no guarantee that a project meeting the minimum requirements will receive financing

2.1.3.2 National Housing Strategy Co-Investment Fund for New Construction

The CMHC Co-Investment Fund offers more favourable lending conditions for rental development relative to the RCFI program, however the affordability requirements are more onerous. To qualify, a project must provide at least 30% of units in a building with rents at or below 80% of the CMHC MMR for a minimum of 20 years.

As a result, there have not yet been any approved applications by for-profit developers. As of the writing of this report, 82% of approved projects have been for non-profit or co-op groups, with the remaining amount being municipalities, municipal housing corporations, and Indigenous groups.

Unlike RCFI, the Co-Investment Fund is largely targeting low-income rental housing. Many of the projects approved through the program are offering rents well below 80% of MMR, with some incorporating rent geared-to-income ("RGI") within the project. The Region of Peel recently secured $276 million through this program to deliver 2,240 new affordable units over the next ten years.

Both RCFI and the Co-Investment Fund apply to rental housing only.

2.2 Financial Analysis and Business Case for an Affordable Housing Incentive Pilot Program

In November 2019, NBLC finalized our Financial Analysis and Business Case for an Affordable Housing Incentive Pilot Program. The analysis assessed several key items:

- The housing need in Peel Region.
- The most appropriate and impactful package of local and Regional incentives to encourage the delivery of affordable housing by the private sector (including non-profits).
- The subsidy gap required to be addressed through a funding program at various affordability levels as well as the incentive mechanism.
- Balancing the required subsidy amount with the Region's ability to deliver the incentive program while also taking into consideration potential funding partnerships with the local municipalities and senior levels of government.
- An estimate of the number of units that could be created with the anticipated funding amount relative to the Housing Strategy targets.

An incentive program seeks to offset development costs to result in a viable development project. In specific relation to affordable housing, the incentive should offset the revenue that is lost by providing a unit at affordable rates, understanding that the delivery (i.e. construction) costs of an affordable and market home is very similar. To understand the incentive that might be necessary, we worked with Regional and local municipal staff to develop prototypical development case studies in eight locations across the Region. A proforma was then run for two scenarios, one with affordable housing and one without. The financial difference between the affordable and market scenario is noted to be the subsidy gap required that would allow a developer to acquire land in the market, develop the project with an affordable housing component, and earn a profit that is comparable to a project with no affordable housing (no profit assumed for the non-profit models). If the incentive program adequately addresses this subsidy gap, developers might participate in the program and deliver affordable housing.

The subsidy gap has been calculated assuming that a project will be implemented as a mixed-income building, where 30% of the building's gross floor area will include affordable housing and the remaining units will be market priced. The gap has been calculated for ownership and rental tenure, for non-profit and for-profit developers, a 25-year affordability term and affordability in perpetuity (for rental) and considering CMHC financing programs for rental housing. Key findings from the analysis include:

- Overall, the required subsidy gap for a developer to deliver affordable housing will vary widely across the Region. The subsidy amount will shift considerably depending on a wide range of factors related to land price, market rates, development form (e.g. townhome, concrete apartment), underground or surface parking, parking ratios, the affordability depth and number of units, specific property constraints or issues, and many others. Further, market values (land and purchase/rental rates) and construction costs are constantly shifting, which will also impact the subsidy gap calculated in this analysis.
- We found that the subsidy necessary to incent affordable rental housing could range between $35,000 and $200,000, depending on the specific characteristics of the project (see link to the full report provided at the beginning of this section). This subsidy range can be considered the highest subsidy amount that might be required because it assumes the developer purchased land recently and at the highest and best use (i.e. high-density condo land value). Some developers may have purchased land many years ago or below the current highest and best use, which would significantly reduce the subsidy amount required.
- Affordable ownership housing is very expensive to subsidize relative to rental housing for a wide range of factors discussed in our final report, but is primarily attributed to that fact that the affordable rates are well below market rates, resulting in a large revenue gap. The calculated subsidy gap is largest in Peel's strongest market areas.
- Affordable ownership is also generally a one-time affordability play where units revert to market price once the home is resold. While some new models attempt to implement long-term affordable ownership, these have not been tested in Ontario.
- There are other ways to support affordable ownership that is likely more effective at supplying this component of the housing continuum. Strategies include a second mortgage/ down payment assistance program, implementing an inclusionary zoning policy framework, and supporting non-profit affordable ownership groups who utilize a second mortgage structure (e.g. Options for Homes, Trillium Housing) and/or sweat equity (e.g. Habitat for Humanity).

- Subsidizing for-profit developers to deliver affordable ownership housing, using the methodology deployed in this analysis, does not appear to represent strong value for the limited financial resources that are available.
- The subsidy gap calculated for affordable rental housing is lower, relative to affordable ownership, because the thresholds identified by the Region's Housing Needs Assessment are closer to market rates than the affordable ownership thresholds, which is a reflection of the lack of purpose-built rental housing being developed in Peel.
- Relative to ownership housing, a greater need is observed for additional rental housing supply across Ontario and in Peel specifically. Further, affordable rental housing will remain affordable for a longer period (20-25-year terms are typical, perpetuity is also possible). Rental housing therefore offers better value for money; however, it must be acknowledged that the sector active in rental housing is much smaller than ownership tenure.
- If a project were to receive CMHC financing, either through the Rental Construction Financing Initiative (RCFI) or Co-Investment Fund, the required subsidy amount would be lower. In fact, many of the case studies evaluated in this analysis might not require any additional subsidy if the project were to successfully receive CMHC financing and grants.
- Notwithstanding the above, CMHC funding is unpredictable and limited. Further, there have been no projects approved under these programs in Peel Region, and no project in Peel has yet to apply for RCFI as of the writing of this report. As such, the Federal funding programs should not be relied on exclusively to satisfy the rental housing need for middle and low-income households in Peel. Rather, any Regional incentive program should instead attempt to increase the number of affordable units, or the depth/term of affordability, of projects that have successfully received CMHC funding.
- The calculated subsidy amount can also shift significantly if a developer purchased land many years ago and is now redeveloping the site. This situation could involve vacant land that was not developed upon acquisition, commercial properties that are underutilized, shopping centres where the original land value has already been capitalized, properties with sufficient surplus area for intensification, and many others. In these situations, a developer might not have any land costs, which can have a significant impact on the economics of a project and the required subsidy amount calculated in this analysis. Our analysis assumes a developer is purchasing land in the market and moving forward with a development in short order.
- Requesting affordability in perpetuity, rather than a defined term of 25 years, represents strong value for money given the relatively modest subsidy increase calculated in this analysis. However, this request might require offsetting property tax exemptions over the affordability period. Even with property tax exemptions, there are likely to be developers that will not participate if perpetuity is mandated.

- Non-profit groups are an ideal partner to deliver affordable rental housing because they are not collecting a profit. There is generally more comfort offering public subsidies to these groups because there is less risk that they are being over subsidized and therefore enhancing their bottom line. These groups are also generally more inclined to provide affordability in perpetuity and engage in specialized housing such as housing with health supports and transitional housing.
- Despite the above, these groups also often struggle to develop new housing due to limited financial resources and human capital. Due to limited financial resources, these organizations are challenged to acquire land in the market and to provide the significant up-front equity required for a project to move forward. A for-profit developer will allocate upfront capital equity to earn a profit later. A non-profit group will often struggle to replicate this process, especially considering that profit is not being targeted. These groups will often rely on free or discounted land in addition to funding to implement a housing project.

Overall, our analysis showed strong justification and feasibility for pursuing an affordable housing incentive program. Our analysis provided key input regarding the depth and length of affordability, tenure to target, and other key aspects of an incentive program. Our analysis also illustrated that the Region's initial budget of $2.5 million would not be enough to achieve the housing targets identified by the Housing Strategy, which would therefore require additional funding (from the Region and/or local municipalities) as well as other strategies to encourage the delivery of affordable housing (e.g. Peel Living, municipal land, inclusionary zoning, etc.).

2.3 Best Practice Review

NBLC's best practice report provided an overview of other incentive programs attempting to encourage affordable housing delivery by the development community (including non-profit organizations). This report therefore identified affordable housing incentives, tools, and implementation options that have proven effective in other jurisdictions in Ontario. Best practices, as well as weaknesses and challenges, were identified to provide a foundation of techniques and processes that have successfully resulted in the delivery of affordable housing in markets like Peel Region. The review therefore places an emphasis on Regional municipalities, but also includes single and lower-tier municipalities. The purpose of this report was to inform the design and administration of the Peel's incentive program for affordable housing.

2.3.1 Mechanisms for Delivering Financial Incentives

There are several mechanisms that a municipality can utilize to offer financial and non-financial support to the for-profit and non-profit development industry in exchange for affordable housing. The two primary mechanisms that allow a municipality to offer financial incentives for affordable housing are Municipal Capital Facility Agreements ("MCFA") and Community Improvement Plans ("CIP"). The following briefly describes each mechanism.

One of these tools is required to allow the delivery of financial incentives due to Section 106(3) of the Municipal Act, which prevents municipalities from assisting development through the granting of bonuses.

2.3.1.1 Community Improvement Plans

A CIP is a tool that enables municipalities to achieve broad planning and economic policy objectives by offering financial incentives to attract private investment. Through Section 28 of the Planning Act, municipalities must adopt policies within the Official Plan and approve an implementing by-law to designate a community improvement project area, which can be restricted to a specific location(s) or be municipality wide. Common objectives of a CIP can include downtown / neighbourhood renewal, affordable housing, office development, transit-oriented development, brownfield remediation, retail investment, energy efficiency improvements, and many others. Section 28 (1.1) of the Planning Act specifically defines affordable housing as a community benefit that can be the sole objective of a CIP. The Act also allows Regional municipalities to target affordable housing through a CIP (4.0.1).

To implement a CIP, there must be Council direction to prepare the Plan, the Official Plan must have enabling provisions, a by-law must be passed designating the community improvement project area, the draft CIP must be circulated to the Ministry of Municipal Affairs and Housing (for review, not approval), a formal public meeting must be held no earlier than 20 days after public notice has been given, and the final plan must then be approved by Council. A Community Improvement Plan also carries appeal rights through Section 28(5) of the Act, which allows any party who has written to Council or made an oral submission at a public meeting to appeal.

Section 28 of the Planning Act loosely defines the types of incentives that can be used through a CIP. The Act generally allows for the acquisition, preparation, and disposition of land by the municipality as well as the offering of grants and loans. The Act 28(7) generally states that "*the municipality may make grants or loans, in conformity with the community improvement plan, to registered owners, assessed owners and tenants of lands and buildings within the community improvement project area*". Grants and loans can be offered to partially or wholly cover eligible costs (but not exceed eligible costs), which can include anything from site preparation, development, construction, redevelopment, and other related items. Agreements of the grant or loan can be registered against the land so that a municipality is entitled to enforce the provisions of the agreement (e.g. depth of affordability and affordability term). Municipalities may also offer property tax relief through a CIP, however only for eligible heritage and brownfield properties. For other community improvement objectives, property taxes can be addressed through grants (i.e. TIEG).

Common incentives within a CIP includes grants for development charges, tax increment equivalent grants (“TIEG”), application and building permit grants, feasibility study grants, façade improvement grants, capital grants to offset construction costs, construction financing, offering municipal land in support of a community improvement, parking rate reductions, fast tracked application reviews, and many others.

The specific objectives of the CIP will ultimately influence if the community improvement area is municipality-wide or restricted to a specific geography. For example, a municipality seeking to revitalize their downtown will specifically define the boundaries of the downtown and define the type of investment they hope to see. In situations where the community improvement objectives are broader, such as attracting major office employment or affordable housing, the CIP might apply municipality wide. Understanding that the need for affordable housing is often observed across a municipality, rather than a specific neighbourhood or area, many affordable housing CIPs are municipality wide, or within major built-up areas if the municipality’s borders contain rural or greenfield lands.

Municipalities may also develop specific eligibility requirements for various incentives as well as evaluation criteria. Eligibility criteria will specifically outline the requirements that must be met by all applications to the program. Evaluation criteria can be used to prioritize eligible applications and/or determine the magnitude of incentive offered. The City of Brampton for example has a CIP in place for the downtown that offers a 50% reduction in development charges for eligible applications, which can be increased up to 100% reduction based on how the application scores relative to the evaluation criteria (e.g. adjacency to major transit, mixed-use, sustainability, urban design, etc.). Other CIPs will use evaluation criteria to prioritize the applications received if the request for funding exceeds the amount of funding available each year. Of note, if a CIP is municipality-wide, locational evaluation criteria can be incorporated (e.g. more points if located in a downtown, major corridor, growth area, etc.).

The Planning Act generally does not speak to amending a CIP and what changes might require formal amendment (subject to public meeting and the relevant process noted above) to the by-law and program. Many municipalities state in the CIP by-law what can be changed and what cannot be changed without formal amendment. Many programs state that the evaluation and processing criteria, the boundaries of the CIP geographic boundaries, discontinuation of any incentive, and other minor changes can be made without a formal amendment of the CIP, so long as the general goals and objectives of the CIP are maintained. Many programs also state that any changes to the eligibility requirements, changes to the existing incentives, introduction of new incentives, and other more significant changes might require a formal amendment.

Section 28(7.2) of the Planning Act also allows local and regional municipalities to participate in each others CIP. The Section states "*The council of an upper-tier municipality may make grants or loans to the council of a lower-tier municipality and the council of a lower-tier municipality may make grants or loans to the council of the upper-tier municipality, for the purpose of carrying out a community improvement plan that has come into effect, on such terms as to security and otherwise as the council considers appropriate, but only if the official plan of the municipality making the grant or loan contains provisions relating to the making of such grants or loans*". This policy therefore would allow all local municipalities to participate in the Region of Peel's incentive program without the need for separate local programs.

2.3.1.2 Municipal Capital Facility Agreements / By-Law

A MCFA is like a CIP in that it offers a municipality the flexibility to provide financial incentives to the development industry in exchange for affordable housing. While the definition of what constitutes a municipal capital facility is narrow, affordable housing is specifically permitted. As such, a MCFA is commonly used in Ontario as a mechanism to encourage affordable housing, however it is limited in its ability to achieve other planning and economic objectives relative to the flexibility of a CIP (e.g. major office, downtown renewal, brownfield remediation, etc.). Its use beyond affordable housing is therefore limited. Of note, the City of Toronto's successful Open Door affordable housing incentive program is administered through a MCFA.

A MCFA is enabled through Section 110 of the Municipal Act, which states that municipalities can enter into an agreement with non-profit and for-profit developers to provide incentives in exchange for affordable housing. Incentives can include giving or lending money, giving, leasing, or selling property, guaranteeing borrowing, and reducing wholly or partially development charges and property taxes. The specific language of the MCFA as it relates to grants, through Section 110(3) of the Municipal Act, is "*Despite section 106, a municipality may provide financial or other assistance at less than fair market value or at no cost to any person who has entered into an agreement to provide facilities under this section and such assistance may include…giving or lending money and charging interest*". The Region's legal staff have stated that this loose language can be interpreted broadly to include any type of grant (e.g. TIG, application and building permit grants, capital grant, etc.).

The MCFA therefore allows a municipality to offer land, a wide variety of grants, as well as the additional permission of reducing or eliminating the payment of property taxes (a CIP can only offer a TIEG). The level of assistance is therefore like a CIP, with a few added permissions.

To enter into a MCFA, a municipality must first pass a Municipal Capital Facility By-Law that must define affordable housing, define the eligibility requirements, include references to current acts and legislation, include a summary of the provisions that agreements must contain, and other language as required by the Act. The Region of Peel has an in force Municipal Capital Facility By-Law that was recently updated through this work. Amending the existing by-law will be easier and less time extensive to implement relative to a CIP, which generally requires a few reports to Council to formally repeal and replace the existing by-law with a new one. Implementing the by-law also does not carry the same appeal rights of a CIP. A MCFA is therefore easier to implement and adjust over time relative to a CIP.

Once the by-law is in force, a municipality can then enter into individual agreements, referred to as Municipal Capital Facility Agreements, with selected projects. These agreements will explicitly characterize the project, if the project is meeting or exceeding the definition of affordable housing in the by-law, detail the incentives being offered, and other similar items.

Section 110(9) of the Municipal Act also allows local municipalities to offer incentives through a Regional MCFA. For example, if the Region of Peel enters a MCFA with an affordable housing project in Brampton, Brampton could offer any of the incentives permitted through a MCFA through the Region's MCFA. Alternatively, local municipalities can implement their own CIP that aligns with the objectives of the Regional MCFA, however two separate programs can result in administrative complexity for interested participants.

It is noted that unlike a CIP, a Municipal Capital Facility By-Law must be municipality-wide and cannot be restricted to a specific location. However, the Region/Brampton can implement evaluation criteria that incorporates locational requirements in a similar fashion as a CIP. Both a CIP and MCFA can be administered as an annual proposal call or applications can be received on a rolling basis for approval.

2.3.2 Case Studies

In total, NBLC provided a detailed assessment of five affordable housing incentive programs in Ontario, which included the City of Toronto, Region of York, City of Peterborough, Region of Waterloo, and the City of Cambridge. We also highlighted some other programs in less detail, including the City of Greater Sudbury, City of Barrie, and others. These case studies are within NBLC's full report, referenced at the start of this chapter.

2.3.3 Key Findings and Direction for the Pilot Incentive Program

2.3.3.1 Incentive Mechanism

Both the MCFB and CIP are effective tools for delivering incentives to the development sector in exchange for affordable housing. Both tools allow a municipality to offer identical incentives, with the MCFB permitting additional incentives that allow for partial or full exemptions from property taxes and development charges (a CIP can only address property taxes and development charges with offsetting grants). Both tools would also allow each local municipality to participate in the Region's MCFB or CIP without the need for their own separate program. Both tools can also carry eligibility and evaluation criteria and be administered on a rolling basis or as an annual RFP call.

The main difference between the two mechanisms appears to be with approval, implementation, and administration. The MCFB is the easier of the two to approve and only requires that Council approve a by-law. A CIP on the other hand requires a statutory public meeting, consultation with the Ministry, and other requirements stated in the Planning Act. There are also very limited appeal rights for a MCFB, whereas a CIP can be appealed by any individual who submits a written or oral submission. The MCFB also allows greater flexibility to administer the program and make changes, for example:

- In the City of Toronto's MCFB, affordability is defined as no less than 25 years and with rents at or below 100% of the CMHC AMR. The City then releases program guidelines every year that applicants respond to. The guidelines state all the eligibility and evaluation criteria. Recently, the City increased the minimum affordability term from 25 to 30 years within the guidelines, which still complies with the by-law and therefore requires no formal amendment to the enabling by-law. The City could similarly drop the affordability threshold to 80% of the CMHC AMR, change the evaluation criteria (e.g. how they evaluate and score applications), and other similar items without formal amendments to the enabling by-law. Depending on the language in the MCFB, it might also be possible to turn on/off or add/eliminate various incentives through the program guidelines released each year without formal amendment to the enabling by-law. Many of these items might require formal amendment of the CIP by-law if this mechanism was used, requiring a formal process stated in the Planning Act. If the MCFB did need updating due to a change, this is easier than a CIP.

A MCFB was therefore recommended. Both tools offer very similar abilities, however the MCFB offers a few additional permissions, is easier to implement, and is a more flexible tool overall.

2.3.3.2 Rolling Application or Annual RFP

Both processes are common across Ontario. An annual RFP is recommended based on our analysis and the experience of municipalities interviewed:

- An annual RFP provides certainty to the development community regarding timing for review and approval as well as funding availability.
- The annual RFP also allows the municipality to efficiently review and prioritize applications by organizing a review committee every year and allocating resources as necessary over a finite period.

- Developers have also shown their preference for an annual RFP, as the process generally allows them time and certainty to prepare an application and ensure all other requirements are met (assuming the process begins around the same time each year).
- An annual RFP will also encourage more applications at a single time, improving competition amongst developers for limited funding.

2.3.3.3 Depth of Affordability and Tenure

While most incentive programs target lower income housing (i.e. 100% AMR or below), the Region of York's new program targets middle-income housing. The primary factor driving York's decision is the fact that many middle-income households are also facing affordability challenges but are ineligible for other housing programs through the Region's low-income strategies, and also because there is a significant lack of rental housing being delivered by the market.

NBLC also observes other municipalities across the GTA attempting to encourage more purpose-built rental housing, either through direct incentives or other strategies. Almost all incentive programs place the emphasis on rental housing, citing many of the factors noted in Section 2.2 of this report. Rental should therefore be the target of the program.

Overall, the decision to target middle or low-income rental housing is a decision based on need. In Peel Region, there is a need for both, however Peel is already engaged in strategies to improve the supply of low-income housing. The current budget for the Pilot program is also modest, leading to our recommendation to pursue middle-income housing – which will allow the funding of more homes. As funding increases in the future, the program could be amended to pursue deeper affordability. Notwithstanding this recommendation, the program should still allow groups to provide deeper affordability if they can, which should be addressed and prioritized through scoring criteria.

2.3.3.4 Fixed vs Flexible Incentive Amount

Both strategies have specific advantages and disadvantages.

A fixed incentive amount (e.g. $50,000 per unit) is easier to administer for the municipality and provides certainty to the development industry regarding funding amounts. Once the municipality decides that an application is supported, there is little to no negotiation or follow-up necessary. However, this strategy also requires that the fixed subsidy amount works for that project. As discovered through our financial analysis and the best practice review, there is no single subsidy amount that will work for every single project in a municipality. There are many factors that will impact how much subsidy a project will require to be viable, which poses two major challenges:

- If the fixed subsidy is not enough, a project will not apply, and affordable housing will not be built.
- The fixed subsidy might be too high, which over-subsidizes a project. For a private developer, this would be absorbed through profit.

A flexible subsidy amount eliminates the above challenges by allowing a developer to request and justify the actual subsidy they require. However, program administration and application review are more complicated because a municipality must now undertake a financial evaluation to ensure the subsidy being requested is reasonable, which might also require negotiation with developers.

It was therefore recommended the Region pursue a flexible subsidy amount and develop criteria and methodology to effectively evaluate applications from a financial perspective.

2.3.3.5 City-Wide or Location Specific

Most affordable housing incentive programs in Ontario are available municipality-wide, or within the built-up area of municipalities with significant rural areas. Affordable housing is a broad objective and demand is relatively ubiquitous across the Region. However, some locations represent better outcomes than others, such as those serviced by transit, services, walkable amenities, etc.

It was recommended that the program apply City-wide, with locational criteria included in the review of applications.

2.3.3.6 Ongoing Responsibilities of Approved Organization

Like most programs in Ontario, the agreement will specifically state all requirements of the developer and be registered on title. The developer will be required to provide the municipality with annual reporting to ensure compliance with the agreement, and non-conformity will result in the repayment of funding, possibly with interest. The following was recommended:

- Confirmation that the rental rates remain at the defined affordability level.
- Confirmation the building remains rental in tenure.
- Income verification of tenants at first occupancy and turnover.

2.3.3.7 Timing of Funding

Given that the Region is interested in providing capital grants, it was recommended that funding not be released until the issuance of building permit. This is consistent with most of the incentive programs evaluated. Confirmation of capital funding and financing is to be determined prior to issuance of the capital grants.

The Region should commit to funding when the application to the MCFB is approved, which could be at any stage of the application process, however applicants should be scored higher if they are closer to obtaining building permit.

2.3.3.8 Regional and Local Coordination

Local/Regional participation in an affordable housing incentive program is rare in Ontario, however this will result in the best result for the Region and each local municipality. Coordination in this way will efficiently reduce redundancies and risk associated with two separate programs and will also strategically stack and direct funding in a coordinated way.

2.4 Consultation

NBLC and Regional staff engaged in extensive consultations with each local municipality throughout this project. This included several meetings and presentations of findings, review of reports, and preparation of the draft program design in this report. Two separate consultation events with the development industry were also held:

- September 19th, 2019: This session was held early in the process to introduce the project, the project team, preliminary direction, and to receive early feedback to help guide the background analysis. NBLC hosted and moderated the discussion, which focused heavily on the economics of delivering affordable housing.
- May 12th, 2020: This session was held virtually due to the COVID-19 pandemic and was led by the Region with support from NBLC. The session presented the background work and preliminary program design to allow participants an opportunity to provide feedback on key items.

3.0 Peel Incentive Program Overview

The Peel Incentive Program was unanimously approved by Regional Council on July 9th, 2020. The following chapter highlights the key details of the program.

3.1 Program Purpose

The primary objective of the Peel Incentive Program is to increase Peel's supply of rental housing that is affordable to middle income households with annual earnings of $61,600 to $110,500. The program as designed would address Regional and local municipal needs and supplement the Region's existing housing programs that focus on low income households (e.g. shelter services, rent supplements and housing allowances).

The program, as supported by analysis from NBLC, therefore targets middle-income rental housing (170% MMR) and will be administered as an annual RFP (referred to as rounds, or annual rounds) to encourage competition for limited funding. As a Pilot Program, the Region also aims to evaluate the conditions and results of the program, and to propose refinements in an annual report to Regional Council before proceeding with subsequent rounds. Through the evaluation process, the Pilot Program is intended to serve as a tool to better understand how to support affordable rental housing in Peel.

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

3.2 Incentive Mechanism

As recommended by NBLC, a MCFB was selected as the implementation mechanism. The updated MCFB was approved by Regional Council at the July Council meeting. The Region is now drafting the implementing program design guidelines, application forms, evaluation criteria, confirming the available budget, and other work as necessary to move forward with launching the program next year.

3.3 Program Design

The general program design is illustrated by Figure 2.

The Pilot Program as proposed would support the development of middle income affordable rental housing by providing incentives to build affordable units. In each round, private and non-profit developers would submit applications that include development plans and justification for the level of incentives being requested. Once applications are received, Regional staff will undertake a 3-stage application review process (Figure 2). All applications would be assessed using base eligibility criteria in Stage 1. The eligibility requirements were established to ensure that financial incentives are carefully targeted, and that the program is supporting the development of housing units that would not otherwise be produced by the market.

Eligibility requirements include:

- The entire building must be a purpose-built rental building. The building may be comprised of market rate and affordable rental units (mixed-income buildings are permitted).
- The minimum eligibility for 'affordable rental' units will be 170% of the Median Market Rent for the local municipality as determined by CMHC, by bedroom type. Only affordable units are eligible for an incentive.
- Units must remain affordable for a minimum of 25 years.
- Either non-profit or private developers that have experience building and operating rental housing are eligible, partnerships are encouraged.
- A suite mix must that is heavily weighted towards family size units must be provided for the units where funding is sought. The market portion of the building is not required to follow the suite mix provided.

Applications that meet the base eligibility criteria would advance to Stage 2, where applications would be competitively scored based on preferred criteria, including deeper levels of affordability and proximity to amenities and areas of housing need. These criteria are still begin developed. A value for money analysis will also be undertaken, as detailed below:

- Applicants are requested to identify and justify the amount of subsidy they require for a project to be viable. As identified in this analysis, there is no single subsidy amount that will work for every project. The Region's program will also prioritize applications that pursue deeper and longer affordability, which will increase the subsidy necessary for a project to be viable.
- To account for the above, NBLC has developed a financial tool that will allow the Region to assess these impacts. For example, the tool will allow the Region to understand how the following two applications compare to one another:
  - 20 units at 100% MMR for 50 years at a subsidy amount of $125,000 per unit.

- 50 units at 170% MMR for 20 years at a subsidy amount of $50,000 per unit.

- The financial tool will assess each application in the following way:

  - **Affordable Shadow Proforma:** Taking all the project details provided by the applicant (e.g. proposed rents, development costs, operating costs, etc.), Regional staff will populate a spreadsheet that will produce a proforma analysis. The proforma will estimate the value of the project as proposed by capitalizing the Net Operating Income of the building.

  - **Market Shadow Proforma:** Undertaking a similar analysis as per above, however the proforma will assume the entire building is provided at market rates, therefore assuming no affordable housing is provided.

- Value refers to the Residual Land Value of the building, which is estimated by subtracting all development costs (i.e. hard and soft construction costs) from the capitalized value of the revenue stream.

- The difference between the two scenarios will indicate how much value is lost by including the affordable housing. This can then be compared against the subsidy that is being requested by the applicant, which will provide an indication of the 'value' being foregone by the developer relative to the public investment being requested. The analysis will also be market specific, as the evaluation considers the achievable market rent for that specific building. For example:

  - Market Shadow Proforma: $10 million residual land value

  - Affordable Shadow Proforma: $2 million residual land value

  - Difference in Value: $8 million

  - Subsidy Requested: $2.5 million

  - Value for Money: 3.2 – meaning that for every $1 invested by the Region, approximately $3 is invested by the developer[1].

[1] Calculated by dividing the difference in value by the subsidy requested. $8M / $2.5M = 3.2

Figure 2

Region of Peel Affordable Housing Incentives Pilot Program

Eligibility and Review Process

Introduction

The Region of Peel Affordable Housing Incentives Pilot Program ("Pilot Program") was created as part of the implementation of Peel Housing and Homelessness Plan, 2018-2018; specifically Strategy Three: Provide Incentives to Build Affordable Housing. Strategy Three focuses on coordinating land use planning tools and incentives to increase affordable housing developed by the private and non-profit sectors.

After undertaking research and analysis, the Pilot Program was designed to provide capital grants to successful applicants to support the development of new middle income affordable rental housing in Peel. As a pilot, the Region intends to review the program annually and refine as needed to ensure affordable housing objectives are being achieved.

Application Review Process

Applicants submit detailed project information to the Region of Peel, using the formal application materials provided by the Region. Applications are reviewed in 3 stages.

Stage 1: Eligibility Criteria

These criteria must be met in order for an application to be considered to receive incentives.

Applicant Organization

- May be private or non-profit developer, or a partnership Must have experience with residential housing development, or have partners with expertise

Affordability

- Affordable rents must be no more than 170% of median market rent for the local municipalities as determined by the Canadian Mortgage and Housing Corporation, by bedroom type
- Units must be maintained as affordable for a minimum of 25 years

Project Details

- Must be located within the Region of Peel
- Must be entirely operated as purpose-built rental
- Must be a minimum of 5 rental units
- Must provide the following suite mix for the affordable units provided (some flexibility for more 2 and 3+ bedroom units):
  - Bachelor: 0% of affordable units
  - 1 Bedroom: 15% of affordable units
  - 2 Bedroom: 50% of affordable units
  - 3+ Bedroom: 35% of affordable units

If Stage 1 criteria are met...

Stage 2: Preferred (Scored) Criteria

Applications are competitively scored against these criteria to determine whether they further promote specific Regional objectives. Applications that meet some or all of these criteria will be scored higher.

Affordability

- Depth of affordability (below 170% of median market rent)
- Duration of affordability (longer than 25 years)

Development Timeline

- Stage of development process (projects closer to building permit will be scored higher)

Location

- Projects near transit, grocery stores, parks, schools, community centres/libraries, growth areas or areas of housing need (scored higher based on proximity)

Value for Money

- Quantifying the added benefit provided by a project as proposed to support evidence-based decision making

Stage 2 scoring is calculated...

Stage 3: Committee Review

A committee of Regional and local municipal staff reviews all applications that have advanced to make a final recommendation for successful projects. This review will consider current Regional and local municipal housing objectives as established in Council priorities, housing strategies, official plans and other relevant planning documents.

Committee reviews and successful projects are recommended.

Successful Projects: Agreements, Terms and Funding

Following the approval of successful projects, applicants will enter into contribution agreements with the Region that outline the terms of the commitment.

Contribution Agreements

Agreements entered into with successful applicants will include the following:

- Amount of Regional incentives to be provided
- Number of units, affordable rental rates, duration of affordability
- Requirements for tenant income verification by organization
- Requirements for organization annual reporting
- Non-conformity terms and process
- Other terms and conditions as required

Capital grants will be provided at building permit issuance.

Interaction with other planning tools:

Projects required to provide affordable units through other planning mechanisms (e.g. Section 37, rental replacement by-laws, inclusionary zoning, etc.) are not eligible to receive incentives through the Pilot Program for those units required under existing tools, however additional affordable units above what is already required would be eligible to receive incentives.

Using the scores established in Stage 2, a committee of Regional and local municipal staff would undertake a review in Stage 3 to make final recommendations on the most appropriate and effective allocation of funds to achieve housing objectives. This may result in the award of incentives to one or more projects.

3.4 Funding and Incentives

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

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

Related to Regional funding and incentives for rental housing, the Pilot Program would be supported by the proposed zero per cent Regional development charge deferral interest rate policy for rental and non-profit housing required under Bill 108.

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

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

- Relief of planning application and building permit fees for the affordable units
- Relief from cash-in-lieu of parkland requirements
- Relief of development charges for the affordable units
- Exempt new affordable rental housing from local property tax for the affordability period
- Tax Incremental Equivalent Grants for the affordable units

- City/town-owned land at discounted or no cost
- Reduced parking ratio
- Fast-tracking approvals
- Local municipal capital grants

Regional staff looks forward to ongoing engagement with the local municipalities through implementation to broaden the Pilot Program to include additional local municipal funding and incentives as they become available, as well as greater local municipal participation in the administration of the program. Further, applicants would have the opportunity to seek out additional sources of funding, such as funding provided through programs offered by senior levels of government. Regional staff intends to integrate these funding sources into the program where possible to provide a seamless process for developers.

The following chapter explores how the City of Brampton might participate in the Peel Incentive Program.

4.0 Implementation Considerations for the City of Brampton

NBLC recommends that the City of Brampton participate in the Peel Incentive Program rather than create a separate stand-alone incentive program that would seek to achieve the same or similar objectives, which is the delivery of affordable housing. The following provides the rational for this recommendation:

- Incenting affordable housing is expensive and will require a funding commitment from all levels of government, in addition to other non-incentive strategies (e.g. inclusionary zoning, use of municipal land, rent supplements, etc.) to address the need for housing that is affordable to low and middle-income households.
- In this situation, the Region of Peel has already committed $2.5 million to the program, and hope to secure additional capital funding in subsequent years ($5 million was requested at Regional Council).
- By participating in the Peel Incentive Program, Brampton would be securing Regional capital resources. The program has also been designed to stack with the Federal National Housing Strategy funding programs, however developers would be required to apply to these programs separately.
- By participating in the Peel Incentive Program, the Region would also be responsible for much of the administrative burden. Brampton staff would be involved in Stage 3 of the evaluation, which is the stage where decisions are made on applications. The Region would be responsible for launching the annual RFP, issuing the program guidelines and application, responding to questions, reviewing applications, scoring applications, monitoring the program, and other similar tasks. If Brampton were to proceed with their own CIP, this administrative burden would fall on the City, in addition to funding commitments.
- A single program is also the most efficient and effective way to administer a program of this nature. If the Region and City each had separate programs, requiring applicants to apply to each program individually, this would likely detract many applicants from applying. A developer would need to prepare two separate applications, meet with two separate agencies, and carry the risk of possibly receiving funding from one program but not the other. This was clearly communicated as an undesirable outcome when we consulted with the development community in September 2019.
- While affordable housing is a broad term, the Region is seeking to address middle-income rental housing. Based on our analysis, rental housing is the most desirable outcome for an incentive program of this nature, for the Region of Peel generally but also Brampton specifically. However, should Brampton desire to target a lower affordability depth, this is a possible outcome through the Peel Incentive Program (expanded on to follow).

- Similarly, the City could offer a wide range of incentives, including capital grants (like the Regional offering through this program), grants to offset municipal fees and charges (e.g. development charges, TIEG), municipal land, and many others. Any incentive offered by Brampton could also only be spent within Brampton, whereas the Regional amount could be allocated to any of the three local municipalities.
- If the Region of Peel allocates Regional grants entirely to Mississauga, a Regional MCFA can still be registered to a project in Brampton with Brampton's incentive offering, assuming that project is still viable without the Region of Peel portion of the grant.

4.1 Recommendations for Integration within the Peel Incentive Program

The following must be assessed for the City of Brampton to integrate with the Peel Incentive Program.

4.1.1 Determine Depth and Length of Affordability

The Region of Peel is targeting 170% MMR and 25-year terms; however, applications are scored higher if they provide deeper and/or longer affordability. While Brampton Staff were supportive of this target during the background analysis and consultation portion of developing the Peel Incentive Program, we understand the City is also in the process of completing an affordable housing strategy as part of the City's Official Plan Review.

While it is unlikely that the City will uncover findings that significantly differ from the Region's Housing Strategy (i.e. rental housing need for low and middle-income households), Brampton will likely have to choose between targeting low and middle-income households. Brampton could therefore either support the Region's target or require a more onerous threshold that could require deeper and/or longer affordability. The MCFB allows for such a process, where the RFP could be structured:

- $2.5 million in capital grants is available for any rental project in the Region of Peel that achieves 170% MMR and 25-years.
- An additional $2.5 million in capital grants is available to any rental project in Brampton that achieves 125% MMR for 40 years.

In the above scenario, since Brampton's requirements are more onerous, an application requesting funding from Brampton would also qualify for Regional funding.

4.1.2 Ensure all the Eligibility Requirements are Agreeable

Aside from the depth and length of affordability, there are other requirements that must be met for a project to be eligible for the Peel Incentive Program (see Figure 2). These requirements must be met for a project to apply to the program and are therefore important aspects of the design of the Peel Incentive Program. While Brampton Staff have reviewed and supported these requirements during the background analysis and consultation, they should be reviewed again.

4.1.3 Determine Funding Amount and the Type of Incentive to Offer

Brampton must also determine how much funding and the type(s) of incentives to offer. As noted in this report, a MCFB allows a wide range of possible incentives, including:

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

The Region of Peel is currently offering a capital grant with a total budget of $2.5 million and are currently investigating if this can be increased to $5 million. The City of Brampton could therefore offer a matching capital grant (or lesser/greater amount), or any of the other incentives identified above. The program has been designed with a capital grant in mind, and this would likely represent the most straight forward way for Brampton to integrate with the Peel Incentive Program. We therefore recommend the City consider matching the Region's capital grant on an annual basis for each RFP round.

The City could also offer public land through the RFP process, where land is offered at below market rates in exchange for affordable housing. This is a proven effective technique, as evidenced by the City of Toronto's recent Housing Now initiative.

4.1.4 Determine Administrative Resources for the Program

Integrating with the Peel Incentive Program will result in a significantly reduced administrative and financial burden to the City. As proposed, Regional staff will be responsible for all aspects of program implementation, review, scoring, and other key program details. City of Brampton staff would become involved in the Committee Review (Stage 3), after Regional staff have already undertaken much of the legwork. City staff would therefore be necessary on a temporary basis, once a year, to review and assess applications and make final decisions on funding allocation. This may also require interviews with applicants.

It is therefore unlikely that a dedicated staff person would need to be hired, however Brampton should carefully consider the resources currently available to determine if existing staff can absorb this duty.

4.1.5 Determine when Brampton might Participate

It appears that the Region of Peel intend on launching the program in Q1 2021. If Brampton is unable to secure funding and other requirements prior to this launch date, preparations should begin for the next round, which will presumably be Q1 2022.

4.1.6 Begin Consultation with Peel Region

To move forward, Brampton should begin consulting with the Region of Peel as soon as possible. Regional staff are beginning to turn their attention to finalizing all program design elements, application forms, program advertising, and other similar items. Brampton should begin to raise any issues and put forward a plan for integration with the program.

Brampton should also ensure that the review process is agreeable. Currently, the City would be involved in Stage 3, once Regional staff have reviewed applications for completeness, against eligibility requirements, and against preferred criteria.

5.0 Conclusions

It is recommended that the City of Brampton begin to take steps to integrate with the Peel Incentive Program. This direction would reduce the administrative and financial burden that would result if Brampton proceeded with a separate affordable housing program. Even if Brampton prefers different affordability targets, the Peel Incentive Program is designed to allow for this nuance if necessary.

The Regional MCFB would allow the City to integrate with the Peel Incentive Program without any administrative tasks, other than securing funding and allocating resources to review and approve applications. It is therefore recommended that the City begin assessing the items identified in Section 4.1 and begin to consult with the Region of Peel on final program implementation. It is our understanding that the City of Mississauga is taking similar steps to also stack and coordinate public resources to secure affordable housing.

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