

Stabilization of Funding for the Affordable Housing Reserve and Proposed Amendments to Policy No. C03-003, Reserves for Future Expenditures Policy

Recommendation

That the Standing Policy Committee on Planning, Development and Community Services recommend to City Council:

1. That the proposed Affordable Housing Reserve funding strategy, as outlined in the report, be referred to the Governance and Priorities Committee meeting in June 2018 as part of the discussion on priorities to be considered for the 2019 Business Plan and Budget; and
2. That Policy No. C03-003, Reserves for Future Expenditures Policy, under Section 5 Affordable Housing Reserve, be amended to clarify that “Unspent funds that were budgeted for attainable housing in the annual operating budget, be directed to the Reserve, as well as the Reserve funding any program operating deficits.”

Topic and Purpose

The purpose of this report is to provide a stabilized funding strategy to maintain a base level of funding for the Affordable Housing Reserve.

Report Highlights

1. This report outlines a stabilized funding strategy, beginning in 2019, that will ultimately provide \$750,000 annually to the Affordable Housing Reserve (Reserve).
2. Reduced targets for the Mortgage Flexibilities Support Program (MFSP) could offset the cost of additional contributions to the Reserve, in future years.
3. The sale of tax title properties is not a significant revenue source for the Reserve.
4. Operational surpluses from the Housing Program are a potential funding source for the Reserve, but a policy amendment is required.
5. The level of funding proposed in this report will result in annual housing targets of 250 units per year.

Strategic Goal

This report supports the City of Saskatoon’s Strategic Goal of Quality of Life with the long-term priority of increasing the supply and range of affordable housing options.

Background

In 1987, City Council established the Reserve to support community partners in the development of affordable housing. The Reserve has received funding allocations under various strategies over the past 30 years, averaging \$1.3 million annually. A summary of funding strategies and allocations for the Reserve from 2000 to 2018 is found in Attachment 1.

At its July 16, 2007 meeting, City Council set the goal of creating 500 new affordable housing units per year in response to a growing shortage of affordable housing in the city.

In 2010, City Council established a strategy to reach a base level of funding of \$1.5 million annually, which would be provided from the mill rate. The base funding was to be phased in over six years at \$250,000 per year. During the phase-in period, the difference between the target of \$1.5 million and the current level of support would be back filled from surplus funds from the Neighbourhood Land Development Fund (Fund).

On September 26, 2011, City Council suspended this strategy due to the availability of provincial cost sharing for various City housing programs for a five-year period from 2011 to 2016. As a result, the annual operating contribution to the Reserve has remained at \$250,000 since 2011. Contributions to the Reserve from the Fund have continued on an ad hoc basis.

At its June 24, 2013 meeting, City Council approved the Housing Business Plan 2013-2022 (Housing Business Plan), which was designed to support the creation of at least 500 new attainable housing units per year over the next ten years and meet the long-term target set by City Council in 2007. The new term “attainable units” was adopted because the overall target included affordable units which were subsidized by the Reserve, as well as purpose-built rental and entry-level housing, which do not receive funding from the Reserve.

During its March 21, 2016 meeting, City Council received the annual status report on the ten-year Housing Business Plan and instructed the Administration to report back on stabilization of funding to the Reserve.

At its November 30, 2016 Business Plan and Budget Review meeting, City Council allocated \$1 million from the Fund to the Reserve to provide \$500,000 for each of 2017 and 2018.

At its August 14, 2017 meeting, the Standing Policy Committee on Planning, Development and Community Services deferred a report on the Stabilization of Funding for the Affordable Housing Reserve and Proposed Amendments to Reserves for Future Expenditures Policy No. C03-003. The Administration was requested to report back to the Committee with an expanded report, including reporting on the Fund and its return on investment on this and other programs in Saskatoon.

At its November 20, 2017 meeting, City Council received a report on the Fund and its return on investment and approved a recommendation to allocate \$400,000 to the Reserve in 2019.

Report

Stable Funding for the Affordable Housing Reserve

The Administration is recommending that City Council consider reintroducing a funding strategy for the Reserve similar to the one suspended in 2011, but on a smaller scale. The strategy would eventually reach a base level of funding for the Reserve of \$750,000 annually from mill rate increases. The funding would be phased in over five years at \$100,000 per year (see Attachment 2).

During the phase-in period, the difference between the target allocation of \$750,000 and the current level of support from property taxes (\$250,000) would be back filled with an annual allocation from the Fund. The target for the annual allocation would be \$400,000 in 2019 (in place) and would decrease by \$100,000 each year until the \$750,000 allocation was fully funded through mill rate increases, beginning in 2023 (see Attachment 2). The annual allocation from the Fund would be subject to availability and approval by City Council at the annual Business Plan and Budget Review meeting.

Consideration and potential adoption of this strategy will allow the Administration to plan and communicate the available 2019 funding to attainable housing providers in advance of the 2019 Business Plan and Budget Review meeting. In this way, a stable funding strategy will allow for proactive project planning by housing providers on an on-going basis.

Reduced Targets for the MFSP Could Offset the Cost of Additional Contributions to the Reserve

In future years, the cost of allocating additional property tax to the Reserve can be offset by a reduced draw on property tax revenue by the MFSP. The MFSP is funded through tax redirection. In 2019, the forgone revenue resulting from tax redirection is expected to be about \$295,000, which is approximately \$113,000 less than the average cost of tax redirection over the previous five years. This is due to declining sales under the MFSP in 2016 and 2017.

The reduced sales in 2016 and 2017 mean that unsold units are carried forward and already in place for sale under the MFSP in 2018 and 2019. City Council, at its Business Planning and Budget Review meetings, could choose to reduce targets for the MFSP to 25 units annually beginning in 2020. This would reduce the annual cost of tax redirection each year, until settling at \$125,000 beginning in 2025. This would allow more funds from property taxes to be directed into the Reserve. See Attachment 3 for more information on the tax redirection process, the annual cost of forgone revenue, and issues related to reducing MFSP targets.

The Sale of Tax Title Properties is not a Significant Revenue Source

Policy No. C03-003, Reserves for Future Expenditures Policy, requires that the net proceeds of the sale of property acquired by the City, as a result of tax enforcement proceedings, be allocated to the Reserve. However, this should not be considered a significant source of revenue for the Reserve. When a tax title property is sold, there are expenses to be recovered. The City is required to return excess funds to the original owner if the property is sold within one year. The last funding received by the Reserve from this source was in 1999 when a tax title sale resulted in revenue of \$89,630.

Operating Surpluses from the Housing Program are a Potential Revenue Source

In addition to funding that flows through the Reserve, the Housing Program also receives approximately \$175,000 in funding through the City's operating budget. A large part of this operating funding covers expenses related to operating agreements with the Saskatoon Housing Authority. Under these agreements, the City covers 5% of the operating expenses on affordable housing projects built over 50 years ago. The amount of this expense varies from year to year, and occasionally, these projects generate a small amount of revenue that is shared with the City.

Currently, unused funds in the housing budget stay in the City's general operating fund as a surplus at year-end. The Administration is recommending that revenue resulting from the agreements with the Saskatoon Housing Authority and unused operating funds from the housing budget be transferred to the Reserve at year-end. Over the past five years, an annual average of \$64,606 would have been generated through this source.

The Proposed Level of Funding will Result in Lower Housing Targets

To achieve the long-term target set by City Council of 500 new attainable units per year, funding of at least \$1.3 million annually would be required for the Reserve. Approving the funding strategy recommended in this report would require City Council to reduce the annual target, particularly in the area of the highly subsidized affordable rental units. A high-level estimate could see approximately 250 attainable housing units per year being supported by annual contributions of \$750,000 to the Reserve.

Options to the Recommendation

1. City Council could increase the base level of funding in the funding strategy to \$1.3 million annually, consistent with the level of funding provided over the last 18 years. A funding source has not been identified for this option.
2. City Council could choose to not implement a funding strategy for the Reserve and continue to make an annual allocation to the Reserve at the Business Plan and Budget Review meeting. Annual allocations to the Reserve were \$500,000 in the 2016 to 2018 period, in addition to \$250,000 from the mill rate.

Public and/or Stakeholder Involvement

Public and/or stakeholder involvement is not required.

Financial Implications

Stabilization of Funding for the Affordable Housing Reserve and Proposed Amendments to Policy No. C03-003, Reserves for Future Expenditures Policy

The recommendation in this report includes a \$750,000 annual allocation to the Reserve, beginning in 2019 as described in Attachment 2. The recommended policy change to transfer unused operating funds designated for attainable housing to the Reserve would result in these funds not being available for other operating purposes. In the event there are operating deficits in the program, funds from the Reserve would also be used to stabilize the program operating results.

Policy Implications

Pending City Council's approval, the Administration will make the applicable revision to Policy No. C03-003, Reserves for Future Expenditures Policy (see Attachment 4).

Other Considerations/Implications

There are no environmental, privacy, or CPTED implications or considerations; a communication plan is not required.

Due Date for Follow-up and/or Project Completion

The Administration will report to the Business Plan and Budget Review meeting in November 2018 with recommended housing targets for 2019.

Public Notice

Public notice, pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. Historic Funding of the Affordable Housing Reserve
2. Proposed Funding Strategy for the Affordable Housing Reserve
3. Tax Redirection Process, Annual Cost of Tax Redirection, and Issues Related to Reducing Targets for the Mortgage Flexibilities Support Program
4. Proposed Amendments to Policy No. C03-003, Reserves for Future Expenditures Policy

Report Approval

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