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## REPORT TO HOSPITALS AND HOUSING COMMITTEE MEETING OF WEDNESDAY, JUNE 4, 2025

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### **SUBJECT**     Forest Homes Project Funding Shortfall

### **ISSUE SUMMARY**

This report provides detail on a funding shortfall that is impacting Forest Homes, a proposed 20-unit housing project located at 280 Georgeson Bay Road on Galiano Island. This report recommends that the Capital Regional District (CRD) forgo \$5.2 million (M) in funding from BC Builds and Canada Mortgage and Housing Corporation (CMHC) and advance a Request for Proposals (RFP) to engage another proponent to lease the land, advance the development, apply for necessary funds, and operate the project. An alternative is provided that would require the CRD to invest an additional \$3.3M in capital funding to bring the CRD's total contribution to \$6.8M as well as an ongoing operating subsidy and seeks the authority required to finalize development funding, address the current equity gap, and approve necessary agreements for the project's completion and operation.

### **BACKGROUND**

The property was owned by Galiano Affordable Living Initiative Society (GALI), a non-profit society incorporated in 2020. In September 2023, the CRD allocated \$2.8M through the Growing Communities Fund (GCF) to advance affordable housing. In December 2023, the CRD Board directed staff to acquire the property and advance development. In September 2024, the Capital Region Housing Corporation (CRHC) was conditionally awarded \$4.5M in support of a middle-income rental development through BC Builds. In December 2024, the CMHC provided conditional approval of \$3.2M in a repayable loan (i.e., mortgage) and \$678 thousand (K) in a forgivable loan (i.e., grant). The project timeline is attached as Appendix A.

It was intended that once the project received Final Project Approval (FPA) from BC Builds, final approval from CMHC, and the approval from the CRHC Board, the CRD and CRHC would enter a long-term (minimum 60-year) lease, and the CRHC would complete the construction and enter a Property Management Agreement (PMA) with GALI. As the CRHC has no operating presence on Galiano Island and it could not provide the level of service required under the *Residential Tenancy Act* and *Residential Tenancy Regulation*, its role would be limited to holding the mortgage obligations for 35 years, and the day-to-day operations would be managed through the PMA with GALI.

As the project has progressed, estimated costs have increased, resulting in a capital shortfall that must be addressed should the CRD Board wish for the project to proceed. Staff have modelled long-term performance, and an operational deficit is projected to impact CRD requisition through Bylaw No. 3712, "Land Assembly, Housing and Land Banking Service Establishment Bylaw No. 1, 2010" ("Service 1.310"), through the lifecycle of the asset. The capital shortfall and projected operational deficit must be resolved before the project can receive FPA from BC Builds, final approval from CMHC, and approval from the CRHC Board.

## **ALTERNATIVES**

### *Alternative 1*

The Hospitals and Housing Committee recommends to the Capital Regional District Board: That staff be directed to prepare and launch a Request for Proposals to identify a proponent who will enter a long-term lease, apply for funds, undertake development and operate a housing project at 280 Georgeson Bay Road, Galiano Island.

### *Alternative 2*

The Hospitals and Housing Committee recommends to the Capital Regional District Board:

- 1) That a commitment of up to \$3.3 million be made by the Capital Regional District to support the project at 280 Georgeson Bay Road, Galiano Island and that the commitment be borrowed under Bylaw No. 4552, "Land Assembly, Housing and Land Banking Loan Authorization Bylaw No. 3, 2023";
- 2) That staff be directed to amend the Capital Regional District Five-Year Capital Plan, as required, to include the additional commitment of up to \$3.3 million to the project at 280 Georgeson Bay Road, Galiano Island;
- 3) That staff be directed to include debt servicing costs for repayment of the capital commitment from Service 1.310 requisition in the Capital Regional District 2026-2030 Financial Plan;
- 4) That staff be directed to establish a Capital Replacement Reserve and requisition \$60,000 annually under Service 1.310 to support the lifecycle costs of this building starting in 2026;
- 5) That the Lease Agreement between the Capital Regional District and the Capital Region Housing Corporation for the lands at 280 Georgeson Bay Road, Galiano Island substantially in the form attached hereto as Appendix B be approved; and
- 6) That the Operator Agreement between the Capital Regional District and the Capital Region Housing Corporation for the lands at 280 Georgeson Bay Road, Galiano Island substantially in the form attached hereto as Appendix C be approved.

### *Alternative 3*

That this report be referred to staff for additional information based on Hospitals and Housing Committee direction.

## **IMPLICATIONS**

### *Social Implications*

Forest Homes will be targeted at middle-income renter households and is comprised of two Studio, 10 1-Bedroom, four 2-Bedroom, and four 3-Bedroom rental homes and range in size from 450 square feet (Studio) to 1,200 square feet (3-Bedroom). The projected rent levels are summarized in Appendix D and will not be finalized until the project is completed and take-out financing secured.

Alternative 1 would result in the CRD drafting and issuing a RFP that would engage a proponent who would be willing to enter a long-term lease, seek or invest sufficient funds to construct the project and, operate or identify an operator for the project. The CRD would lease the land at a nominal cost and would commit the remaining GCF as well as the already identified Community Works Funds (CWF) toward the project. Staff are expecting a funding call through the Community Housing Fund (CHF) in June and have also been informed this call will be a rolling call, which would enable the CRD to issue a RFP and identify a proponent to enter a lease and then advance a proposal process through BC Housing. Staff have also been informed that the upcoming CHF call will enable unsuccessful proponents to make alterations to their proposal and resubmit without having to wait for a new call to be announced.

It is not known what the likelihood is of identifying a project proponent through a RFP, but staff wish to test the marketplace and provide an opportunity to a local non-profit housing provider to consider holding the lease, applying for funds, and operating a project. If the RFP process is unsuccessful or the identified proponent is unable to secure necessary funding, staff will return to the CRD Board seeking alternative direction that may include pausing advancement of the project until a more appropriate funding program could be identified to support the capital and operational costs associated with this initiative.

Alternative 2 would see the CRD invest required capital funds to support project completion and commit to the ongoing operational subsidy and would lease the project to the CRHC who would then engage GALI to operate the project.

#### *Financial Implications*

The financial implications consider several key factors, including the funds spent or committed as of May 2025, operational performance, ongoing asset maintenance costs, and debt servicing costs. Alternative 1 sees the CRD forgo a total of \$5.2M in funding from senior orders of government and Alternative 2 sees the CRD invest a total of \$6.8M toward the project total of \$15.3M.

#### Funds Spent & Committed

A total of \$3.5M has been committed to support the land acquisition and the initial phases of developing the project, including \$2.8M through the GCF and an additional \$700K through CWF. Alternative 1 would see the CRD spend approximately \$1.7M, including land acquisition and limited Phase 1 site work. Any unspent portion of the committed funds will be identified in the RFP as the CRD's additional contribution toward the project to be used in accordance with the terms of the GCF and the CWF. Should the CRD Board direct Alternative 2, the full \$3.5M in committed funding would be spent in support of advancing the project.

#### Operational Performance

Operational performance is the relationship between projected costs to operate the property, including paying trades, staffing, insurance, utilities, etc. and the revenue available to support costs. Forest Homes is projected to produce an annual surplus of \$5K, which leaves little cash available to absorb unforeseen increases in expenditure or lower than anticipated revenue.

Alternative 1 would have no ongoing requisition impact for the CRD as the intent would be to lease the development-ready property to a third party to construct and operate the project in accordance with the terms of the lease.

Alternative 2 would see the CRD commit to cover any deficits resulting from underperformance of the property. The CRD will enter into an Operator Agreement with the CRHC so that any losses of the project will be the responsibility of the CRD. For example, if GALI is unable to cover the mortgage payment owed by the CRHC, the CRD would be required to make the payment on behalf of the project. Similarly, if at the end of a fiscal year and following the completion of the annual audit, the project was found to be in a deficit position, the CRD would be responsible for funding this deficit.

### Asset Maintenance

Ongoing asset maintenance is a critical aspect of preserving the quality of the project over its lifespan and seeks to ensure well-functioning building systems that protect the health and safety of tenants. The project proforma can support a total of \$42K per year toward the Capital Reserve and the estimated costs are \$102K per year. Over time, the accumulated deficit in asset maintenance funds would result in deferred maintenance and an unfunded liability. Appendix E contains the Quantity Surveyor (QS) report detailing the estimated asset maintenance costs.

Alternative 1 would have no ongoing requisition impact on the CRD related to ongoing asset management obligations as the responsibility would be on the eventual lessee and operator.

Alternative 2 would require the CRD to include \$60K per year in new requisition under Service 1.310 Land Banking and Housing in the CRD Financial Plan. This requisition would be required for the life of the asset and may require periodic adjustment in accordance with the terms of the Operator Agreement. The CRD would also establish a Replacement Reserve to hold and disburse funds to GALI for required and approved maintenance costs.

### Debt Servicing

Should the CRD wish for this project to proceed, it will be required to invest up to an additional \$3.3M to support the project. Table 1 provides a summary of funds, and more detail is provided as Appendix F. Without additional CRD equity, the project has a Debt Coverage Ratio (DCR) of 0.31 and CMHC requires a DCR of 1.0. As the project would not be viable with this DCR, it would not be eligible for CMHC financing and therefore requires additional capital from the CRD.

**TABLE 1: Capital Budget Snapshot**

Funding Entity	Funding Program	Amount
CRD	Growing Communities Fund	\$2,750,000
	Community Works Fund	\$700,000
BC Housing	BC Builds	\$4,500,000
CMHC	Affordable Housing Fund (Grant)	\$677,654
Community Fundraising	Community Fundraising <sup>1</sup>	\$150,000
Islands Trust	Municipal Grant	\$6,607
<b>Debt</b>		
CMHC	Affordable Housing Fund (Mortgage)	\$3,161,910
	Total Available Funding	\$11,946,171
	Total Estimated Cost	\$15,278,683
	<b>CRD Additional Equity Required</b>	<b>(\$3,332,512)</b>

Alternative 1 would not have any impact on the requisition going forward as there would be no debt to service.

Alternative 2 would require borrowing under Bylaw No. 4552, "Land Assembly, Housing and Land Banking Loan Authorization Bylaw No. 3, 2023". Bylaw No. 4552 sets a borrowing term limit through the Municipal Finance Authority (MFA) of 30 years resulting in \$223K in additional requisition per year for 30 years to service the debt.

<sup>1</sup> As of April, the CRD has received a total of \$109,000 from community fundraising toward the total commitment of \$150,000 with \$41,000 still outstanding.

### Total Financial Implications

The financial implications include impacts to borrowing capacity under *Bylaw No. 4552*, the annual debt servicing costs through requisition, and the operational costs associated with funding asset maintenance. These costs are summarized below in Table 2.

**TABLE 2: Total Financial Implications Summary**

Annual Cost Category	Alternative 1	Alternative 2	Notes
Operating Costs	\$0	Unknown	Determined annually
Asset Maintenance	\$0	\$60,000	Ongoing (Asset Life)
Debt Servicing	\$0	\$222,516	Ongoing (30 years)
<b>Total Cost/Year</b>	<b>\$0</b>	<b>\$282,516</b>	

Alternative 1 would have no borrowing, debt servicing, or operational cost impacts on the CRD that would place an upward pressure on requisition. As noted previously, the CRD already has \$3.5M in funding committed and approximately \$1.7M spent, which may result in some funds available to be included in a RFP to support the project through another proponent.

Alternative 2 would see the overall capacity for borrowing under *Bylaw No. 4552* reduced from \$85M down to an estimated \$81.7M. Looking at annual requisition impacts, the CRD would include a requisition increase under Service 1.310 of approximately \$283K per year ongoing for 30 years. This represents an ongoing operating subsidy from the CRD to support the project of an estimated \$1,177 per home per month.

### Intergovernmental Implications

Forest Homes has a funding commitment of \$4.5M from BC Builds and \$678K from CMHC for a combined total of \$5.2M.

Alternative 1 would result in staff engaging BC Builds and CMHC informing them that the project will not be proceeding due to a funding shortfall. This may result in \$5.2M in funding from BC Builds and CMHC not being awarded to the project as the conditions of having a viable development would not be met.

Alternative 2 would see the CRD increasing its investment in the project from its current commitment of \$3.5M to as much as \$6.8M, resulting in the CRD being the largest funder of the project. The CRHC would also carry \$3.2M in debt, increasing the total CRD and CRHC contribution to approximately \$10M in grant and debt toward the total project cost up to \$15.3M.

### Agreement Implications

To ensure the project remains viable in the short, medium and long-term, the CRD will be required to act as a guarantor for the CRHC and this includes both a Lease and Operator Agreement.

#### Lease Agreement (CRD & CRHC)

The CRD leases the land to the CRHC for 60+ years to enable the CRHC to receive funds from BC Builds and CMHC as both programs require security. This will enable the CRHC to advance the construction of the project and then engage GALI as the operator.

#### Operator Agreement (CRD & CRHC)

The CRD agrees to fund any operating shortfalls, asset maintenance deficits, and cost incurred by the CRHC in the construction and hand-off of the project to the Operator.

Property Management Agreement (CRHC & GALI)

GALI agrees to manage the property on behalf of the CRHC in accordance with the requirements of the BC Builds Contribution Agreement and the terms of the CMHC AHF. Staff and GALI continue to negotiate the PMA and GALI has identified a risk that operating a middle-income project as defined by BC Builds may not be in alignment with their charitable status under the Canada Revenue Agency (CRA). There is a risk that GALI does not accept the terms of the PMA and the requirements of the BC Builds and CMHC programs.

**CONCLUSION**

The CRD owns the property located at 280 Georgeson Bay Road, Galiano Island which is intended to provide 20 rental homes attainable to middle-income households. The total project cost is estimated to be up to \$15.3M and the CRD has committed a total of \$3.5M through GCF and CWF. As the development has progressed, estimated costs have increased, resulting in an anticipated funding shortfall of up to \$3.3M and ongoing operational risks that must be addressed before the CRHC could consider incurring mortgage obligations of \$3.2M. To secure FPA from BC Builds and final approval from CMHC, which are expected in June 2025, the CRD must commit to funding the capital shortfall. Should the project be fully funded, the CRHC Board would then consider approval in July 2025, with construction to begin shortly after.

Staff analysis has identified that the estimated costs of advancing this project are up to \$283K per year ongoing, which represents an approximate operating subsidy of \$1,177 per home per month. To mitigate requisition impacts and associated tax increases due to debt obligations, staff are not recommending proceeding with the project through injection of additional capital and obligating the CRD to fund operational losses or unfunded asset management costs.

Instead, staff are recommending that the CRD issue a RFP to seek another entity willing to advance development. This would shift the costs, risk, and ongoing obligations to the eventual developer and operator. If the RFP were unsuccessful, staff will return to the CRD Board seeking additional direction that may include pausing advancement of the project until a more appropriate funding program could be identified to support the capital and operational costs associated with this initiative.

**RECOMMENDATION**

The Hospitals and Housing Committee recommends to the Capital Regional District Board: That staff be directed to prepare and launch a Request for Proposals to identify a proponent who will enter a long-term lease, apply for funds, undertake development and operate a housing project at 280 Georgeson Bay Road, Galiano Island.

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**ATTACHMENTS**

- Appendix A: Forest Homes Project Timeline
- Appendix B: CRD to CRHC Lease Agreement for 280 Georgeson Bay Road, Galiano Island
- Appendix C: CRD to CRHC Operator Agreement for 280 Georgeson Bay Road, Galiano Island
- Appendix D: Galiano Project Projected Rents & Operational Details
- Appendix E: Cost Management – LCC Class ‘B’ Model Report
- Appendix F: Galiano Project Capital Budget Details