



Vancouver Homelessness Funding Model

More than just a warm bed

Prepared for: The City of Vancouver



**My life feels like
something left outside
in the rain
the way other people
put out the dog
or the cat
or the garbage
before turning in
for the night**

**I am trying to
get back inside.**

– Gary James Moffitt, Seattle
Excerpt from Poetry in Buses 2003 #48
Homelessness, King County Metro



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Executive Summary

This report presents recommendations for a funding and implementation model for addressing the housing and support needs of individuals with addictions, mental illness and other serious medical conditions who require support beyond provision of housing. Undertaken on behalf of the City of Vancouver, its foundation is based on the City's extensive work and consultation in creating the City's Homeless Action Plan, and the Housing Plan for the Downtown Eastside.

An effective implementation mechanism for the City's homelessness strategies is essential. Despite a surging economy and record low levels of unemployment, the best available information suggests the number of homeless in Vancouver and the Greater Vancouver Regional District ("GVRD") has doubled between 2002 and 2005. Anecdotally, the presence of homeless people on the streets and aggressive panhandling has increased significantly. There is a high level of awareness of the issue in many sectors of the population, as well as interest in taking the necessary steps to provide care and support to individuals who are facing homelessness.

Many homeless people face significant challenges including mental illness, addictions, and serious medical problems. They may not have the capacity to access support services available to them, yet they are significant users of emergency health services; create significant demand for police, fire, and ambulance services; and occupy significant resources within the justice system. From a public health perspective, they are an important target group for support, with a relatively high incidence of tuberculosis, HIV/AIDS and other sexually transmitted diseases, and as parents of children with fetal drug and alcohol syndromes. The combination of mental illness, addictions, and homelessness creates tragedy for these individuals, and serious social issues within the broader community.

However overwhelming this might initially appear, there is widespread evidence that homelessness can be addressed effectively with supportive housing. Significant progress has been made in many US cities and in the UK, where adequate housing with strong management and a high level of support services has been successful in meeting the challenge. In cities that have made effective progress in delivery of these services, reduced demands on police, fire, ambulance, emergency health and court services have been clearly documented, as well as a better quality of life for the individuals who utilize supportive housing .

City officials estimate that between the street, shelters, and highly marginal single room occupancy ("SRO") hotels, there are at least 2,500 people in the City who could benefit from supportive housing - that is, well-managed accommodation with tenant support services. While such housing units already exist in the City, they are fully occupied. Creation of new units providing this combination of housing and services is expensive, and the need cannot be met through existing programs.

As the problem has increased, there is growing evidence of community support for a solution. The Board of Trade has an ongoing committee seeking solutions and many individuals have expressed concern and perhaps, more importantly, a willingness to help. Further, a combination of private sector ethical investment and philanthropy, City support through provision of land and tax abatements for new units, and a provincial commitment to rent subsidies and the provision of support services could make a significant difference in the lives of these individuals, and in the health and well-being of the whole community.

The challenges of homelessness cannot be met in isolation. It will take a broad-based community approach to adequately meet current and future needs. Therefore this report proposes drawing all of these resources into a funding solution to renovate 500 SRO hotel units to provide immediate relief for the problem, and to construct 1,500 new supportive housing units on existing City sites.

Two new organizations would be created to assist in this program, and would work closely with key partners such as the City, BC Housing, Vancouver Coastal Health Authority (“VCHA”), and existing non-profit housing and service providers. The first, a limited partnership (“Vancouver Homelessness Partnership”), would be structured to attract ethical investment from individuals, corporations, and foundations. The second, a foundation (“Vancouver Homelessness Foundation”), would provide a vehicle for broadly based charitable fundraising, which would work with other agencies to develop and deliver augmented support services and employment training for those living in supportive housing units. The Foundation would also own sites for supportive housing units, ensuring the continued application of these resources. Some tightly targeted adjustments to tax legislation are identified to increase the effectiveness of the limited partnership.

These two new organizations, working closely with existing non-profit groups and government agencies, would bring focused resources to the challenge. They would work together to ensure effective and efficient construction programs and services delivery. They would also bring a level of broad community commitment and support to addressing the challenges of homelessness.

The report provides a financial analysis of the proposed program; preliminary business plans for the two new organizations; and the background information necessary to evaluate the proposal. The specific structural information is preliminary, however, and may change in response to discussions with participating organizations and the community.

The cost of addressing this issue is significant. The value of land to be committed by the City is approximately \$50 million. In 2014, when all of the sites are fully developed, the annual City tax forgiveness would be \$1.1 million and the annual incremental cost (including rent subsidies and support costs) to the province for the renovated SRO hotel rooms and new supportive housing units would be about \$48 million. It is hoped that the addition of corporate, philanthropic and citizen contributions to be pooled with funding from other sources will help make raising sufficient funds to meet this challenge possible.

The solution of supportive housing requires sustained commitments from the City, the Province, and the community to provide the necessary financial resources and to build long-term capacity to address and manage homelessness and the problems that arise from it. It is noteworthy that these proposals directly support the Project Civil City initiative of the City of Vancouver, and will contribute significantly to achievement of the goals of that program. While the cost of addressing homelessness is high, the financial and ethical cost of leaving individuals homeless is higher. A workable and sustainable solution will not only improve the lives of the homeless, it will also bring financial and social benefits to the whole community.

Recommendations

1. That the City endorse a target of upgrading 500 SRO hotel rooms and providing incremental tenant support services to meet the needs of residents, and committing to work with other agencies to achieve that target, with funding sources described in this report.
2. That the City endorse a target of the construction of 1,500 new supportive housing units, and subject to the Province's commitment to provision of operating costs and the costs of support services, that the City commit to provide sites at no cost, forgive taxes on these units, and commit to work with other agencies to achieve that target.
3. That the City consider bylaw revisions:
 - a) to establish an appropriate supportive housing unit size providing the required functionality while minimizing construction costs; and
 - b) subject to confirmation from non-profit operators, establishment of alternate configurations combining multiple residential units with common kitchen facilities.
4. That the City consider an alternative approach to creation of mixed income communities in major rezonings that would require equivalent value contributions from developers for alternate forms of housing either within the site to be rezoned or in other areas, and consider the conversion of existing reserved sites with an appropriate payment by the developer, and application of the funds received to other housing priorities.
5. That the City consider the creation of zoning districts that establish the opportunity for internal economic trade-offs within a development by provision of incremental density and height in exchange for market rental units or individual supportive housing units.
6. That if this program (or any alternate program) is successfully implemented and provides additional housing for individuals requiring supportive housing, the City consider undertaking aggressive enforcement to ensure all SRO and non-market accommodation is operating in a manner that meets bylaw requirements.
7. That the City consider implementing supplemental street cleaning and property maintenance activities on an ongoing basis in the Downtown Eastside, in conjunction with community organizations, as a complement to upgrading of SRO hotels, construction of new supportive housing, and provision of increased support services.

8. That the City support the creation of the Vancouver Homelessness Limited Partnership and the Vancouver Homelessness Foundation, subject to:
 - a) support and funding commitments from the Province for the upgrading and construction program and the provision of support services as set out in this report
 - b) support from the Province for the tax changes proposed in this report
9. That the City instruct City staff and the consultants to undertake further consultations with the Vancouver Foundation, provincial and federal officials, potential investors, and the financial community, seek support for the proposed tax changes, and undertake further legal analysis and work on organization proposals for report back in April.

Introduction

This report presents proposals resulting from the work undertaken on behalf of the City of Vancouver (“the City”) to explore new models to meet the housing needs of those individuals who require support beyond the provision of affordable housing. In particular, the proposals seek to meet the needs of individuals with addictions, mental illness and other serious medical conditions. These individuals are often homeless or reside in inadequate SRO hotel accommodations. Addressing the needs of these individuals is fundamental to addressing homelessness and its consequences for the larger community.

For convenience, this report incorporates much of the background content of the preliminary report previously submitted. A brief outline of the context in which this work is being undertaken is provided, along with a brief commentary on the impact of homelessness and inadequate housing and services on the community. It reviews the information available on the population to be served, their service needs, and outlines the City’s proposals to meet these needs.

The proposals in this report build on the City’s Homeless Action Plan and the Downtown East Side Housing Plan, both of which were published in 2005. The report describes an alternative financial model that seeks to draw on a range of funding sources, including charitable donations and private capital. This alternative model also seeks to involve the broader community more directly in addressing the issues, both through corporate and individual investments, and through participation of community leaders. The description of the funding model is followed by a proposed strategy and implementation plan.

The authors would also like to acknowledge the contributions of City of Vancouver, BC Housing Management Commission (“BC Housing”), and Vancouver Coastal Health Authority (“VCHA”) officials, who provided the information and materials that constitute much of this report. Many individuals, business people and representatives of non-profit organizations also provided helpful comments. The Vancouver Foundation in particular provided valuable comments and assistance. Bruce Sinclair of Borden Ladner Gervais LLP and Greg Lewis and his team at Bull, Housser & Tupper provided pro bono legal and tax advice. Della Smith and her staff at QUAY Strategies Inc. adopted the project and donated communications and branding advice. The contents of this report, however, and any errors herein are the responsibility of the authors.

Context

Vancouver is booming. Unemployment has dropped to record low levels, real estate values seem to increase every day and new construction is everywhere. Everyone wants to come here. Businesses are prospering, particularly in the development industry.

At the same time, a certain population suffers from a combination of addictions, mental illness, other serious medical conditions and homelessness creating significant economic and social costs within the City. Many people who are mentally ill live in inadequate conditions or on the streets. Drug and alcohol addiction is widespread amongst this group and many individuals also suffer from addiction related illnesses such as HIV/AIDS, hepatitis C, and tuberculosis. While governments spend significant dollars for housing and services for this population, the combination of limited housing and serious health problems continues to challenge any attempts at solutions. Further, City officials note that many privately owned single room occupancy hotels are in poor shape due to age, limited maintenance and, in many cases, poor operating practices. In part, this results in people who have a mental illness or an addiction living in housing without effective management.

The homelessness challenge is frequently viewed as an inner city issue, and there is no doubt that problems are concentrated there. However, there are people who are homeless throughout the city and the region. There are also people who are mentally ill or addicted living throughout the city in inadequate housing and without necessary support services. Any solution, while perhaps focusing on the inner city, must also recognize the regional nature of the challenge.

There is broad recognition in the community that people who are more visible and that panhandling and related aggressive behaviour are more common. The contrast between the visible prosperity and the street is increasingly incongruous. With that public recognition, there may be a greater interest in the general community to support programs that will serve those in greatest need and contribute to an increased degree of civility on the street. There must be programs to ameliorate the situation in the short term, as well as address long-term issues. Funding and construction of new housing will take some time, and programs that improve existing housing conditions and increase support services in the short term will likely be strongly supported.

Impact on the Community

There can be no doubt that leaving people homeless or inadequately housed results in significant costs to society. Studies in many venues have shown that well managed, adequate housing combined with necessary support services can address the issues outlined below:

People that are homeless are at much greater risk for infectious disease, alcohol and drug problems than the general population. For example:

- Tuberculosis, which is increasingly resistant to antibiotics, is reported to be 25-100 times higher for people that are homeless than among a general urban population.
- 37% of female youth living on the street reported having a sexually transmitted disease compared to 2% of females attending school.

The public health challenges arising from this group are significant and absorb significant resources.

People with a mental illness and an addiction who are homeless draw very heavily on government services. Police, fire, and ambulance services receive vastly disproportionate calls for services related to these individuals. The Justice Institute of British Columbia reports that persons with symptoms of mental illness make approximately 35-40 appearances a day in Vancouver courts. In a Vancouver Police Department (“VPD”) study of 100 illicit drug users in Vancouver, 61% said that they commit crimes regularly to support their habit. The VPD estimates that 72% of the street crime in the inner city is committed by 600-800 chronic offenders, many of whom live in SRO hotels.

Emergency wards and hospitals expend significant resources serving this clientele. Homeless individuals tend to use hospital emergency rooms as their first point of contact with the medical system. And because they usually avoid hospitals until their condition is serious, medical treatment becomes more costly. For example:

- Homeless patients stay 36% longer per admission to hospital than other patients;
- Homeless patients hospitalized for psychiatric conditions stay six times longer than individuals with homes; and
- Homeless children were 11% more likely to be hospitalized and 20% more likely to have emergency room visits than housed children.

Some of those who live in SRO hotels also create high service demands. Among the 43 SROs tracked for this purpose by Vancouver police, fire and ambulance during 2005, police made 4,670 calls, the fire department responded 1,187 times and the ambulance service called 1,498 times. Among the worst managed SRO hotels, there were as many as 327 police calls, 80 fire calls and 137 ambulance calls. No calls were received from those SRO hotels described as “best-managed”.

Such high service demands are not surprising. Successful operation of SRO hotels has always been challenging, but presents particular issues today. For the past fifteen years for example, the welfare shelter allowance has been \$325 per person. Fifteen years ago, the housing allowance was sufficient to allow operators to run reasonable, clean and secure accommodations and provide limited supervision. Today, however, less than one in five offer rooms at this rate and there is insufficient income to pay staff or cover ongoing maintenance, repairs and supervision. The provincial government, in its recent 2007 budget has increased the housing allowance by \$50 to \$375 per month. The increase is significant and will improve the economics of operating SRO hotels, but will not likely support required capital improvements or improvements in the management of poorly operated SRO hotels.

Further, welfare and social services expenditures as a result of mental illness, addictions, and homelessness are very significant. As described above, government agencies spend disproportionate resources dealing with individuals with these characteristics. Non-profit organizations focus on serving and supporting these individuals. Despite these expenditures and efforts, the problem is expanding. Without adequate support, and treatment programs to support those who wish to change their lives, the problems will continue.

Addictions and mental illness author a litany of individual tragedies, but the combination of these conditions and homelessness creates a profound community issue. The long-term costs and social implications are serious - birth of fetal drug and alcohol afflicted infants; a venue and “attractor” for drug trafficking; and a venue for high-risk prostitution. Without a combination of reasonable housing and support services that permits these individuals to function at a higher level, the community is faced with a street presence that is destructive and destabilizing. Local businesses cannot operate successfully, tourism is adversely affected, and the local and regional economy is negatively impacted.

To date, notwithstanding government and non-profit society expenditures and efforts, success has been limited. The interaction of addictions and mental illness and inadequate housing continues to create problems for individuals and the community. To find a solution, a number of agencies and service providers that address these problems individually must also interact. A solution is beyond the reach of any one sector or organization. A comprehensive solution is challenging, but a new organizational and funding approach, bringing together the skills and resources of business, governments, the voluntary sector, and the community, could make progress.

Population to be Served

Identifying the number of homeless people and the service requirements of mentally ill or addicted people is challenging due to the transient nature of this population. Some individuals are known to the health system and their needs are identified. Others are itinerant and difficult to track. Different agencies identify different numbers. Uncertainty arises from the difficulty of precisely counting a population that is dispersed, and by its nature is difficult to locate and count within a fixed period of time. There is no argument about the general scale of the problem, and little question that the true number in need is likely higher than the official counts. Notwithstanding a lack of precision, the information that is available provides a sense of the dimensions of the problem.

Of the 16,000 residents living in the inner city, it is estimated that 5,200 are in need of better housing and more services, with most living in SRO hotels. Of the 5,200 that need better housing, about 2,150 are homeless or considered to be living in deplorable conditions without the benefit of support services (see Table 1). The 2005 Greater Vancouver Homeless Count estimated that there were about 2,200 people that were homeless in Greater Vancouver. Of the 2,200 people that were homeless counted, there were close to 1,300 located in Vancouver, or about 63% of the total. The next highest count of 436 persons (21%) was in the three municipalities located south of the Fraser River (Delta, Surrey and Langley). The 2005 count was considered to be conservative and the actual number of people that are homeless at any given time could be significantly higher.

In addition to the people that are homeless on the street and in shelters in Vancouver, there is a commonly held view that over 1,200 persons in the inner city live in deplorable conditions in SRO hotels. These individuals are on the immediate edge of homelessness and are often suffering from serious illnesses and addictions.

TABLE 1. Estimate of Vancouver's Homeless Population

Vancouver Homeless	Inner City	Rest of City	Total
Street Homeless	200	400	600
Shelters	700		700
SROs	1,250		1,250
Total	2,150	400	2,550

Within this group of 2,150:

- 80% are single men without linkages to services, family or society;
- 21% have physical disabilities.

Most critically:

- 70% are estimated to have mental health issues; and
- 23% have a diagnosed mental illness.

Many people who might once have received care at Riverview Hospital, a mental health care facility (judged as too restrictive), now receive no care at all. With proper treatment, people with a mental illness can live very successfully in the community.. In the current circumstances, in which they do not receive proper treatment, their behaviour can be highly disruptive.

A second (and overlapping) group comprises those with drug dependencies. It is estimated that one third of Downtown Eastside (“DTEs”) residents are addicted to drugs. Despite major efforts by police to control the drug trade, the new “Four Pillars” approach to harm reduction and attempts to minimize the presence and impacts of drug users, the problem continues and increases. City officials believe that the behaviour of crack cocaine and crystal methamphetamine users in SRO hotels makes management of those facilities without significant support services profoundly difficult.

A third group (again, overlapping) includes women in the sex trade and the people who prey on them. It is estimated that 1,000 women sell sex on the streets of the inner city. Of these:

- 52% live in SRO hotels and 20% are homeless,
- 97% use illegal drugs with 88% using cocaine,
- 26% are HIV positive but only 6% are receiving HIV treatment, and
- 55% are aboriginal.

This population gives birth to significant numbers of infants suffering from fetal alcohol and drug syndromes.

Aboriginal people are over-represented in all categories, comprising 34% of the homeless population, although they represent only a small percentage of the City’s population.

Plausible forecasts of the future homeless population are difficult to produce given the various factors that result in persons becoming or remaining homeless. The growth in the number of people who were homeless between 2002 and 2005 in Vancouver was about 100% or roughly an average of 30% per year over three years. The growth in the homeless population in other sub-regions of the GVRD was considerably higher (see Table 2 and Figure 1).

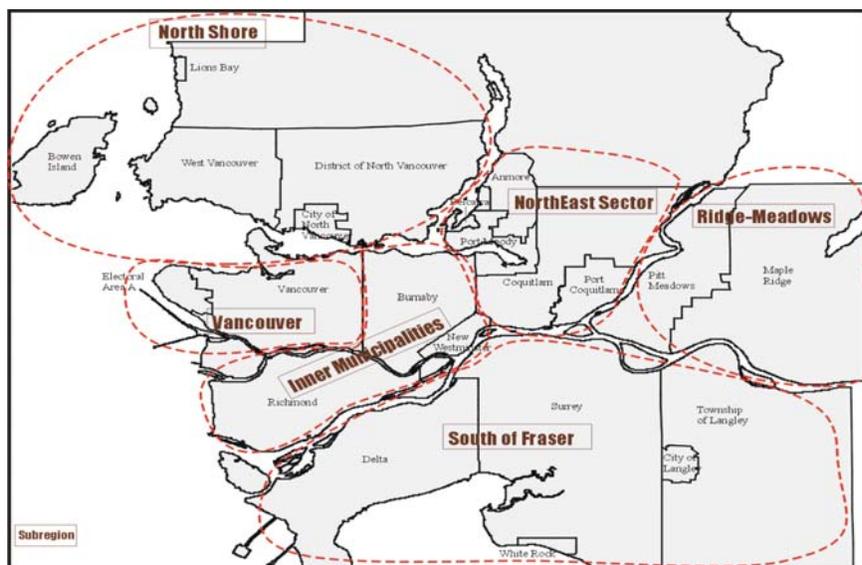
Even though Vancouver has about 63% of the region’s individuals that are homeless, Vancouver’s population is only about 27% of the region. Growth in Vancouver’s homeless population is driven by circumstances faced by those on the edge of homeless in other parts of the region, the province and the country. The mild winters and the nature of accommodation and services in the inner city may make Vancouver an attractive location.

TABLE 2. Growth in Homelessness by sub-region 2002–2005

Sub-region	Total Homeless 2002	Total Homeless 2005	Change 2002–2005	% Change 2002–2005
Vancouver	628	1,291	663	106
Inner Municipalities	116	165	49	42
North Shore	44	85	41	93
South of Fraser	187	436	249	133
North East Sector	13	38	25	192
Ridge Meadows	62	42	(20)	(32)
Total Region	1,050	2,057	1,007	96

Without a significant effort to increase the supply of supportive housing for people who are homeless, it is highly likely that the number of individuals that are homeless will continue to increase. BC Housing maintains large waiting lists for affordable housing. Housing costs in the Greater Vancouver region have increased considerably and are unlikely to decrease in any meaningful way over the next five to 10 years. Even with the recent increase in shelter allowance, the income levels of people who are homeless and near homeless are generally insufficient to cover the rent of many SRO hotel rooms. There were, in 2001, over 16,000 households paying 50% or more of their gross income on rent. Some of these households are living precariously and may, unless they have extended family supports, be only one lost paycheque away from being homeless.

The Pivot Legal Society’s “Cracks in the Foundation” report, published in 2006, predicted that the number of street homeless throughout the City could grow to over 3,100 persons by 2010, based in part on projected losses of existing SRO hotel accommodation.

FIGURE 1. Map of Sub-Regions with the Greater Vancouver Regional District

Service Needs

The service needs of individuals within this overall group vary widely. For some, stable housing under sound management that provides a reasonable level of security is sufficient. Others wish to begin programs to address their dependencies, and require a high level of initial support, followed by ongoing support and services that will assist them in a transition to a more normal life. Still others are unlikely to leave their current lifestyle, and will require closely managed accommodation to ensure that facilities are maintained and resident damage does not render them unlivable. (The City has noted examples where newly renovated facilities, without the presence of on-site support services and security, are heavily damaged within months of occupancy). In other examples, rooms are left vacant so that the limited management capability is able to cope with the lower number of tenants.

Housing by itself does not address the needs of these individuals. Necessary services must be provided, ranging from additional management resources to onsite non-medical supports and access to professional medical services. For many clients, the costs of ongoing support services over the life of a project will exceed the capital costs of the unit in which they live by a factor of two or more.

The City's Homeless Action Plan (as summarized later in this report) and the GVRD's Regional Homeless Plan for Greater Vancouver segment the homeless population into persons who are/have:

- street homeless
- shelter users
- families
- aboriginal
- youth
- mentally ill
- addicted
- dual diagnosed
- HIV/AIDS
- acquired brain injuries and dementia.

For the purpose of assessing the resources and costs of non-medical support services associated with a supportive housing strategy, VCHA has created three housing categories:

- Low Barrier
- Moderate Barrier
- Mental Health
- Addictions Treatment

The City is working with VCHA on a 10-year strategy document for supportive housing and is publishing a Supportive Housing Strategy that has been harmonized with VCHA strategies. For the purposes of this report, the following definitions of supportive housing tenants have been adopted that are based on VCHA definitions.

Low Barrier tenants-

- Have multiple health related challenges often associated with behavioral issues
- Often have an addiction and/or mental illness and are not ready or able to engage in active treatment programs
- Need and want housing to bring stability to their lives
- May, with time, engage in treatment programs, but are not required to engage as a condition of tenancy

Moderate Barrier tenants-

- Same as Low Barrier tenants, however, present less challenging health and behavioral issues
- Generally have skills to live in an apartment setting with moderate support

Mental Health tenants-

- Have a mental illness that interferes significantly with their work, personal life, leisure and education and which requires daily supports and ongoing psychiatric treatment provided by a mental health team, a psychiatrist or general practitioner
- Willing to participate in the planning and delivery of treatment services
- Are able and willing to be safely housed

Addiction (alcohol and drug free) tenants-

- Have a serious dependency on substances which can only be effectively managed in an alcohol and drug free environment with daily supports
- Referred from addiction treatment programs
- Actively engaged in addiction treatment programs and individual recovery plans
- Are able and willing to be safely housed

The range of services required is extensive. Non-medical supports typically include the following services:

- budgeting, banking, housekeeping, meal preparation
- medication support, if required, for individuals taking medication
- help with accessing health care, counseling and treatment services
- help with accessing education, vocational, and employment programs
- community integration support
- locating appropriate housing at the completion of a treatment program.

Medical services are also required to address the multiple problems of the homeless including addictions, mental illness, HIV/AIDS, respiratory infections and a range of medical issues that are exacerbated by poor nutrition and poor housing. These services may be delivered through outreach programs and through clinics with the assistance of non-medical staff.

Current Housing Model

The majority of funding for new supportive housing is provided by BC Housing. BC Housing is the central player in the development of subsidized housing in the Province and provides or arranges the majority of funding for supportive housing. BC Housing funds the following range of activities:

- Scoping studies for proposed supportive housing projects
- Development activities for selected supportive housing developments
- Capital grant funding for selected developments
- Construction management services
- Construction and mortgage debt funding
- Rent subsidies sufficient to cover mortgage and operating maintenance costs that exceed shelter allowance rents
- Support services funding for up to six full-time equivalents (“FTE”) per day for the delivery of non-medical supports and security services.

BC Housing arranges Canada Mortgage and Housing Corporation (“CMHC”) insured loans for permanent mortgage financing of completed developments. BC Housing manages its mortgage portfolio by selling the mortgages into the private mortgage market. Life insurance companies and pension funds are participants in the mortgage market and purchase mortgages arranged by BC Housing at attractive rates. The City provides land at a discounted rate and some capital contributions. Most significantly, the Province provides the annual funding required for rental payments and support services – this is the core funding component for supportive housing.

The majority of supportive housing developments in Vancouver are developed and operated by non-profit organizations on land that they lease on a long-term basis from the City. (A few non-profits own the land on which the housing is developed.) The City has been a significant partner in the development of supportive housing through the provision of sites on a leasehold basis, and, where appropriate, the use of its zoning powers to facilitate such development. The non-profit organizations receive funding from one (or both) of BC Housing and VCHA for the delivery of support services. A few of the larger and more successful non-profits societies and foundations contribute their own capital and operating funding to their supportive housing developments.

Development cost overruns, construction delays and cost overruns, operating and maintenance cost overruns (both regular maintenance and major life cycle maintenance costs), as well as revenue and vacancy risks are essentially handled by BC Housing. Management of the quality and consistency of support services and overall management of the tenant population is shared by the non-profits and VCHA, and to a lesser extent, BC Housing. However, if support services are of poor quality and tenants’ needs are not properly met, ultimately the risk of failure of a supported housing operation lies with BC Housing. The mortgage holders are sheltered from default risk as the mortgages are insured by the CMHC.

Given that BC Housing and, to a lesser extent VCHA, control much of the development process and the operating environment via approval of annual funding levels; it is difficult for the non-profits to accept much of the risk of developing and operating supportive housing. It may well be more efficient in future for some risks to be allocated to the non-profits in return for stronger long-term funding commitments. Such long-term funding commitments could be performance based, with the funded amounts varying as a function of the achievement of performance standards and metrics. In this way, a stronger contracting and performance environment could be created.

The most appropriate allocation of risk is important and something that should be optimized. It is not, however, the primary issue facing the development of new supportive housing. The primary issue is the lack of available funding from both non-profit housing providers and governments.

Current Support Services

Support services include non-medical and medical services. The non-medical services are usually delivered to tenants by community health workers working on-site, 24 hours per day. The number of on-site community health workers varies as a function of the size of a building and the needs of tenants. Large buildings located in the Downtown Eastside with primarily low barrier tenants ideally would have five full-time staff (including a manager) on day shifts, four on evening shifts and two on night shifts. Buildings with a cluster of tenants who have a mental illness or addictions and are attending treatment programs have a range of staff that work weekdays only to staff that are on-site over all shifts. Tenants with a mental illness or an addiction attending treatment programs and living in market rental suites receive support visits from community health outreach workers and can access 24 hour on-call support staff.

Community health workers who provide on-site and outreach support are usually employed by non-profit organizations. The non-profit organizations receive support service funding from VCHA and BC Housing. The organizations either own and operate supportive housing buildings, or operate buildings on behalf of other owners, including the City.

Medical support services are funded and delivered by VCHA at community health centers and mental health teams located throughout the City and by outreach teams for mental health and addictions treatment.

VCHA has identified the need to develop a multidisciplinary team that would deliver integrated primary care, mental health and addiction treatment services. The Team would manage a range of health issues without requiring individuals to connect with multiple care providers, as is currently the case. The Team would work cooperatively with on-site and outreach community health workers. The Team would be an adjunct to existing services and would focus their interventions on tenants who have been unable or unwilling to access existing medical services. The Team would operate as primary, long-term case managers for tenants and ensure that tenant medical needs are met effectively by the Team and existing community health and acute care resources.

VCHA advises that this integrated approach to delivering medical services with a team-based approach to long term case management will require new funding and resources.

The costs of both non-medical and medical supports sufficient to meet the needs of new supportive housing units are presented later in this report.

While not in itself a support service, the Province is introducing a community court system in the City which will assist in providing appropriate services to people that are homeless and those on the edge of homelessness when they enter the court system. Individuals may elect to take advantage of housing and services as an alternative to incarceration. This new process may result in better coordinated services and reduce some of the costs and consequences of homelessness previously described.

City of Vancouver Action Plans

Supportive housing has been implemented by the City, VCHA and senior governments and agencies for a number of years, based on the existing housing and support models. There are numerous small group homes with on-site supports located in residential neighbourhoods throughout the City. In addition, there are 37 supportive housing buildings housing individuals with multiple challenges, mental illness or addictions. Seventeen buildings for individuals with multiple challenges and not yet actively engaged in treatment are primarily located in the Downtown Eastside. Twenty other sites for people engaged in mental health or addiction treatment are in the downtown peninsula and neighbourhoods east of Main Street.

In response to the current need, the City of Vancouver has developed the Homeless Action Plan and the Housing Plan for the Downtown Eastside. These plans are well developed and set aggressive targets. For the most part, the proposed actions are consistent with past City directions and assume federal and provincial funding roles similar to those which existed in the past. They propose a number of actions and strategies, and set numerical targets. As such, they provide an appropriate starting point for the work plan proposed in this report. However, they do not include comprehensive cost estimates or business plans, and look primarily to senior governments to provide the funding and leadership for implementation.

The charts (Figure 2 and 3) on the following two pages summarize the directions set out in the City's plans. However, while the Province has continued to fund housing and services, and CMHC has continued to provide mortgage support, the levels of funding available in the past no longer exist. It was therefore appropriate to assess the strategy closely and, in particular, to examine alternate financial models that seek to draw on private and charitable funding, as shown below:



The major “gap” in the strategy is the availability of funding. As noted above, it seems highly unlikely that the federal and provincial governments will provide income supports, housing, and support services funding in the ways that these plans assume and require. This report proposes a strategy to obtain additional funding from other sources, and ways in which the operating management and support services delivery could perhaps be improved. Further, the implementation plan and cost estimates provided in this report will be a useful adjunct to the City strategies.

FIGURE 2. City of Vancouver Homeless Action Plan

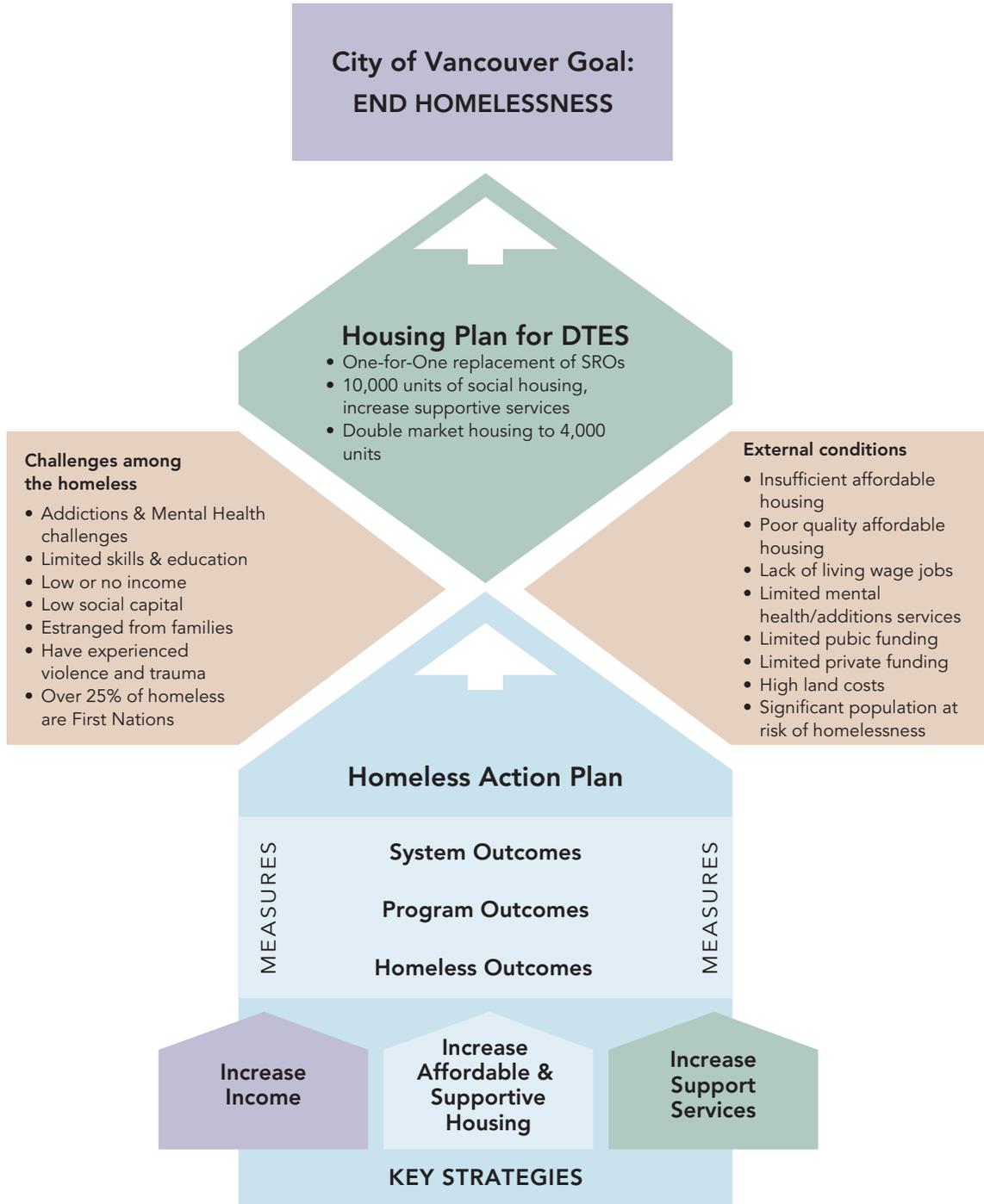
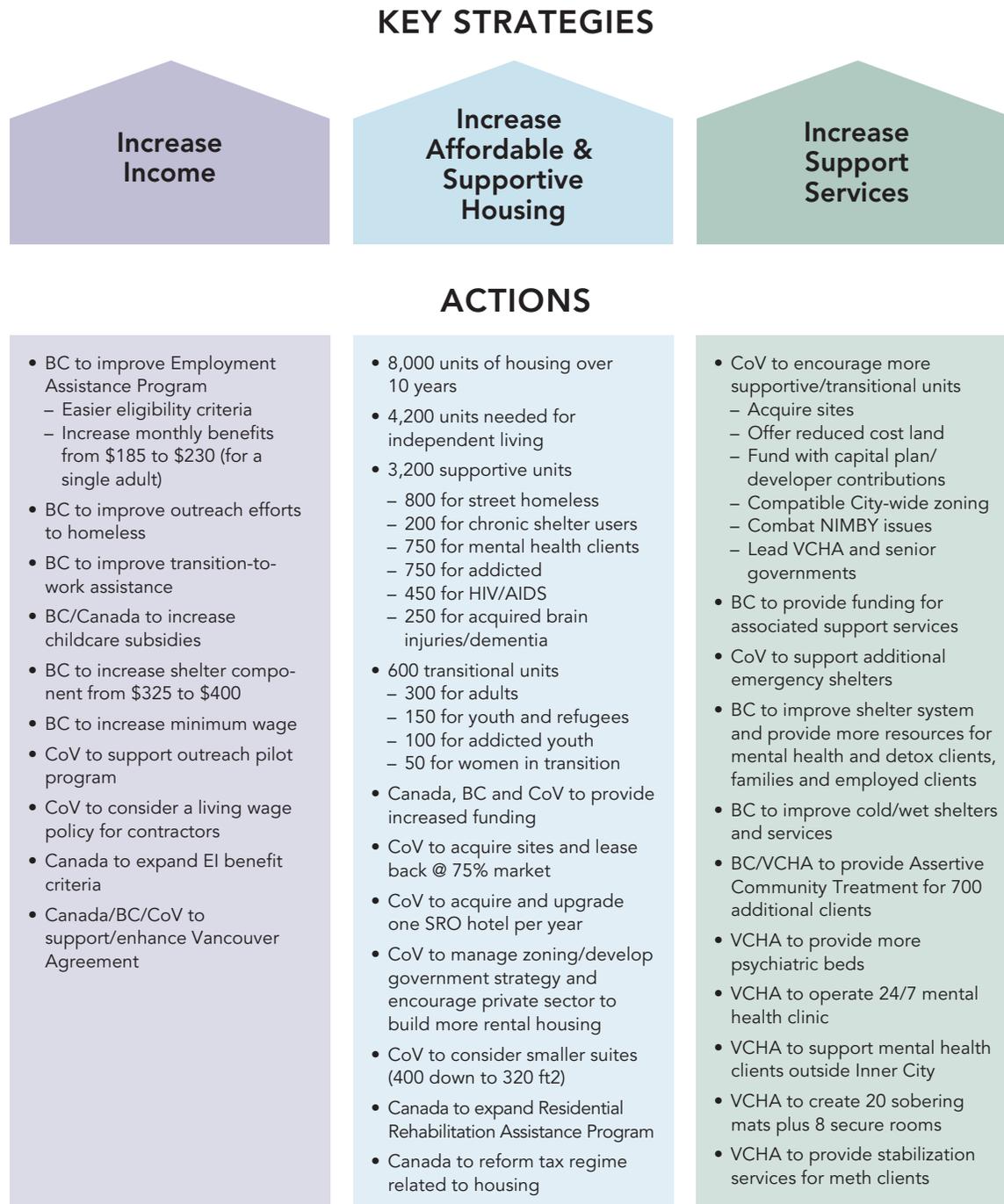


FIGURE 3. City of Vancouver Homeless Action Plan



The Proposed Strategy

Overview

Homelessness will not be “solved” – there is no magic bullet. The challenge, however, can be addressed in a meaningful way. There is clear evidence from many sources that affordable, stable housing combined with good support services can have a significantly positive impact on homelessness and demands for other services, leading to a more stable community. These solutions require both more money and better management. In the long term, there would be considerable offsetting benefits through reduced demand for police, fire, and ambulance services, and reduced pressure on hospital emergency and psychiatric wards. Reduction in the incidence of infants with fetal alcohol and drug syndromes would also provide major social and financial benefits, and a more stable community among this group would benefit the larger community. There is no doubt that the economic and social cost of leaving people homeless is greater than the cost of providing supportive housing.

The complexity and expense of addressing these issues make it impossible for a single entity to step in and address the challenge effectively. There are issues of law, particularly having to do with drug crime, that are the responsibility of the federal government. There are potential legislative changes regarding the care and treatment of the mentally ill that can only occur at the provincial level. The municipal government is responsible for local regulations and enforcing standards, and can only facilitate maintenance and operation of low cost housing. The police can only provide enforcement. VCHA focuses on support services funding and professional medical care. There are many reputable and highly committed non-profit organizations providing services to these groups within their mandates. There are community organizations, like the Vancouver Foundation, that are committed to helping resolve the issues of crime and homelessness. And finally, there is the development industry and business community, which is eager to demonstrate market solutions. Each group can bring an element of the solution to the problem, but joint action and investment are required.

Both the federal and provincial governments have provided housing funding. The Province provides welfare and shelter allowances and funds the delivery of public and acute care health services. The municipality funds policing and fire services, and has provided financial support and land for housing developments. Non-profits contribute their services at low cost in part with funds that have been donated. The federal government continues to provide grant funding to address homelessness (though relatively modest in scale).

Despite these efforts, the government and the marketplace cannot deliver adequate solutions within the current funding and operating model. SRO hotels cannot be maintained and operated appropriately with existing funding, notwithstanding the recent significant increase the shelter allowance.. Support services cannot be sustained broadly at the required levels within current funding. Only limited new supportive housing can be developed and operated and consequently, will not adequately address the need.

In light of this, the proposed strategy seeks to create structures and processes to bring together government and community resources in a coordinated manner to create housing and provide necessary support services. It contains the following elements:

- Establishment of housing targets and funding programs for interim upgrades of existing SRO hotels and construction of new supportive housing based on the City's plans;
- Continued effort through bylaw and legislated changes to provide additional resources for the creation of non-market housing;
- Bylaw enforcement to maintain standards throughout the system when adequate supportive housing resources are in place;
- Creation of a limited partnership to attract private and charitable investment in the development of supportive housing, and provide a role for the business community in addressing this issue;
- Creation of a new foundation, with community and government representation, to receive charitable contributions, and provide a vehicle for coordination of multiple community interests to improve the city-wide environment, with a focus on the inner city;
- Upgrading support levels through increased government funding (via BC Housing and VCHA); and
- "Civility programs" provided by the City and non-profit organizations.

Creation of Interim Housing through SRO Upgrades

The housing problem in the Downtown Eastside can best be addressed in the short term by upgrading SRO hotels. A recent informal survey of SRO hotels suggested that of about 130 operating SRO hotels, 20 were in poor physical condition and suffered from poor management. Another 50 were in fair condition with typically poor to fair management and the remaining hotels were in fair to good condition with fair to good management.

Many of the SRO hotels in poor condition should be demolished, rebuilt to retain heritage values or physically upgraded on an interim basis. Demolishing the hotels is not a short-term option as there is no other housing available for the tenants who would be displaced. Physical upgrades are of no practical benefit unless the buildings are converted to supportive housing. The only way to bring stability to much of the population housed in SRO hotels is to provide on-site community health care workers and 24 hour security for the tenants.

The monthly rent for a few of the poorest SRO rooms has been \$325, with the majority of rooms ranging from \$350-500 per month. It is expected that lowest rents will increase to \$375 per month in response to the increase in the shelter allowance. With the \$50 per month increase landlords will be better able to cover operating costs of buildings; however, will likely have very little free cash flow to invest in improvements. Owners are often ill-equipped to manage the challenging behaviour of their tenants and often lose control of their buildings. Certain landlords earn extra income by turning a blind eye to prostitution and the distribution of drugs. Consequently, it will be challenging to introduce voluntary programs to landlords to upgrade their buildings.

The most successful approaches will be to offer to purchase targeted SRO hotels, or lease the properties for (say) ten years. Purchased and leased hotels would be upgraded and support services introduced, and operated until new housing is built and appropriate redevelopment opportunities occur, either for new supportive housing facilities, affordable housing or for market housing. Government, charitable donations, and private investment would fund acquisition (purchase or lease) costs, and upgrading costs.

Buildings would be upgraded to a level appropriate for ten years of operation. Over time, new purpose-built supportive housing would be built on other sites which would allow the permanent closure and redevelopment of SRO hotels.

Many of the poorest SRO hotels are operated at low occupancy levels. Landlords are often unable to control a fully occupied building and manage the problem by limiting the number of rooms rented. An immediate benefit would be the availability of upgraded rooms that are not currently available to house the street or sheltered homeless, or tenants who are temporarily displaced while an existing SRO is being upgraded.

Upgrading SRO hotels is a transition strategy that is required to deal with the immediate need of stabilizing the population. The introduction of support services and security into upgraded buildings will help to limit the drug trade and will create opportunities for individuals to become connected to community health services and treatment programs.

By itself though, it is not a long term solution.

The target for upgrading single room occupancy units is 500 rooms of acceptable, well managed accommodation, with necessary support services for the residents.

Improvements in quality of life and a reduction of the vulnerability to homelessness could be achieved as follows:

- (i) Introduce non-medical support and security services into targeted SRO hotels as soon as possible with the objective of stabilizing the tenant population and evicting the predators.
- (ii) Introduce the planned VCHA Team to provide case management and medical services.
- (iii) Upgrade poor and fair quality SRO hotels to meet municipal standards and health and safety codes with a combination of:
 - a. enforcement of municipal bylaws and safety codes
 - b. funding programs for compliant building owners
 - c. lease arrangements; and,
 - d. acquisition of hotels.
- (iv) As neighbourhoods stabilize and become more civil, it is expected that developers will find the acquisition and redevelopment of SRO hotels to be attractive. The City should consider requiring that redeveloped SRO hotel sites include supportive housing units, or that supportive housing units be built (with partial funding contributed by developers) elsewhere in the City as a condition of re-development.

If achieved, the availability of upgraded units and provision of support services should have an immediate impact on the homeless population and begin to improve their quality of life.

A capital and operating budget for this program is provided as part of the overall plan presented later in this report.

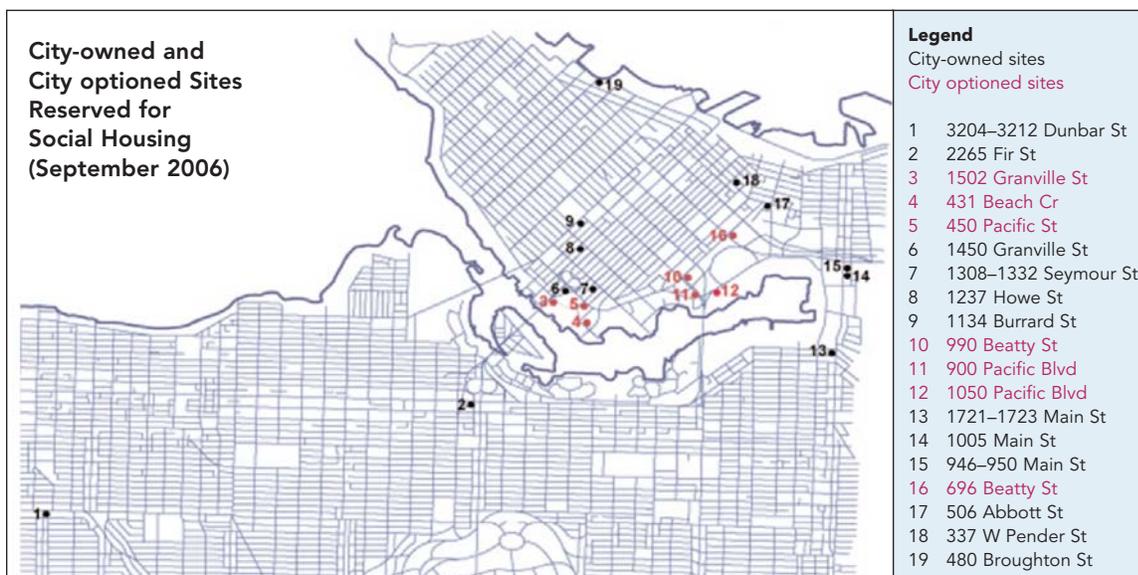
Recommendation 1. That the City endorse a target of upgrading 500 SRO hotel rooms and providing incremental tenant support services to meet the needs of residents, and committing to work with other agencies to achieve that target, with funding sources described in this report.

Development of New Supportive Housing

The capital and operating costs of new supportive housing units considered in this report have been based on an analysis of the potential to develop new, purpose-built supportive housing units (about 1,500 units) on sites currently owned by the City and by VCHA. Additional sites may be obtained through donation or purchase, but have not been considered at this point. If the funding model and possible bylaw changes proposed in this report are successful, it is likely that additional sites may be obtained. When and if such sites are obtained, they could be developed at similar costs to the sites that have been analyzed.

The City owns 12 sites and has seven sites under option for purchase. The seven optioned sites are not considered in this report as they are more suitable for development of subsidized affordable housing rather than supportive housing. Figure 4 illustrates the location of the City sites. The VCHA sites are located on Hastings Street in the DTES.

FIGURE 4. Location of City Sites



The lot sizes, zoning and surrounding neighbourhoods have been examined for each of the 12 City-owned and the VCHA sites. A preliminary estimate of the number and type of units that could be constructed on each site has been made. The timing of the development permit process, construction permits, construction schedule and commissioning has been estimated for each site. A summary of the overall site assessment is found in Appendix A. Based on the assessment and as summarized in Table 3, the sites will support purpose-built buildings to house about 1,460 tenants.

TABLE 3. Tenant Mix

	Total	Low Barrier	Moderate Barrier	Mental Health & Addictions Treatment
New Units	1,460	360	765	335

The City has not yet committed to the development of supportive housing on all of these sites. As an example, the City has made no decision regarding the use of sites at 16th and Dunbar, and at 7th and Fir. The use of these sites will be decided after the completion of the City's Supportive Housing Strategy report. The finalization of that report is subject to ongoing public consultation. The Supportive Housing Strategy report contemplates the need to develop purpose-built supportive housing on 10 sites located outside of the inner city. The total cost per unit of supportive housing developments located outside of the inner city will be similar to the costs of those built in the inner city. Hence, while the costs cited in this report are based upon the use of sites currently owned by the City, additional sites will likely be acquired by the City and used for supportive housing throughout the City.

The City has advised that there is an opportunity to develop supportive housing projects on two or three City sites with the cooperation of Olympic sponsors that will require housing for employees during and after the 2010 Olympics. The rental payments by the sponsors will exceed the cost of amortization and operation to the extent that \$3-4 million per building can be contributed to the cost of construction. For six months prior to the Olympics and during the event, these units will be utilized by the sponsors. Post 2010, they will transition to supportive housing. This is a one-time opportunity arising from the Olympics, requiring rapid decisions and expedited development processes. This initiative could be rolled into the program described in this report.

With sufficient funding, the certainty of developing supportive housing located on sites currently owned by the City and VCHA is high. There will be challenges associated with the integration of the developments into certain neighbourhoods. If upgrading of SRO hotels is less successful than anticipated, then additional sites should be acquired by the City.

There are additional opportunities to house individuals with a mental illness or an addiction who are engaged in treatment programs in market rental housing dispersed throughout the City. This is a current practice of VCHA and they forecast over the next ten years 1,100 supported housing spaces for tenants receiving mental health and addiction treatment. These individuals would move into dispersed suites with rent supplements being paid to landlords.

The tenants would be supported via the external delivery (no on-site support services) of both non-medical and medical support services. Given the very low vacancy rates in the City, it will be difficult for this approach to be effective in the short term unless vacancy rates increase. Similar strategies have been successfully implemented in large American cities, including New York, Philadelphia and San Francisco. The strategy is important as it requires and promotes tenant independence and can result in effective integration of tenants into society's mainstream. Support service costs can be higher given that tenants are dispersed. This is offset, however, in that units effectively become a variable cost and can be transitioned back into the market housing if no longer required.

BC Housing is working to identify and upgrade suites located in their non-market housing buildings to supportive housing. BC Housing estimates that there may be up to 400 suites made available over the next ten years for supportive housing. The suites will become available primarily as a consequence of elderly tenants becoming frail and moving into assisted living facilities.

These strategies to accommodate individuals throughout the market and non-profit housing are expected to deliver about 1,500 units. The development of the City and VCHA sites and the upgrading of SRO hotels proposed in this report are expected to deliver 2,000 units. Given the uncertainty around realizing these estimates, a reasonable target would be the creation 3,000 new units of supportive housing over the next ten years.

This report does not account for the upgrading and support costs associated with BC Housing or VCHA targets. Each of BC Housing and BCHA will require new funding from the Province to reach their targets. The development, capital, operating and maintenance and support costs for 1,500 new, purpose built units and 500 upgraded SRO hotel rooms are provided later in this report. As part of the funding to achieve the construction and operation of these units, this report proposes that the City commit to providing housing sites at no cost, and forgive taxation on the new, purpose built units.

Recommendation 2. That the City endorse a target of the construction of 1,500 new supportive housing units, and subject to the Province's commitment to provision of operating costs and the costs of support services, that the City commit to provide sites at no cost, forgive taxes on these units, and commit to work with other agencies to achieve that target.

Location of Supportive Housing

The City Homeless Action Plan and the City's draft Supportive Housing Strategy report include a dispersal strategy for supportive housing and seeks to locate supportive housing in neighbourhoods throughout the city. Housing for low barrier tenants cannot be practically located in other than inner city neighbourhoods. Low barrier tenants can exhibit disruptive

behaviour and are not required to have committed to treatment programs as a condition of housing. Mental health and addiction treatment clients are already living and receiving supports in neighbourhoods throughout the City and are more likely to successfully integrate within residential and mixed commercial-residential neighbourhoods. It is, however, much more challenging to develop supportive housing in neighbourhoods that are not accustomed to embracing the needs of a diverse population.

The City will continue to acquire sites for supportive housing and will target appropriately zoned sites located throughout the City. The development of additional supportive housing is currently driven by the significant efforts of non-profit organizations that operate in the City. They will continue to work with the City, VCHA and BC Housing to identify opportunities to improve existing operations and identify opportunities for new developments.

The ongoing effort to house the homeless and to bring stability to the lives of those living in deplorable conditions in the DTES is also being driven at a regional level. While it is absolutely critical for the City to take aggressive action, it is equally important for other cities in the region to act assertively to resolve the challenge. There are other neighbourhoods in the region that are troubled with homelessness and drug related problems and that require supportive housing investments.

The Riverview Hospital site will be redeveloped and it is important that the redeveloped site include supportive housing as well as facilities designed to accommodate individuals with very significant mental health and addiction issues.

Scale of Supportive Housing Developments

The size of supportive housing buildings is constrained primarily by the ability to effectively support tenants and to create a sense of community. Smaller clusters of tenants are more effectively supported, whereas, there are economies of scale associated with the provision of on-site supports to larger sites.

While low barrier tenants present housing challenges, experienced non-profit housing operators believe that buildings that house a maximum of 90 low barrier tenants are acceptable. Mixed buildings (mixes of mental health tenants with moderate barrier tenants or addiction treatment tenants with moderate barrier tenants) should also be limited to 90 units, with mental health or addiction treatment clusters of a maximum of 30 units.

On-site support staff will dedicate the majority of their time to treatment tenants and will also provide support to moderate low barrier tenants with serious medical conditions and permanent disabilities. The mixed buildings may also house small numbers of low income urban singles who can live without supports. It is important to ensure that the behaviour of tenants in the mixed buildings is not disruptive and is consistent with the delivery of effective treatment programs.

Tenants in addiction treatment programs are more likely to progress through various stages of recovery and over time will require less intensive or no on-site supports. These individuals may choose to remain in the building and live in suites that become available outside of the cluster of treatment suites. Alternatively, they may transition to other housing.

The majority of the City owned sites are zoned to require retail or are large enough to support retail in addition to the rental suites. Each building will include amenities space for delivery of on-site support programming and outreach Teams, and kitchens for food services.

Bylaw Changes and Enforcement

Suite Size and Configuration

Suite size is an important design consideration for supportive housing. Self-contained suites need to be large enough to provide space for sleeping, storage of personal effects and contain private bathrooms and cooking facilities. The current Single Residential Accommodation (“SRA”) bylaw requires that suites be a minimum of 320 square feet. The City, in producing the DTES Housing Plan, undertook an analysis of various suite sizes and layouts. The analysis concluded that the minimum size of suite is 275 square feet. Optimal sizing is constrained by the minimum square footage to accommodate the required suite functionality and the efficiency of the common building space required for hallways, elevators and stairwells. While suites as small as 200 square feet can support the required functionality, smaller suites reduce the building efficiency by increasing the amount of common space required to access the increased number of suites per building.

Members of the development community suggested that designs incorporating “pods” of three to five bedroom units with shared kitchen facilities may be appropriate for some residents. Where appropriate this configuration is worthy of consideration as it could result in relatively high efficiencies and reduce construction costs per unit.

The high cost of land and construction, in the face of constrained funding, requires that every effort be made to ensure that an optimal suite size and configuration be established.

Additional work sponsored by BC Housing is underway to confirm the optimal suite size. The capital and operating costs in this report are based on recently completed supportive housing projects and projects that are under development. They may be reduced on a per suite basis if a smaller suite size or alternative configurations are found to be appropriate.

Recommendation 3. That the City consider bylaw revisions

- a) to establish an appropriate supportive housing unit size providing the required functionality while minimizing construction costs; and
- b) subject to confirmation from non-profit operators, establishment of alternate configurations combining multiple residential units with common kitchen facilities.

Zoning for Mixed Income Communities

The City has a long-standing policy of establishing mixed income communities through zoning requirements for the construction of affordable housing in major developments. This policy has been successful in older developments in south False Creek and elsewhere, when well-funded federal and provincial programs were in place for affordable housing. However, it cannot be implemented successfully in the absence of those senior government programs. For example, seven sites created through this mechanism in the Concord development have been vacant for some time. Holding vacant land for a lengthy period in the absence of senior government housing programs is questionable economically, and the objective of mixed communities will not result without development of those sites.

Council may wish to consider alternative approaches to major re-zonings which require equivalent value contributions from developers, but permit development of other housing forms within the development or adjacent areas. Existing sites could be considered for sale, or alternative forms of development with provincial support (if available), such as allowing for some sites for market rental. Given the priority for supportive housing, removal of the affordable housing restriction on those sites for an appropriate payment might be a mechanism for obtaining funds for supportive housing or other housing priorities.

Recommendation 4. That the City consider an alternative approach to creation of mixed income communities in major rezonings that would require equivalent value contributions from developers for alternate forms of housing either within the site to be rezoned or in other areas, and consider the conversion of existing reserved sites with an appropriate payment by the developer, and application of the funds received to other housing priorities.

“Within Development” Economic Tradeoffs

While not specifically included in the mandate of this work, some members of the development community expressed strong support for district zoning that provided for internal trade-offs within a project. In exchange for incremental density and height relaxations, developers would commit to provide market rental housing within a development. A refinement of this approach applicable even to small developments could provide for individual units to be leased (or rented at an appropriate rate) to VCHA for individuals in mental illness and addiction treatment programs, as described earlier in this report. Specific arrangements would require appropriate economic analyses to ensure the internal trade-off provides full public benefits, but to the extent it could be formula driven within a zoning district rather than require site by site relaxation, this approach could expedite the development of incremental market rental and individual supportive housing units significantly.

Recommendation 5. That the City consider the creation of zoning districts that establish the opportunity for internal economic trade-offs within a development by provision of incremental density and height in exchange for market rental units or individual supportive housing units.

Bylaw Enforcement

As noted earlier, the City is presently severely constrained in its enforcement of the its bylaws due to the absence of alternative housing for current tenants. If the program proposed in this report is implemented successfully, and 500 SRO hotel rooms are upgraded and 1,500 new units are constructed, additional housing capacity will have been created. As the program progresses, the City should consider an aggressive program of enforcement to ensure that all SRO hotels and existing non-market accommodation is appropriately operated to provide reasonable living conditions for tenants.

Recommendation 6. That if this program (or any alternate program) is successfully implemented and provides additional housing for individuals requiring supportive housing, the City consider undertaking aggressive enforcement to ensure all SRO hotels and non-market accommodations are operating in a manner that meets bylaw requirements.

Civility Programs

Evidence from other communities (“Broken Windows” programs) suggests that attention to matters such as street cleaning, graffiti removal, and other general maintenance on public and private property has a positive impact on the visible presence of drug trafficking and the activities of homeless people. The City has undertaken a trial program of enhanced street cleaning in the DTES.

Continued attention to these issues in the DTES in cooperation with community groups would complement the upgrading of SRO hotels and the provision of enhanced support services for tenants.

Recommendation 7. That the City consider implementing supplemental street cleaning and property maintenance activities on an ongoing basis in the Downtown Eastside, in conjunction with community organizations, as a complement to upgrading of SRO hotels, construction of new supportive housing, and provision of increased support services.

Intake Monitoring and Management

Concern is occasionally expressed that individuals requiring intensive supports will be drawn to Vancouver if good housing and services are provided, and that the community presence of homeless people problem will continue. While the information available on homeless people does not suggest this is currently the case, monitoring of this issue would be appropriate, and if necessary, intake management should be implemented to ensure that the availability of services in Vancouver does not result in referrals from outside the City, or independent travel to the City by individuals.

The information maintained within the welfare system, and resident information systems in place or under development by BC Housing and non-profit operators should provide the necessary information to monitor this potential problem, and if necessary, the creation of a coordinated intake management system.

New Organization and Funding Model

Overview

The proper development and operation of supportive housing faces multiple challenges. New funding for the purchase/lease and renovation of SRO hotels and for the construction of new supportive housing units is required. Adequate operating funding to provide capable management and necessary support services is equally critical. Ideally, funding will be made available to test and implement alternative models for construction and support, which may provide efficiencies and operating benefits. Further, it would be desirable to create a credible vehicle to link the various agencies involved in the provision of supportive housing and services to pursue service delivery and programs that would benefit tenants, such as training and work placement programs and “civility” programs. Finally, it will be important to obtain broad community involvement and support for these programs to ensure their effectiveness and longevity.

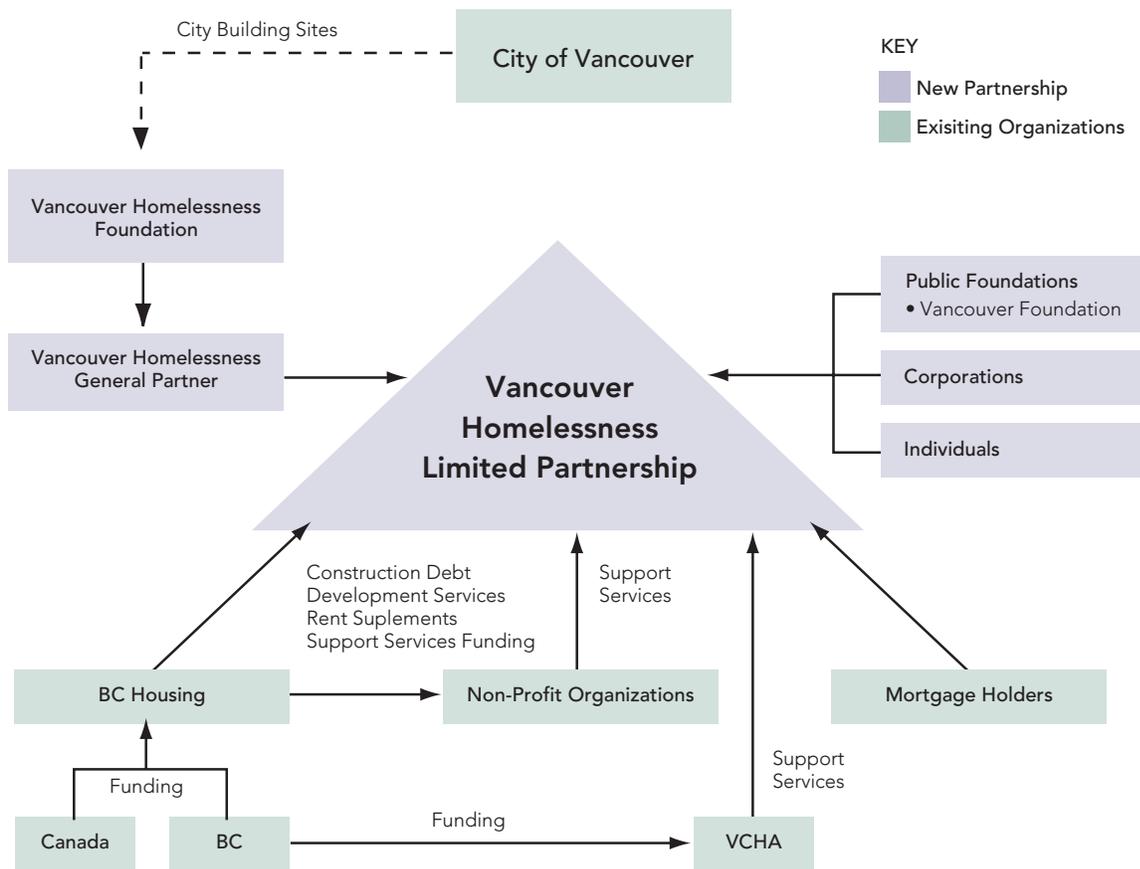
This report proposes to address these objectives through the creation of two new organizations. The first is a limited partnership to provide a vehicle for corporate and individual investment, and mission-based investments by charitable foundations for the construction and operation of supportive housing. This organization, discussed below, will be managed by a professional board to ensure that investors and donors can be confident their contribution is being used effectively to provide supportive housing. With appropriate and highly targeted tax benefits, it would provide an attractive donation opportunity as well as an appropriate vehicle for long term mission-based investments by charitable foundations and individuals prepared to make a low risk investment with social benefits.

The second organization is a new charitable foundation, closely linked with but legally separate from the Vancouver Foundation. This new organization would provide for board representation appointed by governments, the Vancouver Foundation, and community

interests. It would own shares in the general partner of the limited partnership. It would undertake fundraising for augmented support services delivery and related programs to address homelessness. The Vancouver Foundation would provide “back office” support for a fee.

Figure 5 provides an overview of the proposed organizational model. The following sections describe the roles of the agencies.

FIGURE 5. New Funding Model



Vancouver Homelessness Partnership

Rationale and Structure

A limited partnership provides a suitable legal structure for attracting new private and philanthropic investment in supportive housing. A limited partnership has two important features:

- liability of limited partners is limited to their investment; and,
- a limited partnership does not pay income tax as does a corporation; rather, income tax obligations flow through to the investors.

Limited partnerships issue partnership units that provide unit holders with the right to receive pro rata shares of cash flow generated by the partnership. The flow-through tax status of limited partnerships is attractive to investors that do not pay taxes, including societies registered as charities and pension funds. Individual and corporate investors also acquire partnership units as they provide tax structuring flexibility.

Governance of a limited partnership is an important element. The management of a limited partnership is the responsibility of a general partner. The general partner's board of directors has clear governance responsibilities and is required to act in the interest of the partnership. These interests are detailed in a legally binding Limited Partnership Agreement ("LPA"), which defines all aspects of a partnership's business, including:

- purpose and objectives;
- governance;
- requirements and terms and conditions of issuance and re-purchase of limited partnership units;
- qualified investments;
- development, construction and operational activities;
- organizational structure;
- capital and operating budget requirements and standards;
- accounting and reporting standards;
- actions the general partner may take without approval of the limited partnership unit holders; and,
- other appropriate conditions.

As a consequence of the comprehensive nature of the LPA, and the unit holders' right to name a majority of the directors of the general partner, there would be no ambiguity associated with the strategic direction and discretion of the management of the partnership, providing assurance to investors.

The shares of the Vancouver Homelessness General Partner would be owned 70% by the unit holders and 30% by the Vancouver Homelessness Foundation. The shares owned by unit holders of Vancouver Homelessness Limited Partnership (the "Partnership") would be held in trust by a trustee, who would vote on behalf of such unit holders in accordance with a trust agreement. Directors would be appointed by each of the Foundation and the Trustee.

It is proposed that the Partnership units be structured to appeal to:

- Individuals and corporations seeking tax-assisted investments and philanthropic opportunities; and,
- Charitable foundations seeking mission-based investments.

Charitable public foundations invest their endowed capital in order to generate income that is then donated to specific endeavours. Public foundations are permitted by law to hold partnership units that relate to their charitable objectives. Foundations are risk-averse and are constantly seeking to maximize returns in low risk investment opportunities. An investment in a very low risk structure that is solely focused on the development and operations of supportive housing and that is secured by rental revenue from the Province might be attractive to public foundations. In particular, public foundations that as part of their mission target donations to activities that address the needs of the homeless might find the Partnership to be an attractive mission-based investment - that is, they receive an acceptable rate of interest while achieving charitable objectives.

Private foundations may also be targeted as potential investors. Private foundations are currently prohibited from holding limited partnership units; nevertheless, given the social purpose of the partnership, it would be reasonable to seek exemptions from the federal restrictions on participation by private foundations. An exemption, narrowly defined and specifically targeted to an investment in a supportive housing limited partnership, should be attractive to governments seeking to attract new, low cost capital to address homelessness.

Only a few individuals and corporations may be attracted to holding Partnership units if the units only generated debt-like returns. To enhance the low cash returns, certain specific tax rulings and changes to tax regulations would permit the partnership to generate rental income losses.

In addition to providing a cash yield and an allocation of rental income losses, the units could be structured to provide an attractive philanthropic opportunity. The rental income losses would be expected to decline to zero within the first ten years of the operation of the Partnership (assuming the Partnership attracted sufficient funding to allow all of the City and VCHA sites to be developed over a five year period). When the rental income losses were exhausted, unit holders could exercise an option to donate their units to the Vancouver Homelessness Foundation. (see Appendix B for a detailed discussion).

The donation of the units, combined with the prior years of cash yields and tax losses would result in a low after tax cost to a donor, as shown below in Table 4.

TABLE 4. Cost of Philanthropy

Equity Cost per \$1,000	PER \$1,000	
	PV @ 5.5%	Nominal
Contributions	\$ (881)	\$ (1,000)
Distributions	114	168
Tax losses	315	429
Donation tax benefit	198	320
Total returns	626	917
Net return (cost)	\$ (255)	\$ (83)
Net return (cost)/ contribution	28.9%	8.3%

The cost to a donor under the proposed model would be significantly lower than a conventional charitable donation.

Role of the Partnership

As described above, the primary role of the Partnership is to raise investment funds. Beyond that, however, the Partnership would play a number of important roles, working with other agencies:

- Work with BC Housing to investigate alternative construction methodologies, such as multiple building contracts to obtain efficiencies;
- Work with non-profit organizations to aggregate contracts for building operating and maintenance services;
- Work with the Vancouver Homelessness Foundation to integrate programs that provide training and employment opportunities in supportive housing operating and maintenance services; and
- Obtain business community support for appropriate tax regulation changes and local government supports (exemption from taxes) and necessary funding levels from senior governments to enhance supportive housing.

Business Plan – Partnership

A clear business plan for implementation of the Partnership will be necessary to ensure smooth implementation and, equally important, to ensure that additional management costs are reasonable and supportable in the context of the work plan. Appendix C sets out a high level summary of a business plan, including a first year operating budget. Management costs of the Partnership would be funded by investors and charitable grants.

Tax Changes

Changes in tax regulations are necessary to provide the full benefit from the proposed Partnership. These changes would be tightly targeted to supportive housing to avoid tax leakage. The Province, as an integral partner in the funding process through BC Housing, would certify that a project qualifies as supportive housing in order to become part of the

Partnership investment portfolio and thus eligible for the intended tax structure. Given the importance of the issue to communities across Canada, and the tightly targeted nature of the change, it is reasonable (but not certain) to expect support for these changes from the federal government.

Four specific tax changes would be desirable:

- allocation of rent subsidies received by the Partnership from the Province so as to create rental income losses that would be allocated to unit holders (Canada Revenue Agency ruling required);
- a change in regulations (Order in Council required) to permit the application of the rental income losses would be deducted against other taxable income earned by unit holders;
- a change in legislation to allow a unit holder in a supportive housing partnership to donate units to a charity at market value without incurring capital gains; and,
- a change in legislation to allow a private foundation to hold supportive housing limited partnership units.

Appendix B sets out the rationale and specifics of the required changes in more detail.

Vancouver Homelessness Foundation

Rationale and Structure

The other new organization, the Vancouver Homelessness Foundation, would provide a complementary capability to the Partnership and the Vancouver Foundation. Where the Vancouver Foundation has a broad interest in charitable causes, the Vancouver Homelessness Foundation would be relatively narrowly focused. Where the Partnership fulfills a commercial role, attracting investment and providing a business management model, the Foundation would be oriented to broader social issues related to the homeless and near homeless population and the related community. The Vancouver Homelessness Foundation would also undertake fundraising in the broader community, as described below.

Founding members would include the Vancouver Foundation, the City, VCHA, BC Housing, the General Partner, the Vancouver Board of Trade, a non-profit housing operator or association and a community business association. Each founding member would nominate one Director.

Role

The Vancouver Homelessness Foundation would provide a vehicle to receive donations of money and property for its purposes, and would undertake fundraising to support activities related to the delivery of housing for the homeless and support services. In particular, The Vancouver Homelessness Foundation would establish a fundraising program for homelessness with financial institutions, through which small businesses and individuals could participate in a wide spread community based program. Financial institutions would offer a “Homelessness” account or investment vehicle, the interest from which would go to the Foundation. Participating individuals or small businesses would receive tax receipts

issued by the Foundation. Alternative fundraising vehicles may also be possible. Advice from financial institutions has been requested.

The Foundation would work with the Partnership, the City, non-profit providers, and relevant provincial ministries to develop programs that would complement the provision of housing and support services, such as:

- training programs for support workers;
- counseling and support services for support workers;
- training and employment creation for residents of supportive housing;
- supplementary support services beyond those provided by governments;
- broader based community programs (such as the civility programs discussed earlier); and
- pilot programs for alternative service delivery models.

The Foundation would act as an independent facilitator helping to bring together government agencies, non-profit providers, and representatives of the local community to address issues that arise from time to time related to the delivery of supportive housing programs and to discuss further opportunities for collaboration. There may be significant opportunities to improve the efficiency of service delivery and augment services.

A contractual linkage with the Vancouver Foundation is envisaged through which the Vancouver Foundation would provide back office capabilities (record keeping, accounting and issuance of tax receipts).

Business Plan

As with the Partnership, a clear business plan for implementation of the Foundation would be necessary to ensure smooth implementation and, equally important, to ensure that additional management costs are reasonable and supportable in the context of the work plan. Appendix D sets out a high-level summary of the business plan, including a first year operating budget. Management costs of the Foundation would be funded by donations after the initial set up. Initial government and charitable funding may be required in the first year of operations. It is expected that certain founding members would contribute management and professional resources as required to support various initiatives undertaken by the Foundation. In this manner, the Foundation would not require substantial funding for consultants and would minimize its operating overheads.

Key Relationships and Operational Opportunities

The proposed strategy is predicated on building on the existing strengths of the supportive housing delivery mechanisms, not replacing them. The Province, through BC Housing, VCHA, and provincial ministries provides key services and funding; the City plays a key role in the provision of housing sites and processing of permit applications, as well as enforcing operating standards on SRO hotels; non-profit organizations play an important role in development of sites and operations, and most importantly with the delivery of support services to tenants.

As described in this report, the Partnership would work with BC Housing and non-profit organizations to develop sites, construct and finance supportive housing. The Partnership and BC Housing would work with the City to support the development and construction permitting processes to ensure that these important social developments are processed in a timely manner.

As a consequence of the expanded delivery of supportive housing, the Province must be prepared to expand the provision of rent subsidies and funding for support services. This would include a significant financial commitment. While the City now contributes land on a lease basis, it would be reasonable to expect the City to donate land to the Foundation, and to expect the City and GVRD to work together to exempt new supportive housing developments from local taxes. The City may also find new opportunities within its regulation of development to create sites and funding opportunities for supportive housing as outlined earlier. In these ways the provision of housing and supports can be expanded.

All parties need to work together to create the most effective vehicles for delivery of housing and support services. The Vancouver Homelessness Foundation may be an appropriate vehicle to fund trial models for support service delivery and to undertake formal evaluation of the effectiveness of program delivery. Both federal and provincial health agencies may also have an interest in formal evaluation programs. While the two new organizations can fit effectively into the present delivery models, it is in the interest of all agencies to establish collaborative work to ensure efficient and effective operations.

Financial Implications of the Proposal

As outlined above, the proposed strategy sets out to implement the City's supportive housing objectives described in its Homelessness Action Plan and DTES Housing Plan. In addition to the 200 supportive housing units currently under development, the strategy proposes renovation of 500 SRO hotel rooms and provision of related support services, and construction of an additional 1,500 new supportive housing units over a period of five years.

The new Foundation and the Limited Partnership introduce new costs in the system, and the proposed tax changes reduce tax revenue to governments. These incremental costs are only justified to the extent these new vehicles enhance the system for delivering supportive housing. The benefits justifying these costs are as follows:

- they are a vehicle for broad and ongoing community involvement and support;
- if implemented as envisaged, they provide an opportunity for broad fundraising and in the longer term, donation of partnership units for financing of supportive housing, all of which will be reinvested in supportive housing and/or the agencies delivering related services;
- they are independent agencies that can facilitate coordination to help ensure that the delivery systems for units and services are as efficient as possible; and
- they are well positioned to facilitate across the broader range of interested government and non-profit agencies.

There are a number of uncertainties related to implementation of this strategy including the extent to which additional charitable donations and private investment are obtained; available funding from federal programs; and implementation timing on a year by year basis. To provide an estimate of the financial implications of the strategy, assumptions on timing and funding are required. Table 5 below describes the investment plan and describes the sources of funding; Table 6 shows the financial contributions expected/necessary from the Province and City. These figures have been developed for the purpose of scoping and assessing the proposal, and will change with program size, implementation timing, construction costs, and inflation. If implemented, the program will be managed on an ongoing basis, with more precise plans and estimates.

TABLE 5. Investment Plan

In millions of dollars

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SRO Hotel Rooms	—	540	—	—	—	—	—	—	—	—	—
New Purpose-built Units	—	—	—	180	490	550	240	—	—	—	—
Total	—	540	540	720	1,210	1,760	2,000	2,000	2,000	2,000	2,000
Capital Cost SRO	\$ 12.1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Capital Cost New	5.9	32.2	83.3	86.3	48.5	12.2	—	—	—	—	—
Land Costs New	15.1	23.6	11.3	—	—	—	—	—	—	—	—
Limited Partnership Setup Costs	0.5	—	—	—	—	—	—	—	—	—	—
Total Capital Cost	33.6	55.8	94.6	86.3	48.5	12.2	—	—	—	—	—
Contributions City (Land)	15.1	23.6	11.3	—	—	—	—	—	—	—	—
Construction Debt	13.3	24.0	61.6	62.7	34.5	8.5	—	—	—	—	—
Equity Investment	5.2	8.2	21.7	23.6	14.0	3.7	—	—	—	—	—
Total Capital Funding	\$ 33.6	\$ 55.8	\$ 94.6	\$ 86.3	\$ 48.5	\$ 12.2	\$ —	\$ —	\$ —	\$ —	\$ —

TABLE 6. Annual Cost and Funding Plan

In millions of dollars

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Suite Operating Costs	\$ —	\$ 2.3	\$ 2.6	\$ 3.2	\$ 4.7	\$ 6.6	\$ 7.6	\$ 7.9	\$ 8.0	\$ 8.2	\$ 8.3
Limited Partnership Operating Costs	—	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Mortgage Payments	—	1.2	1.2	2.5	6.1	10.2	13.9	13.9	13.9	13.9	13.9
Equity Distributions ⁽¹⁾	—	—	—	—	—	0.5	3.0	2.8	2.8	2.7	—
Non-medical Support Services	—	7.8	8.9	10.5	16.7	21.4	23.3	23.8	24.2	24.7	25.2
Medical Support Services	—	2.3	2.3	3.0	5.4	7.7	8.7	8.9	9.1	9.3	9.5
Total Annual Costs	—	13.9	15.3	19.5	33.2	46.7	56.8	57.6	58.3	59.2	57.3
Shelter Allowance ⁽²⁾	—	2.3	2.3	3.1	5.2	7.5	8.6	8.6	8.6	8.6	8.6
Rent Subsidies ⁽³⁾⁽⁴⁾	—	1.5	1.8	2.8	5.4	9.2	15.1	15.2	15.3	15.5	12.9
Property Tax Forgiveness ⁽⁵⁾	—	—	—	0.1	0.5	0.9	1.1	1.1	1.1	1.1	1.1
Support Services Funding	—	10.1	11.2	13.5	22.2	29.1	32.0	32.7	33.3	34.0	34.7
Total Annual Funding	\$ —	\$ 13.9	\$ 15.3	\$ 19.5	\$ 33.2	\$ 46.7	\$ 56.8	\$ 57.6	\$ 58.3	\$ 59.2	\$ 57.3

(1) Potential donation of Limited Partnership equity units at approximately year 10

(2) Base shelter allowance as at February 2007

(3) Rent subsidies calculated to balance funding requirements

(4) Potential reduction of rent subsidies after 2016 assuming donated equity accrues to province

(5) Assumed waiver of property taxes on qualifying properties

(6) These figures assume construction and operating cost inflation of 2%

As additional units are completed (renovation or new construction), the cost of amortization, operations, and support services increases accordingly. To the extent that additional charitable contributions are obtained for construction, the total costs may be reduced.

These tables demonstrate that, relative to their financial capacities, both the City and Province will make significant contributions to addressing this problem.

Process for Implementation

Implementation of this plan requires significant commitments from the Province and the City; federal assistance in structuring tax regulation; and cooperative implementation from many agencies. The Vancouver Foundation has indicated approval in principle of this proposal, subject to the participation of the City and the Province, and further due diligence. Preliminary and informal discussions have indicated interest and support from potential investors and participants, but much additional work will have to be undertaken to obtain substantive commitments.

Commitment of Vancouver City Council is a critical first step. Assuming that Council indicates support in principle for this proposal, formal consultation with the Province, the Vancouver Foundation, non-profit groups, and the federal government will be necessary. Further detailed legal and organizational work relative to the Partnership and Foundation will also be required.

Recommendation 8. That the City support the creation of the Vancouver Homelessness Partnership and the Vancouver Homelessness Foundation, subject to:

- a) support and funding commitments from the Province for the upgrading and construction program and the provision of support services as set out in this report.
- b) support from the Province for the tax changes proposed in this report

Assuming Council approves this direction, additional consultation would be undertaken in March, as well as the necessary legal and organizational work with a view to decisions by participating agencies and the federal government as soon as possible thereafter.

Recommendation 9. That the City instruct City staff and the consultants to undertake further consultations with the Vancouver Foundation, provincial and federal officials, potential investors, and the financial community, seek support for the proposed tax changes, and undertake further legal analysis and work on organization proposals for report back in April.

Conclusion and Commentary

As noted earlier, there are currently multiple actors involved in addressing mental illness, addictions, and homelessness. Upgrading the response to these issues is important to the community and it is appropriate that the community take a leadership role in addressing them. The proposals in this report anticipate that the community, through roles in the Foundation and the Partnership, will provide that leadership. This is a substantive challenge, one that will require significant commitment.

Preliminary work undertaken by the City as described in this report has demonstrated the feasibility of the proposed approach, given community and government commitment. As noted above, it would be desirable for the City to approach senior business and community leaders to request their participation in the proposed Foundation and the Partnership. Initial funding from governments, the private sector, and the voluntary sector will be necessary during initial operations.

The Partnership and the Foundation would lead the continuing development of the business plans and implementation program, working with the various agencies and within normal governmental approval processes. Foundation and Partnership staff will have responsibility for involving a broad range of interested agencies - charitable, non-profit, government, and public interest - both in a general advisory role and to seek commitments to specific programs. Communication of the nature of this initiative will be important in maintaining broad support for its objectives and methods. The business plan must provide for the ongoing operations of both organizations.

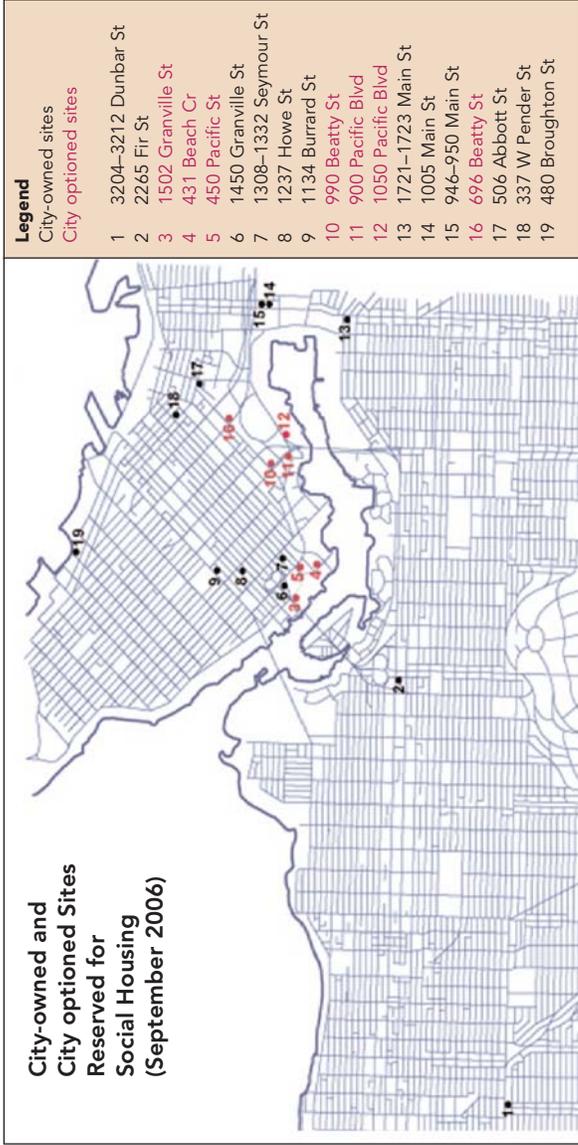
The Foundation, involved agencies, and the City must also be directly involved in consultations with the interest groups from the inner city. It is essential that those groups recognize and support the role that potentially can be played by the larger community.

Consultations during the development of this report have made it clear there is broad support for an initiative to address homelessness and the problems of the addicted and mentally ill residents of the City. The proposals in this report present the opportunity to put agencies and processes in place that will serve the interests of the homeless and the community in the long term, building both financial and social capital to address these issues. Vancouver City Council's initiative to seek long-term solutions to this issue is timely. It is noteworthy that these proposals directly support the Civil City initiative of the City, and will contribute significantly to achievement of the goals of that program.

Appendices

- A: Site Analysis
- B: Tax Consequences of Investment in the Partnership
- C: Vancouver Homelessness Limited Partnership 2007 Summary Plan
- D: Vancouver Homelessness Foundation 2007 Summary Plan

Appendix A: Site Analysis



Site Number	Location	Lot size (Sq Ft)	Zoning	MC/ILB Supported # of units	MLB Mod./Family # of units	Unit Size (Sq Ft)	Other Revenue	Start Date	Pre-Applic (Months)	Dev. Permit (Months)	Approval Date	Dwgs, Tender Permits	Construction (Months)	Completion Date
7	1308-1332 Seymour St	11,948	DD	30	60	350	N	2007-Jan	6	4	2007-Oct	4	18	2009-Aug
14	1005 Station St	12,486	FC-1	30	60	350	Y,R	2007-Jan	6	4	2007-Oct	4	18	2009-Aug
18	337 W Pender St	9,365	DD	90	0	350	Y,R	2007-Jan	12	4	2008-May	4	18	2010-Mar
2	2265 Fir St	11,388	C-3A	30	50	350	Y,R	2007-July	6	4	2008-May	4	18	2010-Mar
1	VCHA-Gore & Hastings	?	?	90	0	350	Y,R	2007-July	6	4	2008-May	4	18	2010-Mar
1	3204-3212 Dunbar St	13,121	C-2	25	25	350	Y,R	2008-Jan	6	4	2008-Oct	4	14	2010-Apr
8	VCHA-Columbia & Hast.	?	?	90	0	350	Y,R	2007-July	12	4	2008-Dec	4	18	2010-Nov
8	1237 Howe St	8,988	DD	30	60	350	N	2008-Jan	6	4	2008-Oct	4	18	2010-Aug
	Other	?	?	90	0	350	N	2008-Jan	12	4	2009-May	4	18	2011-Mar
9	1134 Burrard St	11,958	DD	30	60	350	Y,R	2008-July	6	4	2009-May	4	18	2011-Mar
17	505 Abbott St	17,104	CD-1 (265)	40	80	325	Y,R	2008-July	6	4	2009-May	4	18	2011-Mar
6	1450 Granville St	62,173	CD-1(366)	30	130	350 & 1100	N	2008-July	6	4	2009-May	4	24	2011-Aug
13	1721-1723 Main St	12,066	M-2	30	60	350	Y,R	2009-Jan	6	4	2009-Oct	4	18	2011-Aug
15A	946-950 Main St	4,973	FC-1	30	60	350	Y,R	2009-Jan	12	4	2010-May	4	18	2012-Mar
11	900 Pacific Blvd	16,404	CD-(324)	30	120	350	Y,R	2009-Jan	12	4	2010-May	4	24	2012-Sept
15	Totals	1460		695	765									
360	Intense Low Barrier													
335	Multiply Challenged													
765	Moderate Low Barrier/Family													
1460	Total													

ILB = Intense Low Barrier Tenants
 MC = Multiply Challenged Tenants (Mental Health and/or Addictions Treatment)
 MLB = Moderate Low Barrier Tenants

Appendix B: Tax Consequences of Investment in the Partnership

The following describes the anticipated tax consequences of an investment in units of the Partnership.

Certain tax consequences described below will require either:

1. Agreement of the Canada Revenue Agency (“CRA”), which could be confirmed by receipt of an advance tax ruling from CRA;
2. Amendments to regulations to the Income Tax Act (the “Act”), which would require an order by the Governor-General in Council; or
3. Amendments to the Act, which would require passage of amending legislation by Parliament.

Each particular tax consequence that would require such agreement or amendment is described, as is the nature of such agreement or amendment.

Two descriptions follow: first, a description of the taxation of the Partnership itself - that is, the taxation of the partnership; second, a description of the taxation of a limited partner in the Partnership who, or which in the case of a limited partner that is a corporation, acquires units of the Partnership. These descriptions focus on the income tax consequences under the Act. They do not describe Provincial Sales Tax, Goods and Services Tax or property tax considerations. To the extent payable and unrecoverable by the Partnership, such taxes are considered to be operating costs.

Taxation of the Partnership

The taxable income of the Partnership for a taxation year would be the rent including Rental Subsidies received by the Partnership less (a) operating expenses, (b) depreciation for tax purposes, known as capital cost allowance (“CCA”), claimed in respect of the buildings owned by the Partnership and (c) the interest expense incurred on debt (including mortgages) used to construct and finance the buildings.

Rent would include Rental Subsidies received by the Partnership from the Province of British Columbia (“the Province”) but would exclude Capital Supplements received by the Partnership. Interest expense and operating expenses would be deductible in computing taxable income under the Act.

The income tax treatment of building costs is more complex. Building costs incurred during the construction period including interest expense would not be deducted in computing the Partnership’s taxable income when incurred but would be added to the cost of the building for income tax purposes. Capital cost allowance (“CCA”) which is the name given to tax depreciation would be deductible based on the cost of the building at a rate of 4% per annum on the undepreciated capital cost (“UCC”) of the building – UCC being the cost of the building less CCA claimed in preceding taxation years. In the year that the building is

completed the allowable CCA rate would be 2%. CCA would not be deductible prior to completion of the building.

A Capital Supplement received by the Partnership would reduce the UCC of the building in the year that the Capital Supplement is received. If the UCC of the building becomes a negative amount as a result of the receipt of Capital Supplements then such negative amount will be included in the income of the Partnership. A request for an advance tax ruling would be made to CRA to confirm the foregoing treatment of Capital Supplements - that their receipt would not be included in the income of the Partnership and would reduce UCC of the building.

Normally, an improvement to a leased property such as a site leased by the Partnership would be classified for CCA purposes as a leasehold improvement of the Partnership. However, a special rule provides that a building constructed on leased land would be treated as a building for CCA purposes as previously described.

Under the current Regulations to the Act, the amount of CCA that the Partnership could claim in respect of a building would be limited to the income of the Partnership before claiming CCA but after deducting operating expenses and interest expense. Thus, for example, if operating expenses and interest expense exceeded rental income then no CCA would be deductible by the Partnership. The federal government would be approached to change the Regulations to the Act to permit the deduction of CCA to create or increase tax losses in respect of buildings that are certified supportive housing. In the late 1970s and early 1980s, buildings certified as “multiple unit residential buildings” or “MURBs” were exempted from the prohibition on creating or increasing tax losses by deducting CCA. Essentially, a request to the federal government would be made to re-institute a similar certification program but only in the case of supportive housing buildings. The MURB certification process was administered by CMHC. The supportive housing certification program could be administered by provincial governments. The foregoing change to the Regulations to the Act could be accomplished by an order of the Governor-General in Council and would not require that an amendment to the Act be passed by Parliament.

A Limited Partner of the Partnership

A person – an individual or a corporation – that acquires an interest in the Partnership by purchasing units from the Partnership would be required to include the amount of taxable income allocated to the person by the Partnership in computing taxable income of the person. Similarly, losses of the Partnership allocated to the person would be deducted in computing taxable income. The Partnership would allocate its taxable income or loss to its limited partners pro rata based on the number of units owned by each limited partner. The amount of income or loss that would be allocated to and reported by the partner would not depend on the amount of cash distributed to the partner by the Partnership.

The adjusted cost base (“ACB”) of the partner’s interest in the Partnership is the base from which gains or losses in respect of a disposition of the partner’s interest in the Partnership

would be measured. The ACB of the interest in the Partnership at a particular time would be equal to the amount by which the sum of the amount of cash contributed to the Partnership by the partner and income allocated to the partner by the Partnership before that time exceeds the sum of the amount of cash distributed by the Partnership to the partner and losses (other than limited partnership losses as described below) allocated to the partner before that time. Because the partner would be a limited partner, the so-called “at-risk” rules of the Act would apply in respect of the interest in the Partnership. These rules mean that a partner would be permitted to deduct losses only to the extent of the partner’s ACB. Such losses, known as limited partnership losses, may be carried forward indefinitely and used if, as a result of capital contributions or allocations of income, the partner’s ACB becomes positive.

A partner would realize a capital gain if the ACB of the interest in the Partnership becomes a “negative” amount at a year-end of the Partnership as a consequence of cash distributions from the Partnership exceeding the ACB of the Partnership interest before such distributions. One-half of such capital gain would be included in the taxable income of the partner.

If the partner were to dispose of the interest in the Partnership then a capital gain equal to the amount by which the proceeds of disposition exceed the ACB would be realized. Generally, as previously described, one-half of the capital gain would be included in the income of the partner. However, if the disposition is a sale of the interest to a person who is exempt from tax under the Act, such as the City or the Vancouver Homelessness Foundation, then the full amount of the capital gain would be included in the partner’s income.

If the partner were to donate the interest in the Partnership to the City or the Vancouver Homelessness Foundation then, under the rules contained in the Act currently, the partner would be deemed to receive proceeds of disposition equal to the fair market value of the donated interest. As described in the preceding paragraph, the full amount of the capital gain arising from disposition of the Partnership interest on the donation would be included in the partner’s income. The Act contains provisions that deem the amount of a capital gain arising on the donation of publicly traded securities, units of mutual funds or certain “ecological gifts” to qualified donees to be zero. A qualified donee includes a registered charity such as the Vancouver Homelessness Foundation or a municipality such as the City. The federal government would be approached to extend this treatment to donation of interests in a certified supportive housing entity (a “CSHE”). A CSHE would be an entity which is a trust, corporation or partnership, all or substantially all of the property of which is used to provide supportive housing in Canada. The certification process could be undertaken by the same government or government agency that would provide certification of buildings as certified supportive housing as described previously. Based on the foregoing criteria, the Partnership would be a CSHE. This amendment to the Act would need to be passed by an act of Parliament. If such an amendment is enacted the Partnership should be a CSHE and no capital gain would be realized by a partner on a donation of an interest in the Partnership to the City or the Vancouver Homelessness Foundation. Therefore, the taxable income of the partner would not increase as a result of the donation.

A donation of an interest in the Partnership to the City or to the Vancouver Homelessness Foundation would entitle the donor partner to either an income tax credit, if the donor partner is an individual, or a tax deduction, if the donor partner is a corporation.

Where the donor partner is an individual, the donor partner would be entitled to claim a tax credit for federal and provincial tax purposes to reduce tax otherwise payable. The amount of the tax credit would be equal to the product of the fair market value of the donated interest in the Partnership and the highest marginal tax rate applicable to an individual in the year of the donation. Based on current federal and BC income tax rates, the current applicable marginal tax rate is 43.7% for individuals resident in BC. Generally, in any taxation year, the amount of gifts including a donation of an interest in the Partnership made in a year or a preceding year eligible for this tax credit treatment is limited to 75% of the donor's income for that year. Any gifts not eligible for the tax credit in the year of donation because of this income limitation may be carried forward for credit against taxes payable in any of the five subsequent taxation years - again, subject to the 75% of income limitation in each of those years. The 75% of income limitation does not apply in the year of an individual's death or the preceding year.

Corporate donors of interests in the Partnership would be subject to a tax regime similar to that applicable to individual donors except that a corporate donor is entitled to a deduction in computing its taxable income equal to the fair market value of the donated interest in the Partnership. A corporate donor's deduction for gifts made in a taxation year or in a preceding taxation year including the donation of an interest in the Partnership is limited to 75% of the corporation's income for the taxation year. The amount of any gifts that cannot be deducted in the year of donation because of the 75% of income limitation can be carried forward and deducted in any of the corporation's five subsequent taxation years, again subject to the 75% of income limitation in those years. Currently the combined federal and BC tax income rate that would generally be applicable to income earned in BC by a corporation is 34.12%.

Statutory Interpretations and Amendments

The following is a detailed description of the interpretations of, and amendments to, the Act outlined previously that would be required in connection with the Partnership initiative. The amendments required to permit private foundations to acquire limited partnership units are not described below. The required amendments will be addressed as the Partnership is further developed

Advance Tax Ruling

A request would be made to CRA for an advance tax ruling that would confirm the treatment of Capital Supplements under the Act. An advance income tax ruling is a written statement given by CRA to a taxpayer stating how the CRA will interpret and apply specific provisions of existing Canadian income tax law to a definite transaction or transactions that the taxpayer is contemplating. Taxpayers request advance rulings when the application of the Act to a

specific matter or transactions may be uncertain. Because an advance tax ruling relates to existing provisions of the Act, obtaining such a ruling does not depend on legislative or regulatory change.

In the case of the Capital Supplements an advance tax ruling from CRA would confirm that the amount of a Capital Supplement would not be included in the income of the Partnership under the general rules for the computation of income under the Act. In particular, the advance tax ruling would confirm that no amount would be included in income of the Partnership under the provisions of paragraph 12(1)(x) of the Act in respect of receipt of a Capital Supplement provided that the cost of the building is reduced by the amount of the Capital Supplement under subsection 13(7.1) of the Act. Paragraph 12(1)(x) requires that an amount received from a government by a person or partnership such as the Partnership in the course of earning income as a contribution in respect of the cost of property is required to be included in income. However, this paragraph would not require a Capital Supplement to be included in the income of the Partnership if the Capital Supplement meets the following conditions:

1. The Capital Supplement received is not otherwise required to be included in the income of the Partnership under the normal rules for computing income under the Act; and
2. The amount of the Capital Supplement received would reduce the capital cost of the building under subsection 13(7.1) of the Act.

In the advance tax ruling CRA would confirm that, in its view, each of the two foregoing conditions would be met. In order to meet these conditions it will be important that the Partnership is not entitled to the Capital Supplement until certain conditions are met. For example, this may mean that the Capital Supplement may not be received until and unless the building is used for the purposes for which it was built.

The reduction of the capital cost of the building on receipt of a Capital Supplement under subsection 13(7.1) will mean that the UCC of the building and the CCA available to the Partnership in the future in respect of the building will be reduced.

Amendment to Regulations

As described above the current Regulations to the Act would limit the amount of CCA that the Partnership could claim in respect of the building. In effect, the Partnership could not create or increase a loss by claiming a deduction for CCA otherwise permitted under the Act.

This limitation on the deduction of CCA is effected under Regulation 1100(11) to the Act. This regulation applies to a “rental property” as defined in Regulation 1100(14). As defined in Regulation 1100(14)(b), a rental property would include a leasehold interest in real property if the leasehold interest is included in Class 1 of Schedule II to the Regulations and is used principally for the purpose of earning gross revenue that is rent. The building built by the Partnership on leased land would meet both of the foregoing criteria and so would be a rental property subject to the limitation on CCA deductions under Regulation 1100(11) to the Act.

The amendment to the Regulations that would be requested would be to exclude “certified supportive housing” which would be defined to include the Partnership’s building from the definition of rental property in Regulation 1100(14). This could be achieved in one of two ways. The definition of rental property could be amended to state that a rental property includes a leasehold interest in real property included in Class 1 other than a property that is a certified supportive housing property. Alternatively, a new class of property could be created under Schedule II to the Regulations that would consist of certified supportive housing property. Property of that class would be excluded from the definition of rental property. This latter approach was used in the 1970s to exclude buildings that were MURBs from the definition of rental property and, consequently, from the CCA deduction limitations under Regulation 1100(11).

Amendments to the Act

Currently paragraph 38(a.1) of the Act deems that a taxpayer’s taxable capital gain from a gift of certain publicly traded securities to a “qualified donee” is zero. Normally under the Act a gift of property would require that the donor report a capital gain on a gift of property equal to the amount by which the fair market value of the gifted property at the time of the donation exceeds the adjusted cost base of the property at that time. A qualified donee includes a public foundation (such as the Vancouver Homelessness Foundation) or a municipality (such as the City). A qualified donee would not include a private foundation.

Two amendments to the Act would be requested. First, an interest in a CSHE (such as the Partnership) would be added to the types of property that qualify for a zero taxable capital gain on the disposition of the property to a qualified donee. This could be accomplished either by adding a description of such property to the list of property currently contained in paragraph 38(a.1) of the Act or by creating a new paragraph in section 38 of the Act that deals exclusively with interests in a CSHE. The latter approach was used to create in paragraph 38(a.2) of the Act that applies to a category of ecological property that is eligible for a zero taxable capital gain on its donation to a qualified donee.

Second, an amendment that is in the nature of a clarifying nature would be requested. Subsection, 100(1) of the Act is a provision that deems the taxable capital gain of a taxpayer that would otherwise arise on the disposition - whether by gift or otherwise - of a partnership interest to a person exempt from tax to be fully taxable except to the extent that the capital gain is attributable to an increase in the value of partnership property other than non-depreciable capital property. What the application of the foregoing provision would mean in the context of a donation of an interest in the Partnership is that the donor would have a fully taxable gain on the donation of the interest in the Partnership based on the fair market value of the interest at the time of the donation. This result would substantially offset the donation tax credit or deduction that would arise from the donation of the Partnership interest.

The reason that the application of subsection 100(1) to a donation of an interest in the Partnership would be uncertain is the following. Subsection 100(1) is stated to apply to a disposition of property notwithstanding paragraph 38(a) of the Act. This paragraph is the paragraph in the Act that applies to normal dispositions of capital property and the paragraph states that only one-half of the gain will be subject to tax. Paragraph 38(a) is itself subject to the overriding provisions of the previously described paragraphs in section 38 such as paragraph 38(a.1) that deem the taxable capital to be zero on donations of eligible property to qualified donees. The uncertainty is whether subsection 100(1) of the Act would override another provision of section 38 such as an amended paragraph 38(a.1) or a new paragraph in section 38 that specifies that the taxable capital gain on the donation of an interest in a CSHE is zero. If subsection 100(1) is the overriding provision then a fully taxable gain would arise on the donation of the interest in the Partnership. The amendment that would be requested is that subsection 100(1) be made subject to the provision in section 38 - either an amendment to paragraph 38(a.1) or a new paragraph in section 38 - that deems the taxable capital gain on the donation of an interest in a CSHE such as the Partnership to be zero.

Appendix C: Vancouver Homelessness Limited Partnership 2007 Summary Plan

Summary:

The Vancouver Homelessness Limited Partnership (the “Partnership”) would be set under the BC Partnership Act. It would be created and governed by a Limited Partnership Agreement, which would establish, among other things, the name, purposes, governance structure, respective rights and duties of the partners and capital structure of the Partnership.

The Partnership would raise capital by issuing limited partnership units to various investors and organizations. The capital structure would be set up with a view to providing a cash return to the limited partners approximately equal to the interest cost on the long term, fixed rate mortgages secured to finance the supportive housing projects. The Partnership could also issue units structured as subordinated debt.

The General Partner

The General Partner would be a single purpose corporation incorporated under the BC Business Corporations Act. It would be the entity that effectively carries on the business activities of the Partnership. It would have unlimited liability in connection with those activities, as opposed to the limited partners, whose liabilities would be limited to the amount contributed as long as they did not, in their capacities as limited partners, actively participate in nor interfere with the management of the Partnership.

The General Partner would be responsible for the day-to-day affairs of the Partnership. It would develop projects, enter into agreements on behalf of the Partnership (including agreements with government entities and developers) and hire employees and consultants as required.

The limited partners would own 70% of the shares of the General Partner. They would be held in trust by a trustee who would vote such shares in accordance with a trust deed, which would require the limited partners’ approval for any significant actions, such as changing the board of the General Partner. The remaining 30% of the shares of the General Partner would be held by the Vancouver Homelessness Foundation.

The Vancouver Homelessness Foundation would lease certain properties (granted to it by the City) to the Partnership to use in creating supportive housing pursuant to its build-out plan. The Partnership would assist in the development of these properties using equity (from the sale of limited partnership units) and mortgage debt arranged by BC Housing.

The board of the General Partner would be comprised of directors nominated by the Vancouver Homelessness Foundation, the Vancouver Foundation and by the trustee

representing other limited partnership unit holders. The board would be comprised of a total of five directors, including an independent chairperson.

The 2007-2012 goals of the partnership would include:

- (i) Create purpose-built supportive housing and upgraded and supported SRO hotel rooms
- (ii) Maximize quality of program and tenant health outcomes
- (iii) Meet commitments to investors
- (iv) Maximize senior government funding commitments

2007 Objectives:

Establish the limited partnership, complete with GP board, staff and offices

- Obtain commitments for \$60 million in equity and subordinated debt
- Secure multi-year funding commitments from BC Housing and VCHA
- Enter into land grant agreements with City of Vancouver
- Initiate development of six sites
- With the City to acquire or lease 500 SRO hotel rooms
- Work with BCH and VCHA to structure operating agreements with selected non-profit operators

2007 Resources:

- Hire a CEO, one full-time contract manager, one full-time administrator
- 2007 Budget (assumes full calendar year, excludes one-time costs of \$500,000 to create partnership, negotiate limited partnership agreements and related documentation. The one-time costs have been captured in the financial model.)

Cost	Description	Cost Drivers	Item	Total
Direct Wages	1 CEO	Salaries and Benefits (@ 1.25x loading)	\$ 210,000	\$ 262,500
	1 Contract Manager		52,500	
	1 Administrator			
Board Support	Incidental travel/meeting costs	6 meetings @ \$2,000/mtg	\$ 12,000	\$ 12,000
Consultants/ Legal	Develop leases and operating contracts Financial Reports--annual/quarterly Financial audit	# of leases/contracts	\$ 100,000	\$ 170,000
			\$ 30,000	
			\$ 40,000	
Administration	Outsourced services (accounting, trustee costs) Rent, communications, misc. costs	Set-up costs Transaction costs	\$ 15,000	\$ 73,000
			\$ 40,000	
			\$ 18,000	
Total				\$ 517,500

Appendix D: Vancouver's Homelessness Foundation 2007 Summary Plan

Summary:

The Vancouver Homelessness Foundation (the "Foundation") would be established in July 2007. It would be constituted with eight members and directors and registered as a charity. The Foundation would have key relationships with its members, non-profit housing operators and community-wide interest groups focused on supportive housing. Its overall goals would include:

- (i) maximize opportunities for the successful development and operation of supportive housing in Vancouver;
- (ii) advocate for the resolution of issues directly related to supportive housing in Vancouver;
- (iii) lead efforts to raise charitable funding for re-investment in the operation of supportive housing;
- (iv) development of training programs and counseling services for community health workers;
- (v) development of employment opportunities for residents of supportive housing including jobs related to the maintenance and operation of supportive housing facilities; and,
- (vi) facilitation of "civility" programs and cross-agency community improvement programs relevant to the reduction and management of homelessness.

The Foundation would quickly establish itself and its relevance City-wide. The primary strategy would be to include, as founding members, the City, VCHA, BC Housing, the Vancouver Board of Trade and representatives of non-profit operators of supportive housing. Each member would be granted the right to appoint a single director on the board of the Foundation. The administrative and financial activities of the Foundation would be outsourced to the Vancouver Foundation. The Vancouver Homelessness Foundation would own options on sites granted by the City to the Vancouver Homelessness Partnership. The options would be exercisable at some future date, likely 30 or 35 years after initial development of each site. The Foundation would have a long-term vision and would be expected to bring relevant leadership to efforts to increase the quantity and improve the quality of supportive housing in Vancouver.

2007 Objectives:

Establish the Foundation:

- Secure first year funding
- Secure CRA registration as a charity
- Identify and recruit members and directors and staff
- Structure a shared services agreement with the Vancouver Foundation
- Establish a physical presence and create a website
- Establish goals and objectives for 2007 and 2008 fiscal years including:
 - Implementation of shared services agreement with the Vancouver Foundation for back-office support including financial, accounting systems and services

- Development and implementation of a charitable fundraising model (interest bearing deposit notes) with local and national banking institutions
- Development and implementation of support worker training and service programs

2007 Resources:

- Hire a part-time (50-75%) Executive Director and a full-time administrator
- 2007 Budget (assumes a full calendar year of costs and excludes one-time constitution and start-up costs of \$50,000)
- As the Foundation becomes more active, it may be necessary to hire a full-time Executive Director and an additional administrator.

Cost	Description	Cost Drivers	Item	Total
Direct Wages	1 Exec. Director 1 Administrator	Salaries and Benefits (@ 1.25x loading)	\$ 120,000	
			30,000	\$ 150,000
Board Support	Incidental travel/meeting costs	6 meetings @ \$1,000/mtg	\$ 6,000	
Consultants	Training/support programming and services Operating and Maintenance tenant employment opportunities	development costs	\$ 10,000	\$ 6,000
			\$ 10,000	\$ 20,000
Fundraising	Advertising Collection	Cooperative with banks Bank deposits	\$ 25,000	
			\$ —	\$ 25,000
Administration	Outsourced services (finance, tax, administration) Rent, communications, misc. costs	Fixed fees Transaction costs	\$ 15,000	
			\$ 50,000	
			\$ 18,000	\$ 83,000
Total				\$ 284,000

