

**OFFICE OF  
THE CITY AUDITOR**

# **REPORT**

## **AFFORDABLE HOUSING FUNDING DECISIONS AUDIT**

**April 11, 2025**

# Report Summary

## BACKGROUND

The Affordable Housing and Homelessness Section is part of the Social Development Branch within the Community Services Department. The Section is responsible for developing and implementing the City's Affordable Housing Strategy and making funding proposals, which require City Council approval.

The City defines affordable housing as:

- Charges below-average market rental rates.
- Is intended for long-term occupancy by lower-income households.
- Provides shelter that costs residents less than 30 percent of their before-tax income.
- Typically requires subsidies to be affordable for residents.

The City's Affordable Housing Strategy (2023-2026) aims to increase Edmonton's supply of affordable housing. The strategy also addresses challenges like inflation, climate change, and changing government policies. The strategy has specific targets for new affordable housing units and permanent supportive housing units.

The City provides financial support for the development of affordable housing primarily through the following programs:

- **Affordable Housing Tax Grant Program:** Provides property tax relief to non-profit entities operating affordable housing.
- **Affordable Housing Investment Program (AHIP):** A grant program with three streams (New Construction, Rehabilitation, and Indigenous Housing) that assists organizations in building or renovating affordable housing.
- **Below Market Land Sales:** The City sells unused land at below market rates to organizations that will develop

it for affordable housing.

### **AUDIT OBJECTIVE & SCOPE<sup>1</sup>**

The objective of this audit was to determine if the Affordable Housing and Homelessness Section makes funding proposals to Council that are effective at addressing the affordable housing needs of the City.

The scope of this audit includes funding recommendations made by the Affordable Housing and Homelessness Section relating to the Affordable Housing Tax Grant program, the Affordable Housing Investment Program, and the sale of City-owned land at below market rates.

The work of the Affordable Housing Action Team to implement the Housing Accelerator Fund is not within the scope of this audit. The team was recently created and only a portion of their work focuses on affordable housing.

### **WHAT WE FOUND<sup>2</sup>**

Overall, the Affordable Housing and Homelessness Section (the Section) has met the audit objective. However, there are areas to improve their effectiveness.

The Section has been making effective funding proposals to Council by doing the following:

- Using well-defined and documented criteria to determine eligibility and application scores for the Tax Grant and AHIP programs.
- Aligning AHIP to federal and provincial affordable housing grant programs. This alignment allows applicants to apply to multiple grants using the same information.
- Providing Council with consistent and reliable

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<sup>1</sup> We conducted this engagement in conformance with the Institute of Internal Auditors' *Global Internal Audit Standards*.

<sup>2</sup> The Institute of Internal Auditors' *Global Internal Audit Standards* require us to report the significance and prioritization of our findings. This report contains all our significant findings and those that we deemed not significant, but that still support our recommendations. We prioritized each significant finding based on how important it is that management address the finding. This report contains only those significant findings that we prioritized as management must address, or should address.

information related to the AHIP and below market land sales.

However, we found the following areas where the Section can improve its effectiveness:

- AHIP grant application review and scoring process guidance and documentation retention - There is a lack of guidance on how and when to involve subject matter experts in scoring an application, and the Section is not retaining documentation for calculations, measurements, and the percentage of funding awarded.
- AHIP grant application scoring review process - We found minor errors in the scoring of AHIP applications as a result of a lack of review.
- AHIP grant agreement monitoring process - The Section is not tracking and obtaining sufficient support for all grant recipient agreement obligations.
- Affordable housing guidelines for the below market sale of land - There are no guidelines or minimum expectations to propose the sale of land at below market rates for affordable housing purposes.
- Below market land sale agreement monitoring process - The Section does not have a defined methodology to monitor and track the fulfillment of obligations set out in the agreement to sell land at below market rates.

## RECOMMENDATIONS

### Recommendation 1

We recommend that the Social Development Branch improve the AHIP grant application review and scoring process guidance and supporting documentation retention. This should include:

- Guidance on when internal subject matter expert input is required and what information they should be commenting on.
- Retaining documentation to support scoring decisions.

- Retaining the documentation for how the percentage funded was decided.

Recommendation 2	We recommend that the Social Development Branch review individual AHIP grant application scores to prevent errors.
Recommendation 3	We recommend that the Social Development Branch improve the AHIP grant agreement monitoring process, to confirm recipients are fulfilling their responsibilities and meeting the obligations set out in their agreement.
Recommendation 4	We recommend that the Social Development Branch develop affordable housing guidelines for the sale of land at below market rates, including when and which evaluation criteria are used, and minimum expectations to proceed with the sale.
Recommendation 5	We recommend that the Social Development Branch develop and use methodology to monitor and track below market land sales affordable housing agreement obligations to consistently confirm that recipients are fulfilling their responsibilities.

**WHY THIS IS IMPORTANT**

Affordable Housing and Homelessness makes grant funding and land sale proposals to Council with the goal of meeting affordable housing needs within the City. The Section can continue to bring forth proposals that are fair and consistent by having processes and guidelines that are well-documented and reviewed at all stages.

Improving the monitoring process will allow the Section to confirm that recipients are continuously fulfilling their obligations and helping to meet affordable housing needs.

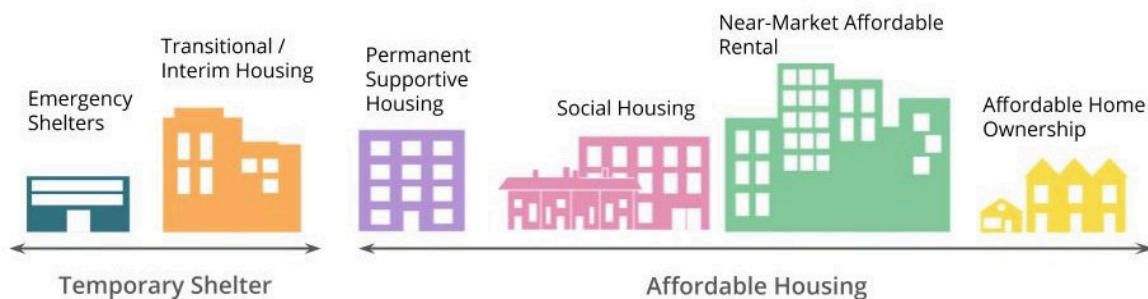
# Affordable Housing Funding Details

## **AFFORDABLE HOUSING AND HOMELESSNESS SECTION**

The Affordable Housing and Homelessness Section (the Section) is part of the Social Development Branch within the Community Services Department. They are responsible for developing and implementing the City's Affordable Housing Strategy.

The City defines affordable housing as housing that typically requires subsidization to be affordable for its residents. They define affordable as a household paying less than 30 percent of its before-tax income on shelter costs, including costs like rent or mortgage payments, utilities, taxes, and condo fees.

Affordable housing has rents or payments below average market cost, and is targeted for long-term occupancy by households who earn less than median income for their household size. Within the affordable housing definition there is a spectrum of housing types.



Source: The City of Edmonton's Affordable Housing Needs Assessment 2023

## **AFFORDABLE HOUSING STRATEGY**

The City created the current Affordable Housing Strategy (2023-2026) in response to significant changes in Edmonton's housing development landscape. This strategy reflects the City's need to:

- Navigate increased inflation and disrupted supply chains, which have raised construction costs and the cost of living.

- Consider the ongoing impacts of climate change and emissions associated with housing, increasing the need for retrofits to maintain aging housing stock.
- Account for changing policy and investment approaches from other orders of government.
- Be informed by emerging data from the updated Affordable Housing Needs Assessment and the sector that serves people who are homeless.

The strategy identifies actions the City must take to increase the supply of affordable housing across Edmonton. It includes an objective to “enable the development of affordable housing to increase supply and housing choice.” This objective has medium-term targets of:

- 2,700 units of affordable housing in Edmonton by 2026.
- 1,400 - 1,700 units of permanent supportive housing in Edmonton by 2026.

One way the City plans on achieving these targets is by using two grant programs: the Affordable Housing Investment Program (AHIP) and the Affordable Housing Tax Grant Program.

To encourage affordable housing development, the City also sells land at below market rates to non-profit housing providers who will develop affordable housing on that land.

### **AFFORDABLE HOUSING TAX GRANT**

City Council approved funding for the Affordable Housing Tax Grant Program as part of the City's 2023-2026 budget. This program offsets municipal property taxes for non-profit entities that operate supportive housing, government-supported housing, and other permanent affordable housing. These grants provide annual tax relief for 100 percent of the municipal portion of property taxes for eligible housing units.

### **AFFORDABLE HOUSING INVESTMENT PROGRAM**

The AHIP grant program consists of three streams in which property developers or agencies can apply for funding. Grant recipients use the funding to help cover the cost of constructing or

rehabilitating affordable housing projects. The three streams are:

1. New Construction - Assists organizations in constructing new affordable housing units by providing funding up to 25 percent of total construction cost of the affordable housing component of the project.
2. Rehabilitation - Assists organizations in rehabilitating developments with existing affordable housing units by funding up to 25 percent of total construction cost of the affordable housing component of the project.
3. Indigenous Housing - Assists Indigenous organizations pursuing affordable housing development by providing funding up to 25 percent of total construction cost of the affordable housing component of the project, with opportunities to provide up to 40 percent.

Applications are submitted within a specific window of time during each round of funding. The Section combines submissions from the New Construction and Rehabilitation streams into a single scoring round but has a separate scoring round for the Indigenous Housing stream. Within each round, the Section scores applications using criteria they have developed for that round. The criteria include aspects such as:

- Proximity to transit
- Rental affordability
- Urban design principles
- Environmental impact
- Financial stability of the project
- Experience operating affordable housing developments

The Section then uses the overall application score to select which applications to submit for Council to vote on for approval of AHIP grant funding. Once Council approves the application, the City and successful applicant will sign an affordable housing agreement.

## **BELOW MARKET SALES OF LAND**

The Section works in conjunction with the Real Estate Branch to sell unused City-owned land at below market rates to



organizations that will use the land for long-term (20 to 40 years) affordable housing.

### GRANT AND LAND VALUES PROVIDED

City Council makes the ultimate decision on the Section's recommendations for AHIP grants and below market sales of land. For the tax grant program, City Council approves the total budget and the Section can approve applications within that budget.

Since 2015, the City has provided \$167 million in grants and land at below market rates across the three programs, for the purposes of meeting affordable housing needs.

**Table 1: City Provided Funds for Affordable Housing Purposes  
(in \$000s)**

Year	AHIP	Below Market (Appraised Value)	Tax Grant	Total
2018	-	9,300	-	9,300
2019	3,500	1,100	-	4,600
2020	11,700	4,900	-	16,600
2021	16,800	8,400	-	25,200
2022	17,600	-	-	17,600
2023	19,000	10,600	1,200	30,800
2024	30,200	5,400	1,800	37,400
2025 (Proposed)	-	26,100	-	26,100
<b>Total</b>	<b>98,800</b>	<b>65,800</b>	<b>3,000</b>	<b>167,600</b>

# Affordable Housing Tax Grant Investment Program

## KEY FINDINGS

Overall, we found no areas of concern or improvement for the Affordable Housing Tax Grant Program.

- The Program has well-defined and documented eligibility criteria and the Section is using them to determine when a property is eligible to be exempt from paying its property tax.
- Our testing of a sample of grants found that they all had sufficient documentation to support that the eligibility criteria were met.
- The program was only partially implemented during the 2023-2024 tax year. This means that a full year of monitoring data was not available at the time of the audit. We would need a full year to assess the Section's monitoring of annual eligibility requirements. However, we did review the template that the Section will use to monitor the grant recipients and confirmed that it includes all the necessary components to track ongoing eligibility.

We have no recommendations related to the Program.

# Improve the Affordable Housing Investment Grant Program Process

## KEY FINDINGS

We found the City's AHIP grant eligibility and submission requirements align with those of federal and provincial government grant programs. This allows applicants to efficiently apply for multiple grants offered by other orders of government. The Section has well-developed and documented criteria that it uses to score applications and decide which applicants to recommend to Council for funding.

We were also able to confirm that the reports the Section used to bring their funding recommendations to Council contained consistent and reliable information.

However, we found that the Section:

- Can improve its application review and scoring process and document retention.
- Lacked a review step to detect minor errors in the Section's scoring of AHIP applications.
- Did not track all AHIP grant recipients' agreement obligations.

## IMPROVE APPLICATION REVIEW AND SCORING PROCESS GUIDANCE AND DOCUMENT RETENTION

The Section has well-documented criteria that it uses to score applications. However, we found the following areas to improve application review and scoring process and documentation retention. The Section lacks clear guidance to:

- Direct internal subject matter experts' involvement in the application scoring.
- Retain supporting documentation for calculations and measurements used in scoring an application.

- Retain documentation to support the percentage of requested funding recommended to Council.

(See Recommendation 1)

**Lack of Guidance on  
When to Use a Subject  
Matter Expert**

The nature of the AHIP applications involves many unique and complex aspects such as design, energy efficiency, affordability, accessibility, and financial longevity. To determine the score for each application, the Section gathers input from internal subject matter experts on each unique aspect of the applications. The Section does not provide any formal guidance that outlines when certain experts should provide input. For example, in our audit testing we found that none of our samples required an engineering study; however, this is something that could be needed in future applications. There is no guidance that describes when a particular expert's input is required for an application.

In addition, there is also no guidance that outlines what information the Section needs from a specific expert.

Our testing found that subject matter experts' input has been consistent, largely because the same individuals provide their input and they have a good understanding of what the Section requires from their review. However, if City staff change there is a risk that understanding would be lost and consistency of expert input could change.

**Retain Application  
Scoring Support  
Documentation**

We also found that the Section can improve the documentation it retains to support the application scoring. A few application scoring categories require the Section to complete a measurement (e.g., distances to a bus stop and a major transit centre) or compute a calculation (e.g., percentage of units considered affordable and average rental amount). They currently do not retain documentation on which bus stop or transit centre they completed their measurements to, nor do they save any calculation steps taken.

Retaining this information would allow someone other than the original scorer to quickly verify the calculations or measurements.

**Retain Support for  
Percentage of Requested  
Funding Awarded**

The Section uses the results of the application scoring process to inform their recommendation of how much funding each application should receive within the scoring round. They do not document how they ultimately made these decisions.

We found that generally, the higher the application score, the higher the percentage of funding recommended (to a maximum of 25 percent of total project cost). However, we also found some applications with a higher score were recommended for a lower percentage of funding, compared to other applications in the same scoring round.

Section staff also consider additional factors when reviewing applications. These factors can include the total grant funding available for that round, the total dollar value requested by an applicant (being able to fund one application that would take the entire budget for that round versus a larger number of applications that are requesting lower dollar values), and how many affordable units an application will create.

Retaining documentation of how the Section decided on the percentage of funding to recommend for each application will help reduce the risk of inconsistent scoring between rounds. It will also help support a fair approach to funding recommendations.

**LACK OF APPLICATION  
SCORING REVIEW PROCESS**

We found the Section does not have a detailed process in place to review the application scoring after it is done. They complete a high level review of all applications within a scoring round but do not look into the details of individual application scores. Our review of 10 AHIP grant applications found scoring errors in 4 of the applications.

The errors we found had a relatively minor impact on the overall score for the application, with the largest difference being a shift of 4 percent (out of 100).

**Table 2: Summary of Scoring Errors**

Application #	# of Scoring Errors / # of Categories Scored	Change in Score
1	2/23	2.84
2	2/16	1.2
3	2/23	0
4	1/13	4

A few examples of errors we found include:

- Scoring the application to have a 16 to 25 percent reduction in operating energy consumption and greenhouse gas emissions instead of 15 percent indicated in the application (application #1).
- Scoring the application to have 20 percent of units meeting accessibility standards instead of 15 percent meeting the minimum requirements, as indicated in the application (application #1).
- The distances used to score proximity to the nearest bus station and major transit centres were swapped (application #2).

In all four applications, we found that this did not impact whether the applicant would have been recommended for funding.

Although this was not a major issue in our testing, it could become so in future scoring rounds. If an application is on the cusp of being recommended for funding, an error may shift its score to the point where it may be incorrectly selected or not selected.

(See recommendation 2)

### **AGREEMENT MONITORING NOT SUFFICIENT TO VERIFY OBLIGATIONS**

We found the methodology the Section uses to monitor AHIP agreements does not track the full list of information needed to verify agreement terms are being met. The information they receive is not always sufficient to determine if the grant recipient is meeting their agreement obligations. In some cases the Section did not follow up with the affordable housing provider that used unsatisfactory information to verify their agreement obligations.

(See recommendation 3)

### **Improve Agreement Monitoring Templates**

The Section uses a checklist to track necessary information and verify that AHIP grant recipients are meeting the terms of their agreements. However, we found that the Section is not consistently using this checklist and that it does not include some items from the agreement that should be tracked. For example:

- Agreements state that the City will not pay the recipient until the recipient provides confirmation that all contractors and subcontractors have been paid. Our testing found an example where the checklist did not include a row to confirm that the City had received the declaration.
- Agreements state the City will not pay recipients if they have outstanding property tax payments owed to the City. Our testing identified cases where the template did not include a row to check for any outstanding property tax that may be owed.

It is important for the Section to track all obligations outlined in the affordable housing agreements to confirm grant recipients are fulfilling their agreement obligations.

### **Obtaining Sufficient Documentation**

We also found that some of the documents the Section received to verify agreement terms did not contain sufficient

details to verify the specific agreement term that the information was provided for.

For example, an agreement states that project management and administrative fees for the construction of the affordable housing project must not exceed 12 percent of the capital costs. Our audit found that the documents provided to verify this requirement did not include a breakdown of capital costs sufficient to determine if this 12 percent was met.

We also found examples of when the Section did not follow up when they received information that was not sufficient to verify agreement obligations.

For example:

- We identified that an affordable housing grant recipient owed property taxes. The Section accurately identified this non-compliant agreement term in June of that year; however, they issued a grant payment in July and did not confirm the property tax payment until September. In this case the property taxes were paid, but the grant payment should have been held until this payment was confirmed.
- An agreement states that the tenant's annual household income should not exceed the maximum income threshold determined annually by the City. We found that three tenants' annual household income exceeded the threshold but the Section did not follow up on this agreement requirement. They also did not document any reasons why this noncompliant requirement was left as is.

### **WHY THIS IS IMPORTANT**

To ensure that its affordable housing funding proposal decisions are equitable and transparent, and that allocated funds are used effectively, the Section needs well-structured grant programs, well-documented processes, thorough application review, and grant agreement monitoring.



**RECOMMENDATION 1**

Improve the AHIP grant application review and scoring process guidance and supporting documentation retention. This should include:

- Guidance on when internal subject matter expert input is required and what information they should be commenting on.
- Retaining documentation to support scoring decisions.
- Retaining the documentation for how the percentage funded was decided.

**Responsible Party**

Social Development Branch Manager



Accepted by Management

**Management Response**

The Social Development Branch will review the existing program's Terms of Reference regarding the subject matter expert evaluating and review process and will revise it to include clear guidelines on how each criterion will be reviewed and documented.

In addition, current program evaluation criteria will be updated to clearly define key measures on how the funding percentage for each project will be decided. These may include factors such as level of subsidy provided, alignment to the City's Housing Needs Assessment and non-profit/for-profit status.

This will be implemented prior to the next round of AHIP.

**Implementation Date**

March 1, 2026

**RECOMMENDATION 2**

Review individual AHIP grant application scores to prevent errors.

**Responsible Party**

Social Development Branch Manager



Accepted by Management

**Management Response**

The Social Development Branch will implement new SmartSimple software to improve the application and evaluation process and minimize scoring errors. Although the City Auditor did not find any instances where errors in the evaluation process affected overall scoring and funding decisions, current processes and procedures will be updated to include a final review of each project to ensure accuracy.

**Implementation Date**

December 31, 2025

**RECOMMENDATION 3**

Improve the AHIP grant agreement monitoring process, to confirm recipients are fulfilling their responsibilities and meeting the obligations set out

in their agreement.

**Responsible Party**

Social Development Branch Manager



Accepted by Management

**Management Response**

The Social Development Branch is currently implementing an internal database to track and monitor existing affordable housing agreements and automate notification processes for each operator regarding their annual reporting requirements over the term of their agreements. In addition, the Branch will update existing processes and procedures to ensure each agreement is in full compliance with the existing affordability requirements and proper documentation is maintained.

This will be implemented prior to the next round of AHIP.

**Implementation Date**

March 1, 2026

# Develop Guidelines and Improve Monitoring of Below Market Land Sales

## KEY FINDINGS

We found that the Section's reports to Council and Council Committees on below market land sales contained consistent and reliable information.

However, we found the Section does not have documented guidelines to recommend sale of land at below market rates for affordable housing purposes. Instead, it reviews each request on a case by case basis.

We also found that the Section does not have a defined methodology to consistently monitor all agreement obligations.

## NO DOCUMENTED GUIDELINES

We found that the Section has a general approach to deciding whether or not to recommend a below market sale of land; however, this approach is not documented.

We reviewed a sample of land sales to determine what steps the Section took to arrive at their land sale recommendation. We found the majority of requests had some form of affordable housing review and in some cases used criteria to score the request to help determine if the land sale should be recommended. We saw a few common themes for these, such as a review of the financial information and design considerations for the proposed affordable housing project to be constructed on the requested land.

We also found the Section does not have any documented minimum expectations or requirements that a proposed

project must meet in order for the land to be sold at below market rates.

(See Recommendation 4)

#### **NO METHODOLOGY TO MONITOR AGREEMENTS**

We found the Section monitors some agreement obligations for affordable housing built on land sold below market rates. However, they do not have a defined methodology to consistently monitor and track all agreement obligations.

We found instances where the Section did not collect or retain documents required to verify all the obligations outlined in agreements.

For example:

- One of our samples identified a requirement for the land recipient to submit an annual report. This report was not collected.
- Agreements state that the affordable housing units must exceed “local accessibility requirements” by five percent. However, the Section did not collect documentation to confirm that the project met this obligation.

(See Recommendation 5)

#### **WHY THIS IS IMPORTANT**

Standardizing the process of recommending below-market land sales and documenting requirements would increase transparency and ensure that decisions are made consistently and based on established criteria.

Not consistently monitoring all agreement obligations and retaining required documentation could lead to non-compliance with affordable housing agreements.

#### **RECOMMENDATION 4**

Develop affordable housing guidelines for the sale of land at below market rates, including when and which evaluation criteria are used, and minimum

expectations to proceed with the sale.

**Responsible Party**

Social Development Branch Manager



Accepted by Management

**Management Response**

The Social Development Branch is currently reviewing Policy C437A (City Land Assets for Non-Profit Affordable Housing) and will bring forward standardized guidelines for evaluating and selecting successful affordable housing proponents to ensure program outcomes and expectations are met.

**Implementation Date**

March 1, 2026

**RECOMMENDATION 5**

Develop and use methodology to monitor and track below market land sales affordable housing agreement obligations to consistently confirm that recipients are fulfilling their responsibilities.

**Responsible Party**

Social Development Branch Manager



Accepted by Management

**Management Response**

Successful proponents are required by the Social Development Branch to enter into and register an Affordable Housing Agreement with the City on the certificate of title. This agreement establishes the proponent's obligations in terms of ensuring long term affordability of the project. Similar to the response to Recommendation 3, the implementation of new software will allow more effective monitoring and compliance on each affordable housing project which includes agreements related to below market land sales. In addition, the Branch will update existing processes and procedures to ensure each agreement is in full compliance with the existing affordability requirements and proper documentation is maintained.

This will be implemented prior to the next below market land sale listing.

**Implementation Date**

December 31, 2025

**ACKNOWLEDGEMENT**

We would like to thank the staff in the Social Development and Real Estate Branches for their cooperation during this audit.