Agenda – Executive Policy Committee – January 18, 2006

REPORTS

Item No. 2 2006 Home Renovation Tax Assistance Program
File FL

ADMINISTRATIVE RECOMMENDATION:

1. That a Home Renovation Tax Assistance (HRTA) Program be approved for 2006 with the same residential unit conditions as 2005; as stipulated in By-Law 88/2005.

2. That a HRTA Program be approved for 2006 with the same type of eligible renovation projects as 2005; as stipulated in By-Law 88/2005.

3. That a HRTA Program be approved for 2006 with eligibility condition that a residential unit must be constructed before January 1, 1981.

4. That a HRTA Program be approved for 2006 with eligibility condition that a residential unit must have a property assessment of $114,400 or less.

5. That Administration be directed to prepare a draft By-Law for consideration of Council that reflects the aforementioned Recommendations.

6. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the aforementioned Recommendations.

7. That the financial related conditions and cost of the 2006 HRTA Program remain the same as the 2005 Program.

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 20, 2005, the Executive Policy Committee passed the following motion:

> WHEREAS the City of Winnipeg currently operates the Home Renovation Tax Assistance (HRTA) Program to encourage homeowners to reinvest in their existing properties;
>
> AND WHEREAS the current HRTA Program is restricted to residential units with an assessed value of $90,000 or less and a pre-1974 year of construction;
>
> AND WHEREAS the 2006 re-assessment will make many homeowners ineligible for the existing HRTA Program;
>
> AND WHEREAS other agencies – such as the federal and provincial governments and Manitoba Hydro – have begun offering financial incentives for homeowners to undertake energy efficient retrofit work, some of which is also eligible under the HRTA Program;
>
> THEREFORE BE IT RESOLVED that the Administration undertake a review of the existing HRTA Program, and report back to the Executive Policy Committee within 120 days with recommendations to revise the program criteria or develop a new program to increase the number of eligible homeowners and to improve integration with similar programs offered by other governments or agencies.

RE: 2006 HOME RENOVATION TAX ASSISTANCE PROGRAM

For submission to: Executive Policy Committee

Original report signed by: Director of Planning, Property and Development

Report date: November 22, 2005

Recommendations:

1. That a Home Renovation Tax Assistance (HRTA) Program be approved for 2006 with the same **residential unit** conditions as 2005; as stipulated in By-Law 88/2005.

2. That a HRTA Program be approved for 2006 with the same type of eligible renovation projects as 2005; as stipulated in By-Law 88/2005.

3. That a HRTA Program be approved for 2006 with eligibility condition that a residential unit must be constructed before January 1, 1981.

4. That a HRTA Program be approved for 2006 with eligibility condition that a residential unit must have a property assessment of $114,400 or less.

5. That Administration be directed to prepare a draft By-Law for consideration of Council that reflects the aforementioned Recommendations.

6. That the proper Officers of the City be authorized to do all things necessary to implement the intent of the aforementioned Recommendations.

7. That the financial related conditions and cost of the 2006 HRTA Program remain the same as the 2005 Program.

REPORT SUMMARY

The Planning, Property and Development Department is recommending that a new HRTA Program be approved for 2006 that operates on the basis of the following two principles: all residential units must be 25 years of age or older in order to be eligible and the HRTA Program should be open to a minimum of 50% of all eligible residential units in Winnipeg.

Key Issues:

- As older single family houses are the intended targets of the HRTA Program, the definition of a residential unit should remain the same for 2006 as in previous years.

- The 2006 Program should be approved with an eligibility condition that a residential unit must be constructed before January 1, 1981.

- The 2006 Program should be approved with an eligibility condition that a residential unit must have a property assessment of $114,400 or less.

- Although the proposed new eligibility conditions for a 2006 Program will generate a higher number of eligible residential units, it is anticipated that the increase will not have any significant negative impacts; as the higher number of residential units is comparable to previous HRTA Programs that operated prior to 2005.

- An incremental "tax freeze" program would be too problematic to implement and administer; as compared to a tax credit program.

Implications of the Recommendation(s):

General implications:

	None
	For the organization overall and/or for other departments
X	**For the community and/or organizations external to the City of Winnipeg**
	Involves a multi-year contract

Comment(s):

- If the aforementioned Recommendations are adopted, it is likely that a 2006 HRTA Program will encourage Winnipeg residents to continue to renovate their homes and improve their neighbourhoods. As well, a 2006 HRTA Program will continue to provide an economic incentive for the home renovation industry.

Policy implications:

X	**No**
	Yes

Comment(s):

-

Environmental implications:

X	**No**
	Yes

Comment(s):

-

Human resources implications:

X	**No**
	Yes

Comment(s):

-

Financial implications:

X	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s):

- The tax credit expenditures generated by the adoption of a 2006 HRTA By-Law (which impact the years 2007 to 2009) are within the draft budget submission.

REASON FOR THE REPORT:

On July 20, 2005, Executive Policy Committee requested the Administration to undertake a review of the existing Home Renovation Tax Assistance (HRTA) Program and report back to the Executive Policy Committee within 120 days with recommendations to revise the existing program criteria and develop a new program to offer up to a five year period free from increases in assessed property value when home improvements are made.

HISTORY:

On December 15, 1994, Council adopted the first HRTA Program (By-Law No. 6544/94) to "… establish a program of property tax credits to encourage and assist in the renovation of residential premises in the City of Winnipeg". The first Program was limited to homes constructed prior to 1971 and assessed at $80,000 or less. The maximum available tax credit was $750 and allocation was over five years. The next three Programs included the same eligibility criteria and tax credit provisions (By-Laws 6927/96, 6930/96 and 7137/97).

On May 27, 1998, Council adopted a new HRTA Program (By-Law No. 7230/98) with different eligibility criteria and tax credit provisions. Homes constructed prior to 1981 with an assessment of $100,000 or less were now eligible. As well, the maximum available tax credit was increased to $1,500 and allocation was over three years.

On March 24, 1999, Council adopted a new HRTA Program (By-Law No. 7384/99) with different eligibility criteria and a funding "cap". Homes constructed prior to 1974 with an assessment of $90,000 or less were now eligible. The total Program tax credit funding was limited to $975,000. Tax credit provisions remained at a maximum of $1,500 over three years. The next five Programs included the same eligibility criteria, tax credit provisions and total funding (By-Laws 7523/99, 7798/2001, 7943/2001, 8165/2002, 10/2004 and 88/2005).

DISCUSSION:

The HRTA Program is primarily intended for renovation of older single family houses in Winnipeg. Accordingly, the Planning, Property and Development Department is recommending that the definition of a **residential unit** remain the same for the 2006 Program as previously adopted by Council under By-law No. 88/2005, whereby a "residential unit" means:

(a) a dwelling unit in a building that is used solely for residential occupation, other than;
- *(i) a mobile home located in a mobile home park or not constructed on a permanent foundation;*
- *(ii) a building that is used wholly or partly as a hotel, motel, tourist camp, apartment hotel or other transient accommodation;*
- *(iii) a building that is used as a nursing home or personal care home; and*
- *(iv) a dwelling unit in a building that contains more than four dwelling units; OR*

(b) a condominium unit that is used solely as a single dwelling unit for residential occupation, but not including the common elements of a condominium plan.

In order to provide direction for 2006 and future years, the Planning, Property and Development Department is recommending that the 2006 HRTA Program operate on the basis of the following two principles: firstly, that all residential units must be 25 years of age or older in order to be eligible and secondly, that the HRTA Program be open to a minimum of 50% of all residential units in Winnipeg.

The first principle that all residential units must be 25 years of age or older is based on the premise that single family houses generally need major repairs and renovations after 25 years. If this principle is adopted, the Planning, Property and Development Department is recommending that a 2006 HRTA Program be limited to all residential units constructed before January 1, 1981.

The second principle that the HRTA program be open to a minimum of 50% of all residential units in Winnipeg is based on the expectation that a 2006 HRTA Program should be consistent with previous Programs that have operated since 1999. As the following chart reveals, each HRTA Program since 1999 has accommodated approximately 50% of all residential units in Winnipeg. In fact, the average eligibility rate between 1999 – 2005 for all seven programs was 50%.

YEAR OF PROGRAM	TOTAL RESIDENTIAL UNITS	# OF ELIGIBLE RESIDENTIAL UNITS *	%
1999	147,000	79,433	54
2000	147,909	79,366	54
2001	148,697	79,263	53
2002	149,021	71,717	48
2003	149,769	71,925	48
2004	151,076	71,690	47
2005	153,031	71,582	47

* Eligibility criteria of pre–1974 year of construction and property assessment of $90,000 or less.

If this principle is adopted, the Planning, Property and Development Department is recommending that a 2006 Program be limited to all eligible residential units with a property assessment of $114,400 or less; which is based on the following information and statistics obtained from the Property Assessment Department. The total number of residential units in Winnipeg is 153,301 and 50% of the subject total is 76,650. In combination with the recommended pre-1981 year of construction requirement, the Property Assessment Department has confirmed that a 2006 property assessment value of $114,400 would be needed in order to comply with the "minimum of 50%" principle. Specifically, a property assessment value of $114,400 generates a sufficient number of eligible residential units to comply with the principle i.e. 76,569.

The Property Assessment Department has confirmed that if the 2005 HRTA Program eligibility criteria are retained for the 2006 Program, then, only 29% of all residential units in Winnipeg would be eligible i.e. 44,924 of 153,301; which is due to generally increased re-assessment values for 2006.

If the two aforementioned principles and new eligibility conditions were adopted for a 2006 HRTA Program, the number of total eligible residential units would increase from 71,582 (2005) to 76,569 (2006) and the number of eligible residential units in each electoral ward would be different as the attached Schedule "A" reveals. As additional information, Schedule "B" shows the percentage of residential units that would be eligible in each Neighbourhood Characterization Area if the proposed eligibility conditions were adopted.

It is anticipated that the projected differences in each electoral ward and the higher number of eligible residential units (i.e. 76,569) would not create any significant negative impacts for a 2006 HRTA Program. Generally, it is expected that the number of applicants/completed files and actual tax credit expenses would be similar in 2006 to previous years (refer to the following two charts).

ANNUAL COMPLETION RATE OF ACCEPTED APPLICATIONS

Annual HRTA Program	Total Applicants	Completed Files	Completion Rate %
1999	1,067	652	61
2000	1,110	768	69
2001	1,073	693	65
2002	1,140	758	66
2003	1,052	746	71
2004	942	656	70

ACTUAL ANNUAL TAX CREDIT EXPENSES								
HRTA Program	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1999	194,404	194,404	194,404	-	-	-	-	-
2000	-	218,285	218,285	218,285	-	-	-	-
2001	-	-	221,043	221,043	221,043	-	-	-
2002	-	-	-	207,553	207,553	207,553	-	-
2003	-	-	-	-	221,191	221,191	221,191	-
2004	-	-	-	-	-	225,702	225,702	225,702

Further, a 2006 Program would, in all probability, operate and remain open for a time period of six to seven months; which is comparable to previous years.

Accordingly, the Planning, Property and Development Department is recommending that a 2006 HRTA Program be adopted on the basis of the aforementioned two principles and new eligibility conditions.

With respect to the Executive Policy Committee directive that Administration "… develop a new program to offer up to a five year period free from increases in assessed property value when home improvements are made", three options were considered for the property-tax based incentive program. Pursuant to Section 219 of the City of Winnipeg Charter, the options considered were 1) tax grants, 2) tax rebates, and 3) tax credits. Inter-departmental discussions concerning the implementation of the program concluded that the tax credit option was the most appropriate due to its relative simplicity, immediate taxation impact to the property owner and transparency via the credit appearing on the annual tax bill.

A review of property assessment valuation processes has revealed that some home renovations eligible for the proposed 2006 HRTA Program would likely not result in any increases to assessed property value or would result in increases that were so minimal that any "tax freeze" would likely be of little significance or benefit to a homeowner. See attached Schedule C for further comments on the operational impacts associated with the implementation of the proposed tax credit program.

Financial Impact Statement

Date: November 18, 2005

Project Name: 2006 HOME RENOVATION TAX ASSISTANCE PROGRAM

First Year of Program 2006

	2006	2007	2008	2009	2010
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
External	-	-	-	-	-
Grants (Identify)	-	-	-	-	-
Reserves, Equity, Surplus, Other	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ 230,000	$ 230,000	$ 230,000	$ -
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ -	$ 230,000	$ 230,000	$ 230,000	$ -
Less: Existing Budget Amounts	-	230,000	230,000	230,000	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

The tax credit costs that would be generated by the adoption of a 2006 by-law would impact operating costs for the years 2007 - 2009. These cost estimates are based on actual costs incurred in prior years adjusted slightly for the possibility of higher average project costs. These costs are not forecasted on the basis of program maximums, i.e. $325,000 per year, because administrative experience has shown that, although the maximum potential credits are approved through the application process, that the completed eligible projects generate lower total credits than the by-law allows. The amounts shown above are within approved budgets only if Council approves forecasted expenditures contained in the Department's Business Plan Submission.

"Original signed by"
Mike McGinn, CA
Manager of Finance

IN

PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY:

Corporate Finance
Property Assessment Department

THIS REPORT SUBMITTED BY:

Planning, Property and Development Department
Division: Development and Inspections
Prepared by: Stew Duncan, Home Renovation Tax Assistance Program
PPD File #:

Document name: o:\reports directive\development and inspections\manager of d&i\2005 reports\hrta 2006 report (nov 18).doc

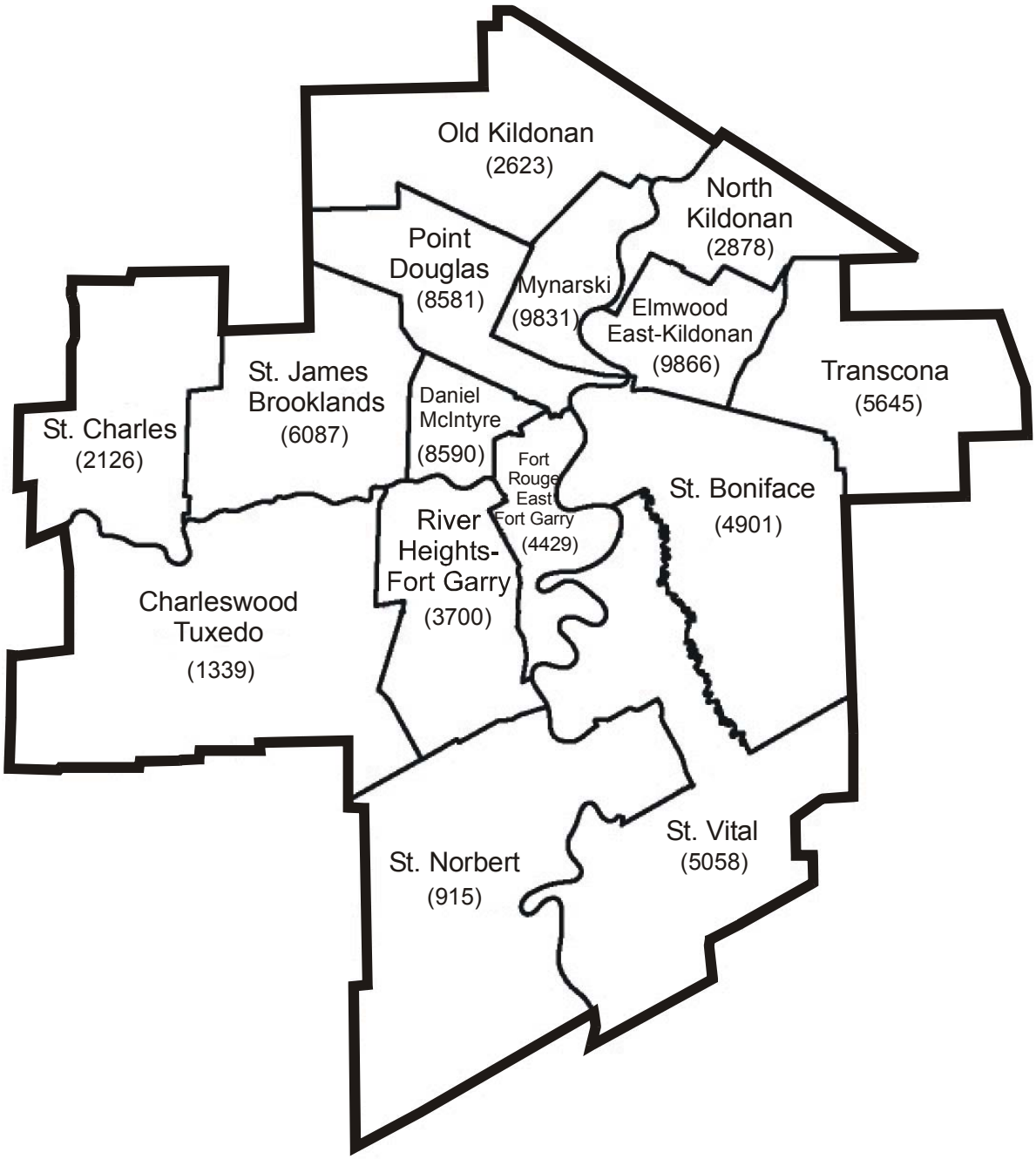
Schedule A

Proposed 2006 Eligible Residential Units *

(See attached map)

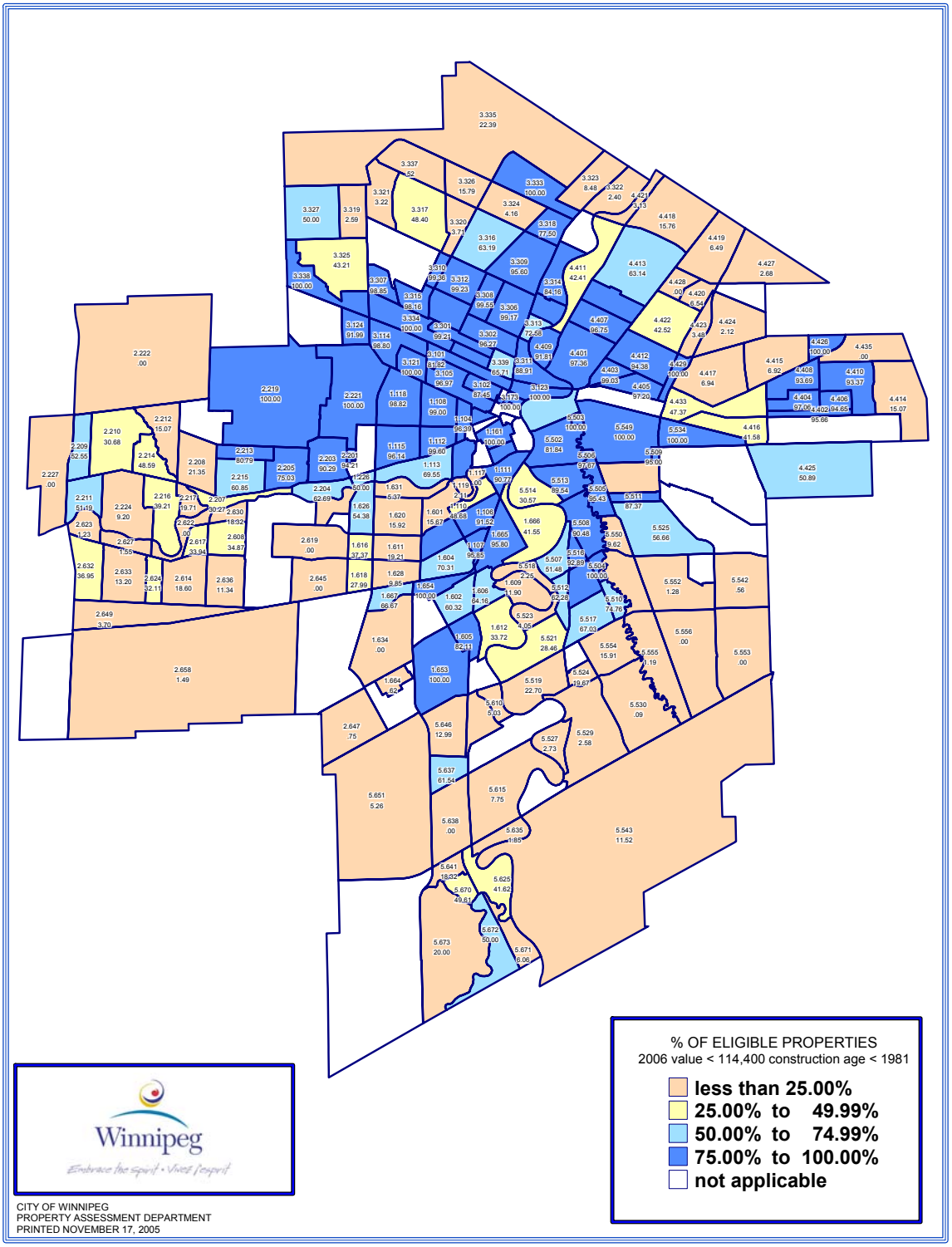
Electoral Wards	TOTAL Residential Units	2005 Eligible Residential Units	Proposed 2006 Eligible Residential Units * (Attached map)	Difference Between 2005 and 2006
Charleswood/Tuxedo	11,146	1,141	1,339	198
Daniel McIntyre	9,291	8,604	8,590	-14
Elmwood-East Kildonan	11,423	9,281	9,866	585
Fort Rouge/Fort Garry	6,800	4,292	4,429	137
Mynarski	10,475	9,749	9,831	82
North Kildonan	8,853	2,331	2,878	547
Old Kildonan	9,715	1,792	2,623	831
Point Douglas	10,452	7,797	8,581	784
River Heights/Fort Garry	12,776	3,698	3,700	2
St. Boniface	12,645	4,790	4,901	111
St. Charles	7,789	1,829	2,126	297
St. James	8,901	5,983	6,087	104
St. Norbert	10,306	508	915	407
St. Vital	12,799	4,835	5,058	223
Transcona	9,660	4,952	5,645	693
TOTALS	**153,031**	**71,582**	**76,569**	**4,987**

* Based on proposed new eligibility conditions



PROPOSED 2006 ELIGIBLE RESIDENTIAL UNITS

Schedule B


% OF ELIGIBLE PROPERTIES
2006 value < 114,400 construction age < 1981
less than 25.00%
25.00% to 49.99%
50.00% to 74.99%
75.00% to 100.00%
not applicable
Winnipeg
Embrace the spirit • Vivez l'esprit
CITY OF WINNIPEG
PROPERTY ASSESSMENT DEPARTMENT
PRINTED NOVEMBER 17, 2005

This summary identifies some of the operational impacts associated with the implementation of a new program that would offer up to a five-year period free from increases in assessed property value when home improvements are made. The following are intended to identify relatively high level operational impacts and they may, or may not, include solutions to the noted impact:

1. **City Wide Reassessment Program** - If the tax credit resulting were applicable for a period of 5 years, the tax credit period would span 2 city wide reassessment cycles. Due to the tax shifting consequences of a reassessment program, a property that previously had an increased tax and credit under this program, could in fact have a lower property tax. This would require either one of two solutions. First, the assessor could assess the property at the new level of value where the assessment would reflect the property prior to and after the new work was completed. A hypothetical pre-improvement assessment would be calculated in order to determine the new incremental tax amount. The second solution would require the by-law to have an algorithm that sets the ratio of the tax credit to the full municipal tax whereby that ratio would be applied to the municipal property tax resulting from a reassessment. NOTE: This same problem arises with an increased tax resulting from the reassessment of a property.

2. **Adding the New Work to the Assessment Roll** – Timing becomes an issue as to when the new work may be added to the assessment roll. Depending on the completion date of the work, either a supplementary assessment will be issued or the new work will be added to the roll that is being prepared. If the roll that is being prepared is a reassessment year, there will be no base assessment or tax to determine what the incremental tax of the new work is. The solution would require the assessor to assess the property at the new level of value where the assessment would reflect the property prior to and after the new work was completed. A hypothetical pre-improvement assessment would then be calculated to determine the new incremental tax amount.

3. **Expediency of Adding the New Work to the Tax Roll** – Property owners would expect the new work and tax credit to be applied to their tax account in a timely basis. This could potentially create staffing issues for both the Property Assessment and Taxation offices.

4. **Incremental Taxes Representing Additional Work** – Properties inspected for the determination of the incremental assessment for the approved work may have additional work that is not reflected in the property's assessment data that results in an increased assessment over and above that attributed to the approved work. The solution would require the assessor to assess the property to reflect both the approved work only as well as all changes for the property. Tax amounts would be calculated to isolate the impact of the approved work only. The property owner would be charged additional taxes, regardless of the application of the tax credit. However, if the added work is completed in the year of a reassessment, then the circumstances of # 1 noted above also apply.

5. **Assessment Appeals** – All tax credit programs, where the basis of the credit is the assessed value of the property receiving the credit, are affected by successful assessment appeals. If a property received a credit and the base assessment was reduced due to an appeal, the credit amount could possibly be revised upwards. However, if the assessment reflecting the new work was reduced due to an appeal, part of the credit would have to be 'clawed-back' and the appeal refund amount adjusted accordingly.

6. **Automated System Implications** – Depending on the adopted eligibility criteria associated with the new program, additional data fields may be required to manage the complexities of multiple assessed values for the approved work, ratios for determination of tax credits, flags to identify approved properties, start and end dates for credit application, etc. This will require budgeted resources to develop system changes, manage the new program and increased/on-going administrative time for an expanded, and potentially complex program.