Agenda - Council – December 16, 2009

Report - Standing Policy Committee on Property and Development – December 3, 2009

Item No. 8 Amendment to the Residential Infill Tax Credit By-law No. 124/2007 eFile FL-2.2

STANDING COMMITTEE RECOMMENDATION:

On December 9, 2009, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submits the following to Council:

1. To amend the Residential Infill Tax Credit By-law by:

    A. Adjusting the maximum assessed value eligibility requirement for single-detached housing from a value of $230,000 to $410 000, effective for those projects completed in 2010 or 2011 (which use the April 1, 2008 assessment reference date).

2. To amend the Residential Infill Tax Credit By-law by:

    A. Adding a maximum assessed value eligibility requirement of $410,000 for eligible condominium, duplex and triplex projects (projects with 3 dwelling units or less), and

    B. Applying this amendment as of its effective date to new applications not yet conditionally approved but not applying it to projects already approved.

3. To amend the Residential Infill Tax Credit By-law by:

    A. Adding a requirement that applications must be conditionally approved prior to their completion (e.g. closing of building permits) as determined by conditions set out in the by-law, and

    B. Applying this amendment as of its effective date to new applications not yet conditionally approved but not applying it to projects already approved.

4. That Council authorizes the Public Service to use the ‘best estimate’ approach to subscribe the Residential Infill Tax Credit Program as opposed to the ‘project maximum’ approach.

5. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Report - Standing Policy Committee on Property and Development – December 3, 2009

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On December 9, 2009, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On December 3, 2009, the Standing Policy Committee on Property and Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

ISSUE: **Amendment to the Residential Infill Tax Credit By-law (124/2007) and clarification of the calculation method used for subscribing the Residential Infill Tax Credit Program**

Critical Path: **Standing Policy Committee on Property and Development – Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
S. Dueck	D. Joshi	M Ruta	G Laubenstein

RECOMMENDATIONS

1. To amend the Residential Infill Tax Credit By-law by:
   a. Adjusting the maximum assessed value eligibility requirement for single-detached housing from a value of $230,000 to $410 000, effective for those projects completed in 2010 or 2011 (which use the April 1, 2008 assessment reference date).
2. To amend the Residential Infill Tax Credit By-law by:
   a. Adding a maximum assessed value eligibility requirement of $410,000 for eligible condominium, duplex and triplex projects (projects with 3 dwelling units or less), and
   b. Applying this amendment as of its effective date to new applications not yet conditionally approved but not applying it to projects already approved.
3. To amend the Residential Infill Tax Credit By-law by:
   a. Adding a requirement that applications must be conditionally approved prior to their completion (e.g. closing of building permits) as determined by conditions set out in the by-law, and
   b. Applying this amendment as of its effective date to new applications not yet conditionally approved but not applying it to projects already approved.
4. That Council authorizes the Public Service to use the 'best estimate' approach to subscribe the Residential Infill Tax Credit Program as opposed to the 'project maximum' approach.

IMPLICATIONS OF THE RECOMMENDATIONS

The existing Program currently contains an eligibility requirement for new residential infill houses to have assessed values of $230,000 or less. That is, single-detached dwellings with assessed values of more than $230,000 do not qualify under this Program. No similar assessment threshold is currently in place for projects with condominium units, or traditional duplexes and triplexes.

2010 is a General Assessment year. The market values of all properties have been adjusted to reflect a reference date of April 1, 2008. The City-wide increase in market value for all properties from the 2003 reference year to the April 1, 2008 reference date is estimated to be 66%. The increase in market value for single-family residential properties only, from the 2003 reference year to the April 1, 2008 reference date, is estimated to be 78%.

The current assessment limit of $230,000 is not based on a specific reference year. Notwithstanding, projects completed in 2009 or prior have been assessed using the 2003 reference year. Unless the assessment limit is amended, projects completed in 2010 will be assessed based on the April 1, 2008 reference date, thus making ineligible a significant number of potential applicants and effectively lowering this threshold.

The current Program credits 75% of the amended municipal real property taxes after the project is complete for a period of 5 years. In addition to the $230,000 assessment limit, the Program also contains other provisions which limit the total annual credit to $2,000 (cumulative 5-year credit limit of $10,000). Given the current municipal mill-rate, properties assessed at the maximum current $230,000 limit would only receive $1,975 annually.

The recommendation is to raise this assessment limit to $410,000 beginning for projects completed in 2010. Projects completed in 2010 will be assessed for taxation purposes based on an April 1, 2008 reference date. The change in assessment limit represents an increase of 78%, which reflects the City-wide increase in the assessed value for single family residential properties between the 2003 reference year and the April 1, 2008 reference date.

The current Program is limited to projects resulting in 3 or fewer residential units, be they single-detached, duplex, triplex, or condominium. The recommendation is to apply the assessment threshold to all eligible dwelling types. Currently there is no maximum assessed value or ceiling for non-single-detached dwelling types. Approval of this recommendation would create consistency.

The current Program allows not only applicants to apply for the project after initiating construction, but even after full completion of the project. One of the negative outcomes of this is that some projects are completed and first used as rental properties (one of the criteria of the Program is that the unit must be owner-occupied). After some time as a rental property, the building is sold and becomes owner-occupied and the owner successfully applies for the credit. As such, the tax credit clearly was not an incentive for the decision to initiate the project, but becomes simply an after-the-fact bonus. Adoption of this recommendation would remove that opportunity.

Although the current Program is not yet close to being fully subscribed, approval of the use by the Public Service of the 'best estimate' approach to subscribing this Infill Tax Credit Program will, in theory, allow a greater number of projects to be approved. It would also provide clarity to the Public Service regarding its administrative approach and be consistent with what is recommended in other similar programs. However, it must be noted that this approach produces a minor risk that the estimates of total tax credits may be understated resulting in the maximum amounts approved by Council being exceeded over the Program's life-span. The more cautious 'project maximum' approach, which operates on the assumption that every project will result in the maximum possible credit, is the only way to truly ensure that the maximum total credits offered through the Program will never exceed the maximum authorized by Council. However, since many projects do not reach the maximum possible grant amount, such an approach will inevitably result in the funding made available by Council being under-allocated. More detail regarding this issue is contained in Appendix 1.

The Program duration is from May 2007 to May 2010. A more formal Program review with recommendations to continue the Program or not is still due.

HISTORY

The original Residential Infill Tax Credit Program and By-law were adopted by Council in May 2007 but applied retroactively to projects with building permits issued after January 1, 2007. The Program was originally established to allow credits for up to $3,000,000. As of October 1, 2009, the Program had subscribed an estimated $426,000 in current and future tax credits for 85 conditionally approved properties.

Rationale supporting the use of an incentive for residential infill development was presented as summarized:

- Supported by Plan Winnipeg, Policy Statement 3A-02
- Infill housing leverages the use of existing municipal physical infrastructure and community assets such as parks, schools, libraries, and transit.
- Because Winnipeg has one of Canada's oldest housing stock characterized by an increasing number of aging, obsolete or dilapidated homes, an incentive to help bridge the economic gap that exists for the replacement of these homes compared to Greenfield development makes infill opportunities more viable and attractive.
- Infill development often reuses properties that may have been underutilized or blighted, helping catalyze revitalization of existing neighbourhoods.
- Infill development, particularly that which is located in proximity to existing amenities (e.g. shopping) and City services (parks, community centers, transit, etc.) can reduce auto use and accompanying congestion and pollution.
- Infill housing can promote a more compact form of housing than suburban development and represents an effective way to meet Winnipeg population growth needs.

While residential infill development may never occur on the same scale as suburban developments, there is a need for a municipal strategy that can encourage both consumers and developers to create a bigger market for infill. This municipal strategy recognizes that infill development provides social and sustainable benefits that are not currently reflected in the housing market. The benefits of promoting reinvestments in existing neighbourhoods through

infill developments include an increase in the property tax base and a reduction in housing market failures occurring in distressed neighbourhoods like the ones recorded in the late 1990's in some of the Major Improvement Areas.

In October 2004, the Planning, Property and Development Department released the City of Winnipeg Residential Land Supply Study. The Study included projections that there would be housing demand of approximately 16,000 to 20,000 new single-family dwellings in the period from 2004 to 2011 and 15,000 to 16,000 from 2012 to 2021 based upon population growth and decrease in household sizes. The Study's authors projected that 5% of the market for single-family dwellings could be absorbed by infill housing in existing neighbourhoods. The balance of the demand for single-family dwellings (95%) would be supplied by new suburban development. The Study implies that there will be demand to accommodate over 1,700 single-family units as infill development over the fifteen years in addition to multiple family housing projects that will occur on infill lands.

FINANCIAL IMPACT

Financial Impact Statement Date: October 30, 2009

Project Name:

Amendment to the Residential Infill Tax Credit By-law (124/2007)

COMMENTS:

The recommendations contained in this report are 1) to amend the existing By-law by adjusting the maximum assessed value eligibility requirement for single-detached housing from a value of $230,000 to $410 000, effective for those projects completed in 2010 or 2011 (which use the April 1, 2008 assessment reference date), 2) to amend the existing By-law by:
a. Adding a maximum assessed value eligibility requirement of $410,000 for eligible condominium, duplex and triplex projects (projects with 3 dwelling units or less), and
b. Applying this amendment as of its effective date to new applications not yet conditionally approved but not applying it to projects already approved, 3) to amend the existing By-law by:
a. Adding a requirement that applications must be conditionally approved prior to their completion (e.g. closing of building permits) as determined by conditions set out in the by-law, and
b. Applying this amendment as of its effective date to new applications not yet conditionally approved but not applying it to projects already approved, and 4) that Council authorizes the Public Service to use the 'best estimate' approach to subscribe the Residential Infill Tax Credit Program as opposed to the 'project maximum' approach.

While there are no direct financial implications associated with this report, it is likely that approval of the recommendations will lead to the Program being fully subscribed, which will result in a total of $3 million in tax credits being applied over the life of the Program. There is a risk that use of the 'best estimate' approach could result in the Program's maximum tax credit amount being exceeded.

As the tax credits are to equal incremental municipal property taxes on any approved project, there are no associated out-of-pocket financial implications; rather, the potential total amount of $3 million in tax credits represents an opportunity cost. Once the estimated 5 - 7 year life span of the Programs has passed, all municipal property taxes will accrue to the City.

Given the number of variables and timeframe involved, it is not currently possible to estimate with reasonable certainty the net financial implications associated with the recommendations contained in this report.

"Original Signed By"
Mike McGinn, CA
Manager of Finance

CONSULTATION

In preparing this Report there was consultation with:

Assessment and Taxation Department (as to assessment and taxation matters only)

Corporate Suppport Services, Legal Services Division

SUBMITTED BY

Department:	Planning, Property and Development
Division	Housing Development
Prepared by	Stan Dueck, acting Manager
Date:	November 10, 2009
File No.	

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Appendix 1.

Recommendation 3

- The maximum total credits offered through the Residential Infill Tax Credit Program are limited to $3 million. Currently, the Program is not fully subscribed.
- The Public Service can use one of two methods for subscribing the $3 million allocated. The first is the 'project maximum' approach. This operates on the assumption that every project will result in the maximum possible credit. This approach is the only way to truly ensure that the maximum total credits offered through the Program will never exceed the maximum authorized by Council. However, since many projects fall short of the maximum possible grant, this approach will inevitably result in the funding made available by Council being under-allocated.
- The second approach – the one being recommended in this Report - is the 'best estimate' approach. In this approach, the Public Service simply uses the information provided by the applicant and engages in a 'theoretical assessment'. That is, they apply their best judgment to estimate the actual credit that will be provided when the project is complete. Clearly, there is a risk that the estimates of total credits may be understated (e.g. actual assessed values are greater, additional property enhancements are made during subsequent years, property taxes are raised, etc.). In this case, the maximum program amounts approved by Council could be exceeded (over the 5-7 year program life-span). However, this approach is more likely to be an accurate reflection of the total credits being approved and is more likely to result in the total amount available through this Program being expended.
- Of note is that even in the event that taxes were increased in subsequent years, each project's per year and total credit maximum would still be in force.
- The current (Oct 1, 2009) subscription levels using the two approaches are as follows:

Total Subscription Limit	'Best Estimate' Grants Payable	Maximum Credits Payable
$3M	$426k	$850k

- The use of either method only becomes a direct issue at the point when a program becomes fully subscribed. Although this is far from being the case, establishing the Program calculation method will create consistency with other similar programs, and may become an issue in the event that this Program is extended beyond its current end date of May 2010.