**Agenda - Council - January 28, 2004**

**Report - Executive Policy Committee - January 21, 2004**

**Item No. 6 2004 Home Renovation Tax Assistance Program**
**File FL**

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On January 21, 2004, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submits the following to Council:

1. That a Home Renovation Tax Assistance Program be approved for 2004.

2. That the criteria regarding eligible renovations, as outlined in the 2003 Home Renovation Tax Assistance Program By-law No. 8165/2002, remain the same for 2004.

3. That the eligibility criteria stipulating that a residential unit must have a property assessment of $90,000.00 or less and a pre-1974 year of construction, as outlined in By-law No. 8165/2002, remain the same for 2004.

4. That the criteria limiting citizens to a maximum of $10,000.00 of claimable renovation expenses and a maximum of $1,500.00 of tax credits, as outlined in By-law No. 8165/2002, remain the same for 2004.

5. That the criteria to complete all eligible renovation work by December 31, as stipulated in By-law No. 8165/2002, remain the same for 2004.

6. That the criteria that the Home Renovation Tax Assistance Program be open and accessible to all eligible property owners in Winnipeg remain the same for 2004.

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

**Report - Executive Policy Committee - January 21, 2004**

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On January 21, 2004, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submitted the matter to Council.

Further, the Executive Policy Committee requested the Administration to report back on the following during the review of the 2005 Home Renovation Tax Assistance Program, namely:

- Utilization of any unexpended funds from one program year to the next.
- Review the criteria regarding the property assessment of a residential unit being $90,000.00 or less, and a possible increase of that amount, either with an inflationary formula or to an arbitrary figure (i.e. $115,000.00).
- Review the August 12, 2002 recommendations of the Civic Environmental Committee regarding energy efficiency works and/or reducing greenhouse gas emissions.

STANDING COMMITTEE RECOMMENDATION:

On January 16, 2004, the Standing Policy Committee on Property and Development concurred in the administrative recommendation and forwarded the matter to the Executive Policy Committee and Council.

**Re: GOALS AND OBJECTIVES –**
**2004 HOME RENOVATION TAX ASSISTANCE PROGRAM**

**For submission to:** **Standing Policy Committee on Property and Development**

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

**Report date:** November 5, 2003

**Recommendations:**

(1) That a Home Renovation Tax Assistance (HRTA) Program be approved for 2004.

(2) That the criteria regarding eligible renovations, as outlined in By-Law 8165/2002, remain the same for 2004.

(3) That the eligibility criteria stipulating that a residential unit must have a property assessment of $90,000.00 or less and a pre-1974 year of construction, as outlined in By-Law 8165/2002, remain the same for 2004.

(4) That the criteria limiting citizens to a maximum of $10,000.00 of claimable renovation expenses and a maximum of $1,500.00 of tax credits, as outlined in By-Law 8165/2002, remain the same for 2004.

(5) That the criteria to complete all eligible renovation work by December 31st, as stipulated in By-Law 8165/2002, remain the same for 2004.

(6) That the criteria that the HRTA Program be open and accessible to all eligible property owners in Winnipeg remain the same for 2004.

## REPORT SUMMARY

A new HRTA Program should be adopted for 2004 that retains all of the eligibility criteria of the 2003 Program (i.e. By-Law 8165/2002). The Planning, Property and Development Department is of the opinion that a number of recommendations that were submitted by the Renovators' Council should not be adopted as they would have a negative impact.

**Key Issues:**

- The "goals and objectives" or eligibility criteria of the existing 2003 HRTA Program (By-Law 8165/2002) are serving their intended purpose; accordingly, a new HRTA Program should be adopted for 2004.
- Adopting the recommendations of the Renovators' Council would have a negative impact for the Home Renovation Tax Assistance Program and, therefore, all eligibility criteria for a 2004 Program should be the same as the 2003 Program.

Implications of the Recommendations:

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:**

- If the aforementioned Recommendations are adopted, it is likely that a 2004 HRTA Program will encourage Winnipeg residents to continue to renovate their homes and improve their neighbourhoods. As well, a 2004 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:

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

**Comment(s):**

- The Department's Business Plan has forecasted requirements based on the anticipated adoption of a 2004 HRTA By-Law, although Council has not approved-in-principle any budget forecasts beyond 2003.

**REASON FOR THE REPORT:**

On November 19, 2002, the Standing Policy Committee on Property and Development recommended that the Director of Planning, Property and Development review the goal and objective statements of the Home Renovation Tax Assistance Program, in consultation with Committee members and the "Industry", and report back prior to the Council Prorogue Period in 2003. (In this case, the "Industry" representative is the Renovators' Council of the Manitoba Home Builders' Association.)

**HISTORY:**

On December 15, 1994, Council adopted the first HRTA Program (By-Law 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 $80,000.00 or less. The maximum available tax credit was $750.00 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 7230/98) with different eligibility criteria and tax credit provisions. Homes constructed prior to 1981 with an assessment of $100,000.00 or less were now eligible. As well, the maximum available tax credit was increased to $1,500.00 and allocation was over three years.

On March 24, 1999, Council adopted a new HRTA Program (By-Law 7384/99) with different eligibility criteria and a funding "cap". Homes constructed prior to 1974 with an assessment of $90,000.00 or less were now eligible. The total Program tax credit funding was limited to $975,000.00. Tax credit provisions remained at a maximum of $1,500.00 over three years. The next four Programs included the same eligibility criteria, tax credit provisions and total funding (By-Laws 7523/99, 7798/2001, 7943/2001 and 8165/2002).

**DISCUSSION:**

As outlined in the "Reason For The Report" section, the Planning, Property and Development Department was instructed to review the "goals and objectives" of the Home Renovation Tax Assistance Program.

All ten Program By-Laws include the following general "object" statement:

> "3. The object of this by-law is to provide an economic incentive for the home renovation industry, to reduce the perception that property owners are penalized for improving their properties and to encourage property owners to take out building permits thereby promoting the quality of construction in meeting applicable building, electrical and plumbing codes."

Notwithstanding the above "object" statement, the Department has interpreted "goals and objectives" to mean the most significant eligibility criteria of the HRTA Program.

Accordingly, the Department has reviewed a number of Program criteria in the context of various recommendations that were submitted by the Renovators' Council.

(1) To allow only certain renovation projects to be eligible for tax credits, as stipulated in Section 6 of By-Law 8165/2002:

> "6. Subject to section 7, the following are eligible renovations:
>
> (a) renovating any part of a residential unit that is used or will be capable of being used as year-round living space, such as
>
> (i) renovating a kitchen,
>
> (ii) renovating a bathroom, including the purchase and installation of sinks, tubs and vanities, and
>
> (iii) finishing an unfinished basement;
>
> (b) building an addition to a residential unit if the addition will be capable of being used as year-round living space;
>
> (c) installing, repairing or upgrading a primary heating system, a plumbing system, an electrical system or a ventilation system, but not including an air conditioner;
>
> (d) insulating walls or attics;

(e) reinforcing or repairing a foundation or basement, or repairing or replacing weeping tile or other parts of the basement, including related excavation and landscaping;

(f) installing or repairing exterior sheathing;

(g) installing or repairing roofing, shingling, soffits, fascia or eavestroughing;

(h) installing or repairing doors or windows, excluding skylight windows;

(i) installing or repairing or upgrading a water or sewer system, including related excavation and landscaping;

(j) modifying a residential unit to accommodate a disabled person;

(k) renovating for reasons of safety or occupant health;

(l) repairing or renovating a residential unit or a part of a residential unit to ensure or maintain compliance with The Maintenance and Occupancy By- Law of the City of Winnipeg;

(m) constructing or repairing a deck, verandah or garage; and

(n) purchasing, installing or repairing a hard-wired, monitored security system."

With respect to this criteria, on March 19, 2003, staff of the Department met with the Renovators' Council and the Council had no objection to maintaining the type of renovation projects that would be eligible for tax credits with a 2004 Program.

Accordingly, the Department is of the opinion that the eligible renovations criteria should remain the same for a 2004 HRTA Program.

(2) To restrict the Program to homes with a property assessment of $90,000.00 or less and a pre-1974 year of construction, as stipulated in Section 8 of By-Law 8165/2002:

"8. To be an eligible residential unit; …

(a) a residential unit must have been built before January 1, 1974; and

(b) a residential unit and the land on which it is situated has an assessed value as defined in subsection 1(1) of The Municipal Assessment Act not exceeding $90,000 for the year in which the application is made."

With respect to these criteria, the Renovators' Council submitted the following recommendations in letters dated November 19, 2002 and April 15, 2003:

> "We believe the threshold must increase to maintain a relationship with rising assessments and to assist homes on the edge of areas currently designated for inner city renewal. This threshold will also permit "character homes" in many areas to qualify for participation in the program." (November 19, 2002)
>
> "Specifically, we believe that the threshold must increase to keep pace with rising property values and corresponding increases in assessed values. The current threshold of $90,000 would require an upward adjustment of $35,000 to reflect the change in property values over the past few years. Winnipeg real estate has enjoyed a couple of good years in which property values have seen double digit increases. With the knowledge that investment in residential real estate results in positive dividends, homeowners are looking to spend money on their dwellings to further enhance value. This multi-billion dollar renovation industry nation wide, has significant benefits to the local economy, one of which is increased property tax revenues based on increased assessment values.
>
> Instead of a specific year of construction of an eligible home, we believe that this Program should apply to homes over 20 years old. Most homeowners will consider updating their dwellings after 20 years due to normal wear and tear. In addition to the simple cosmetic upgrades, homeowners are forced to consider changes to mechanical and electrical systems. By Referring to a 20 year threshold, further changes to this specific section of the By-Law wouldn't be required." (April 15, 2003)

The Department is of the opinion that the aforementioned recommendations of the Renovators' Council should not be adopted for the following reason: in all probability, the operating time period of the Program would be reduced from eight months to five months.

Based on data obtained from the City's Property Assessment Department, Winnipeg currently has a total of 151,555 residential homes. Of this total, 71,889 homes or 47% of all Winnipeg homes currently comply with the property assessment and year of construction eligibility criteria of the Program, i.e., $90,000.00 or less and pre-1974, respectively. Since the adoption of a funding limitation requirement in 1999, each annual Program has consistently generated an average of 1,100 applicants or files. As well, in accordance with each Program's stipulated funding limit, each Program has "closed" after operating for approximately eight months.

If the property assessment is increased from $90,000.00 to $125,000.00 and the year of construction is changed from pre-1974 to pre-1984 for the 2004 Program, as recommended by the Renovators' Council; 111,484 homes or 74% of all Winnipeg homes would be eligible for a 2004 HRTA Program. The addition of 39,595 homes would create a higher demand for the Program and a reduction of the Program's operating time period from eight months to five months.

The Department is of the opinion that the property assessment of $90,000 or less and the pre-1974 year of construction eligibility criteria should remain the same for a 2004 HRTA Program.

(3) To limit citizens to a maximum of $10,000.00 of claimable renovation expenses and a maximum of $1,500.00 of tax credits from all Home Renovation Tax Assistance Programs, as stipulated in Section 11 of By-Law 8165/2002:

> "11(1). Subject to subsection (2), the annual real property tax credit shall be equivalent to 5% of:
>
> (a) the valuation of the proposed eligible renovation,
>
> (i) stated as required under The Winnipeg Electrical By-Law and/or the Winnipeg Building By-Law; or
>
> (ii) stated as required under subsection 10(2) of this by-law; or
>
> (b) the amount expended for eligible renovations:
>
> whichever is less,
>
> to a maximum annual real property tax credit of:
>
> (a) $500.00; or
>
> (b) the amount of the real property tax levied in the year by the City for its own purposes, and for greater certainty, shall not include taxes levied by the City for school purposes or local improvements;
>
> whichever is less, per eligible residential unit.
>
> 11(2). The total amount of tax assistance provided by the City of Winnipeg under this and any other Home Renovation Tax Assistance Program shall not exceed $1,500.00 per eligible residential unit."

With respect to these criteria, the Renovators' Council submitted the following recommendation in a letter dated April 15, 2003:

> "The maximum renovation amount should also be adjusted to reflect current market realities. The current amount of $10,000 doesn't allow the homeowner the ability to effect significant improvements to his home, again, resulting in improved assessed value and increased property taxes. The cost to install new energy efficient doors, windows, and heating systems would most certainly exceed the $15,000 threshold.

> We suggest an increase to $15,000 would more accurately reflect the average improvements being contemplated by homeowners."

The Department is of the opinion that the aforementioned recommendation of the Renovators' Council should not be adopted for the following reason: in all probability, less citizens would receive tax credits and the Program's operating period would be reduced.

With the current maximum claimable amount of $10,000.00, the maximum tax credit that a citizen can receive is $500.00 annually for three years for a total of $1,500.00. On the assumption that the maximum 5% annual tax credit and three year cycle for issuance of tax credits remains the same and the Council's recommendation to increase the maximum claimable amount to $15,000.00 is adopted; then, the maximum annual tax credit would have to be increased to $750.00 for a total of $2,250.00. This would result in a distribution of the Program's total tax credits to fewer citizens.

If funding remains the same for the 2004 Program; then, in all probability, less files would be generated if this recommendation was adopted, i.e., by increasing the maximum claimable amount for each applicant by $5,000.00, the maximum Program valuation of $6,500,000.00 would be reached in less time. Again, this would result in a reduced operating time period for the Program.

Accordingly, the Department is of the opinion that the maximum of $10,000.00 of claimable renovation expenses and $1,500.00 tax credits criteria should remain the same for a 2004 HRTA Program.

(4) To allocate tax credits to only those citizens who have completed their renovation projects by December 31st, as stipulated in Section 10 of By-Law 8165/2002:

> "10. (1). In order for a real property tax credit to be provided:
>
> (c) the eligible renovation must be completed by December 31, 2003."

With respect to this criteria, the Renovators' Council submitted the following recommendation in a letter dated April 15, 2003:

> "We also discussed the inspection process, and when an applicant becomes eligible. It was suggested that the inspection department need only to verify that the value meets or exceeds the establish threshold. Often times, certain aspects of the renovation are not completed prior to the onset of winter and therefore delayed to spring time of the following year. This delay may exclude the applicant from eligibility under the Program. If the inspector determines that $15,000 of value is in place at time of inspection, noting that further work is to be undertaken, then the inspection report could be processed and the applicant would receive the benefit under the program. This would ensure that the funds allocated by the City would not go unused."

The Department is of the opinion that the aforementioned recommendation of the Renovators' Council should not be adopted for the following reason: in all probability, this recommendation would create excessive administrative demands on Housing Inspectors and, as well, it would be difficult to manage the Program in a consistent manner for all citizens.

Citizens are processed for tax credits after the Department's Housing Inspectors have inspected a renovation project and confirmed that the work has been completed in accordance with applicable building by-laws and codes. This is documented by Inspectors "signing-off" the relevant building permit(s). In order to accommodate this recommendation of the Renovators' Council, Housing Inspectors would have to do interim inspections and prepare interim reports for projects that are partially finished and, quite possibly, not in full compliance with applicable building by-laws and codes.

Accordingly, the Department is of the opinion that the December 31st completion deadline criteria should remain the same for a 2004 HRTA Program.

(5) To permit all eligible property owners in Winnipeg to take advantage of the HRTA Program.

With respect to this criteria, the Renovators' Council submitted the following recommendation in a letter dated November 19, 2002:

> "We also note that due to the intense concentration of funding under the Winnipeg Housing and Homelessness Initiative within designated areas, that perhaps those areas should be excluded from this program thereby permitting more activity in areas on the edge of these neighbourhoods to receive more funding. This would also create more funding for other communities throughout the city that have the characteristics of the designated areas but remain undesignated."

The Department is of the opinion that the aforementioned recommendation of the Renovators' Council should not be adopted for the following reason: it would not be fair or equitable to restrict the Program to only certain geographical areas of Winnipeg.

Accordingly, the Department is of the opinion that a 2004 HRTA Program should remain open to all eligible property owners in Winnipeg.

Finally, the Renovators' Council submitted the following recommendation in a letter dated November 19, 2002:

> "We also note that each year a significant portion of the funds allocated by City Council go unused because projects are uncompleted and unprocessed. This needs review."

Section 12 of By-Law 8165/2002 states as follows:

> "12(3). For greater certainty, no real property tax credit shall be given under this by-law which shall cause the total real property tax credits given under this by-law to exceed $325,000.00 in any of the years 2004, 2005 or 2006."

Based on this particular section of By-Law 8165/2002, the Renovators' Council is presuming that the Department has allocated $325,000 in each annual Budget for HRTA Program tax credits.

In order for tax credits to be issued, citizens must complete their renovation projects by December 31st of each year. For various reasons, not all citizens complete their particular renovation projects in accordance with the stipulated December 31st deadline; so, the Renovators' Council is correct in stating that a number of projects are not completed and processed for tax credits each year. Since 1999, the completion rate for each HRTA Program has averaged 65%, as revealed by the following information:

| **HRTA PROGRAM** | **NUMBER OF FILES (APPLICANTS)** | **NUMBER OF COMPLETED FILES** | **COMPLETION RATE %** |
|---|---|---|---|
| 1999 | 1,067 | 652 | 61 |
| 2000 | 1,110 | 768 | 69 |
| 2001 | 1,073 | 693 | 65 |
| 2002 | 1,140 | 758 | 66 |

However, the Renovators' Council's assumption that a "… significant portion of the funds allocated by City Council go unused …" is not entirely accurate because the Department has not been allocating $325,000.00 in each applicable Budget for the various Programs.

Since 1999, in accordance with the average "Completion Rate" of 65%, the Department has only been allocating approximately 65% of $325,000.00 for tax credits in each annual Budget, as outlined in the following information:

| **HRTA PROGRAM** | **ANNUAL BUDGET TAX CREDIT ALLOCATIONS** | | | | | |
|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** |
| **1999** | 190,000 | 190,000 | 190,000 | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| **2000** | - | 220,000 | 220,000 | 220,000 | - | - |
| **2001** | - | - | 225,000 | 225,000 | 225,000 | - |
| **2002** | - | - | - | 230,000 | 230,000 | 230,000 |

Since 1999, the actual annual tax credit expenses for each Program have been (and will be) as follows:

| **HRTA PROGRAM** | **ACTUAL ANNUAL TAX CREDIT EXPENSES** | | | | | |
|---|---|---|---|---|---|---|
| | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** |
| **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 |

With the 1999 Program, the "Annual Budget Tax Credit Allocation" was lower than the "Actual Annual Tax Credit Expense"; so, in 1999, there were no "unused" tax credits.

With the 2000-2002 Programs, all "Annual Budget Tax Credit Allocations" were slightly higher than the "Actual Annual Tax Credit Expenses"; so, the Department acknowledges that some "unused" tax credits existed in those years. However, the amount of "unused" tax credits in each year was not as significant as presumed by the Renovators' Council.

## Financial Impact Statement

**Date:** November 5, 2003

**Project Name:**

Proposed 2004 Home Renovation Tax Assistance Program

**First Year of Program** 2005

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| **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 | - | - | - | - | - |
| Net Budget Adjustment Required | $ 230,000 | $ 230,000 | $ 230,000 | $ - | $ - |

**Additional Comments:**

The tax credit costs that would be generated by the adoption of a 2004 by-law would impact operating costs for the years 2005 - 2007. 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 "Net Budget Adjustment Required" is indicated because technically, Council has not approved in principle any budget forecasts beyond 2003, although the Department's 2004-2006 Business Plan has forecasted costs consistent with the adoption of a 2004 HRTA program.

"Original signed by"
Gord Courage, Manager
Support Services Division

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

Manager of Development and Inspections

Manager of Support Services

| | |
|---|---|
| This report submitted by: | Planning, Property and Development Department |
| Division: | Development and Inspections |
| Prepared by: | S. Duncan<br>Designated Officer<br>Home Renovation Tax Assistance Program |

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