Agenda – Council – April 27, 2005

Report – Executive Policy Committee – April 20, 2005

Item No. 4 2005 Home Renovation Tax Assistance Program
File FL

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On April 20, 2005, the Executive Policy Committee concurred in the administrative recommendation and submits the following to Council:

1. That a Home Renovation Tax Assistance Program be approved for 2005 with the same eligibility criteria as 2004, as outlined in By-law No. 10/2004; in particular, that a residential unit must have a property assessment of $90,000.00 or less and a pre-1974 year of construction.

2. That the Planning, Property and Development Department be directed to explore alternatives other than the Home Renovation Tax Assistance Program, such as a separate grant or loan program, in order to achieve all their energy efficiency goals for a significantly higher portion of Winnipeg homes.

3. 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 – April 20, 2005

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On April 20, 2005, the Executive Policy Committee concurred in the administrative recommendation and submitted the matter to Council.

On January 21, 2004, 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 amount (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.

Re: 2005 HOME RENOVATION TAX ASSISTANCE PROGRAM

For submission to: Executive Policy Committee

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

Report date: April 18, 2005

Recommendation(s):

1) That a Home Renovation Tax Assistance (HRTA) Program be approved for 2005 with the same eligibility criteria as 2004, as outlined in the attached By-Law 10/2004 (Appendix A); in particular, that a residential unit must have a property assessment of $90,000.00 or less and a pre-1974 year of construction.

2) That the Planning, Property and Development Department be directed to explore alternatives other than the HRTA Program, such as a separate grant or loan program, in order to achieve all their energy efficiency goals for a significantly higher portion of Winnipeg homes.

REPORT SUMMARY

A new HRTA Program should be adopted for 2005 that retains all of the eligibility criteria of the 2004 Program (i.e. By-Law 10/2004). At present the existing program appears to be meeting the intent of the HRTAP with the following arguments:

1. Consistently, the Program is having no difficulties in committing the budget funds with the existing criteria. In fact, the Program runs out of budget funds within approximately seven months;
2. If there were an increase to the assessment value eligibility criteria, eligible households would increase and the budget funds would be depleted earlier. The Program would end in a shorter time period unless there is an increase in the funding for the Program.
3. An increase to the assessment value eligibility may create an impression that the Program is intended for households who can afford to perform the renovations and is not supporting the lower valued homes.

The HRTA Program could be utilized to provide information to Winnipeg homeowners about the energy efficiency goals of the Civic Environmental Committee and the benefits of Manitoba Hydro's "Power Smart" Program; which is endorsed and supported by the Civic Environmental Committee. With respect to the energy efficiency goals of the Civic Environmental Committee, the Home Renovation Tax Assistance Program would only be capable of accommodating a limited number of Winnipeg homes (47%). Accordingly, other alternatives should be considered by the Planning, Property and Development Department to address the retrofit needs of a significantly higher portion of Winnipeg homes.

Key Issues:

- The eligibility criteria of the existing 2004 HRTA Program (By-Law 10/2004) are serving the intended purpose; accordingly, a new HRTA Program should be adopted for 2005.
- Any significant change to eligibility criteria would increase the number of houses that would be eligible for the HRTAP and, in all probability, would result in the Program operating for a reduced time period, therefore, all eligibility criteria for a 2005 Program should be the same as the 2004 Program.
- The HRTA Program could serve as a mechanism to inform and educate Winnipeg homeowners about the energy efficiency goals of the Civic Environmental Committee.
- The HRTA Program would have limited effectiveness in capturing all Winnipeg homes that may require energy efficiency retrofit work due to the $90,000 ceiling on the assessed value of eligible homes.

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 2005 HRTA Program will encourage Winnipeg residents to continue to renovate their homes and improve their neighbourhoods. As well, a 2005 HRTA Program will continue to provide an economic incentive for the home renovation industry.

Policy implications:

X	**No**
	Yes

Comment(s):

-

Environmental implications:

	No
X	**Yes**

Comment(s):

- Adopting a separate grant or loan program to achieve the energy efficiency goals of the Civic Environmental Committee would have a positive environmental impact for Winnipeg homeowners.

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 2005 HRTA By-law (which affect the years 2006 to 2008) are within the approved budget as per the forecasted expenditures included in the Department's 2005 to 2007 Business Plan Submission.

REASON FOR THE REPORT:

On January 28, 2004, City Council approved a **2004** HRTA Program. In conjunction with this decision, Executive Policy Committee, at the January 21, 2004 meeting, requested the Administration to report back on the following during the review of the **2005** Home Renovation Tax Assistance Program, namely:

(1) Utilization of any unexpended funds from one program year to the next

(2) 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)

(3) Review the August 12, 2002 recommendations of the Civic Environmental Committee regarding energy efficiency works and/or reducing greenhouse gas emissions"

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". Home construction prior to 1974 with an assessment of $90,000.00 or less was 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 five Programs included the same eligibility criteria, tax credit provisions and total funding (By-Laws 7523/99, 7798/2001, 7943/2001, 8165/2002 and 10/2004).

On August 12, 2002, the Civic Environmental Committee passed the following motion:

"That the following revisions be included in the eligibility criteria and promotion for the proposed City of Winnipeg 2003 Home Renovation Tax Assistance Program;

1. Increase the tax credit from fifteen percent (15%) to twenty-five percent (25%) for eligible retrofit work that improves energy efficiency and/or reduces greenhouse gas emissions (i.e. insulation of attics, walls and foundations; installation of energy efficient windows; installation of heat recovery ventilation systems; replacement of furnaces or boilers with high efficiency units, etc…),

2. Cooperate with Manitoba Hydro to encourage residents who express an interest in the City of Winnipeg 2003 Home Renovation Tax Assistance Program to also investigate Manitoba Hydro's Power Smart residential programs and services (i.e. energy audits, loan programs, renovation booklets and guidelines, etc…),

3. Harmonize, to the maximum extent feasible, the technical requirements (i.e. minimum insulation levels, window performance requirements, minimum furnace and boiler efficiencies, etc…), for energy efficiency work covered by the City of Winnipeg 2003 Home Renovation Tax Assistance Program with the technical requirements used by Manitoba Hydro for their Power loan and finance programs; and

4. Track and then report to the Civic Environmental Committee on the number of files processed and total tax credits issued for energy retrofit work completed under the City of Winnipeg 2003 Home Renovation Tax Assistance Program during 2003;

and forward to the Executive Policy Committee."

DISCUSSION:

With respect to Issue (1), "*Utilization of any unexpended funds from one program year to the next".* The HRTAP approved by Council, allows for a maximum tax credit of $325,000.00 per year for three years and the HRTAP By-law restricts the Department to approve applications for tax credits not exceeding $325,000.00 in total for any of the three years of the Program. Therefore, the Program functions on a first come first serve basis.

The following information will reveal that each individual HRTA Program does not end up with a significant amount of "unexpended funds" or tax credits as may be assumed. Although each individual HRTA Program By-Law outlines an annual funding cap of $325,000, this amount has not been included in annual budgets.

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, 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 outlined in the following table:

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
2003	1,054	747	70

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 table:

HRTA PROGRAM	**ANNUAL BUDGET TAX CREDIT ALLOCATIONS**						
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
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	-
2003	**-**	**-**	**-**	-	230,000	230,000	230,000

Since 1999, the actual annual tax credit expenses for each Program have been as follows:

HRTA PROGRAM	ACTUAL ANNUAL TAX CREDIT EXPENSES						
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
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

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 unexpended tax credits.

Since 2000, "unexpended funds" have been realized with the operation of each annual Program but the actual amount of those unexpended funds in each year is not significant. This is due to the fact that the Planning, Property and Development Department only allocates a sufficient amount of funds in each annual budget to reflect actual tax credits that are finally issued to citizens. To elaborate, not all projects are completed within the allotted time (same calendar year) and therefore do not qualify for tax credits. Since 1999, in accordance with the average "Completion Rate" of approximately 65% - 70%, the Department only allocates approximately 65% – 70% of the $325,000.00 for tax credits in the Department's annual Budget (see above). Consistent with previous years, the amount of unexpended funds for the 2003 Program was approximately $8,800.00.

With respect to Issue (2), "*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)*".

The current HRTA By-Law 10/2004 states as follows:

> 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.

Based on data obtained from the City's Property Assessment Department, Winnipeg currently has a total of 153,032 residential homes. Of this total, 71,737 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 seven to eight months. The 2004 Program operated for a period of approximately seven months.

If the property assessment criterion is increased to $115,000.00 with a 2005 Program, as suggested by Executive Policy Committee, the number of eligible homes would be increased to 94,066 or 61%. It is probable that adoption of this criterion would reduce the operating time period of the Program to approximately five months. Since the program operates on a first come first serve bases and consistently receives complaints from homeowners who apply for the Program after it has been closed, complaints would more than likely increase.

In a letter dated November 1, 2004, to the Director of Planning, Property and Development, the Manitoba Home Builders' Association is recommending that the property assessment criterion be increased to $140,000.00. This represents an increase in the number of eligible homes to 100,137 or 65%.

Since 1999, each annual HRTA Program has operated with the two criteria of pre-1974 year of construction and a property assessment of $90,000.00 or less. This has consistently resulted in each Program being open to citizens for approximately seven to eight months. As well, each Program has accommodated approximately 1,100 citizens. Any significant change to the property assessment criterion would increase the number of houses that would be eligible for the HRTA Program and, in all probability, would result in the program operating for a reduced time period. Accordingly, any increase to the property assessment criterion would have to be accompanied by an increase in tax credit funding in order to maintain the duration of the Program's current operating period (i.e. approximately seven to eight months).

The third issue is with respect to the four Civic Environmental Committee recommendations regarding energy efficiency works and/or reducing greenhouse gas emissions, these being:

1. Increase the tax credit from fifteen percent (15%) to twenty-five percent (25%) for eligible retrofit work that improves energy efficiency and/or reduces greenhouse gas emissions (i.e. insulation of attics, walls and foundations; installation of energy efficient windows; installation of heat recovery ventilation systems; replacement of furnaces or boilers with high efficiency units, etc…),

2. Cooperate with Manitoba Hydro to encourage residents, who express an interest in the City of Winnipeg 2003 Home Renovation Tax Assistance Program, to also investigate Manitoba Hydro's Power smart residential programs and services (i.e., energy audits, loan programs, renovation booklets and guidelines, etc…),

3. Harmonize, to the maximum extent feasible, the technical requirements (i.e. minimum insulations levels, window performance requirements, minimum furnace and boiler efficiencies, etc…), for energy efficiency work covered by the City of Winnipeg 2003 Home Renovation Tax Assistance Program with the technical requirements used by Manitoba Hydro for their Power loan and finance programs, and

4. Track and then report to the Civic Environmental Committee on the number of files processed and total tax credits issued for energy retrofit work completed under the City of Winnipeg 2003 Home Renovation Tax Assistance Program during 2003.

With respect to the recommendations from the Civic Environmental Committee, the Planning Property and Development Department has taken into consideration Council's policy direction from Plan Winnipeg 2020, specifically:

5A-04 Encourage Energy Efficiency

The City shall encourage energy efficiency by:

iv) encouraging energy efficiency in new construction and the retrofitting of existing homes as a requirement in neighbourhood revitalization initiatives;

The Planning, Property and Development Department proposes to work with Manitoba Hydro's "Power Smart" residential program to determine if the City can partner in evaluating potential applications that would be considered as eligible work to improve energy efficiency. The Department would be able to utilize the "technical expertise" that exists in Manitoba Hydro in relation to establishing energy efficiency guidelines. This would allow the City to review the recommendations of the Civic Environmental Committee with the intent of establishing guidelines for determining eligible work that improves energy efficiency and/or reduces greenhouse gas emissions.

The Planning, Property and Development Department also recommends that citizens would be provided with promotional information about Manitoba Hydro's "Power Smart" residential programs and services (i.e. energy audits, loan programs, renovation booklets and guidelines, etc.). Information about the "Power Smart" program would be made available to the public in the information kiosk located in front of the City's Zoning and Permits Branch office. In addition, when residents "apply" for admission into the 2005 HRTA Program (i.e. at the time of taking out appropriate building permits for their proposed renovation projects) they could be provided with the promotional information about the home renovation-related programs or services offered by Manitoba Hydro.

Financial Impact Statement

Date: April 11, 2005

Project Name:

Proposed 2005 Home Renovation Tax Assistance Program

First Year of Program 2005

	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 2005 by-law would impact operating costs for the years 2006 - 2008. 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.

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

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

N/a

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

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