Affordable Housing
Advisory Board
A City of St. Albert Board

Report

Municipal Affordable Housing Financial Incentives

Overview of municipally-provided financial incentives for affordable housing development

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Executive Summary

Municipalities across North America are implementing strategies to promote the development of affordable housing units. These strategies often contain an assortment of municipally provided incentives to assist in housing development.

This report examines five financial incentives that the City of St. Albert could offer to promote affordable housing development. These incentives include:

- grants and loans,
- land deals,
- planning and development fee exemptions,
- property tax exemptions, and,
- tax increment financing.

The report provides an overview of each incentive, as well as providing examples of how they are used in North America, and whether they would be feasible in St. Albert. The following table summarizes the findings of this report:

Incentive	Viability	Considerations
Grants and loans	Viable	• Assists in housing research and development costs
Land deals	Not viable	• Lack of local land opportunities
Planning and development fee exemptions	Viable	• Reduces affordable housing development costs
Property tax exemptions	Unsure	• Reduces affordable housing ongoing costs • May conflict with Council policy on income redistribution
Tax increment financing	Not viable	• Lack of local redevelopment opportunities

Table of Contents

Introduction

St. Albert and the Edmonton Regional Context

Housing prices in the Edmonton metropolitan area have increased considerably in the last few years with a 24 percent rise in single-detached housing prices across the Edmonton region between 2001 and 2003. A booming economy fuelled by significant natural resources and energy production coupled with low interest rates has contributed to a region-wide shortage in the supply of affordable housing.

Although the change in local single-detached housing prices is less than the regional average, St. Albert still saw a price increase of 21 percent over the same period. St. Albert continues to have higher average housing costs than other municipalities in the Edmonton region, with single-detached houses selling for an average of $217,000 in 2003. Other forms of housing are not immune to this upward price pressure either, as seen in Table 1:

Table 1 – Average Sale Price of Housing Units in St. Albert

Housing Type	Sale Price ($)			Change (%)
	2001	2002	2003	
Single-detached	180,000	204,000	217,000	22
Condominium	106,000	109,000	128,000	21
Duplexes and row-housing	122,650	144,250	151,600	24

Rental housing rates have been increasing in both St. Albert and in the Edmonton metropolitan region. In 2003, the average rent for one- and two-bedroom apartments in St. Albert was $587 and $707, an increase of 18 percent since 1999. The increase over the same period in Edmonton was closer to 25 percent.

Housing Affordability and Need

According to the Canada Mortgage and Housing Corporation (CMHC), housing affordability is directly correlated to a household's level of income. The CMHC defines affordable housing as suitably-sized ownership housing that costs no more than 32 percent of a household's gross annual income, and no more than 30 percent of gross annual income for rental accommodations.

Based on the 2003 average figures in Table 1, a household would have required an income of roughly $55,000 per year to afford a $217,000 single-detached house. Given that 35.7 percent of St. Albert households earn less than $50,000 per year, these housing prices create a challenge to St. Albert's housing affordability. Similarly, household incomes of roughly $32,500 and $37,500 would be required to purchase an affordable condominium or duplex housing unit in St. Albert.

Municipal Component of Housing Costs

Development and building permit fees

The primary determinants of St. Albert's housing cost are the price of land and the price of the materials and labour used to construct the housing unit. However, there is a component of the cost that is set by the City of St. Albert itself through its development and building permit fees. While these are a smaller portion of costs than land or construction, the City's development fees, as outlined in Table 2, are still significant:

Table 2 – City of St. Albert Residential Development and Building Permit Fees

Fee	Cost	Notes
Development permit application fee	$580.00	R3, R3A, DR districts
Development permit approval fee	$58.00 per unit	R3, R3A, DR districts, maximum of $6,300
Building permit fee	$7.50 per $1,000 of building value	Building value between $15,000 and $200,000
Capital rec contribution	$1,402 per unit	

In addition to these fees, a proposed development may also have to pay various utility connection fees, subdivision fees, and fees associated with required plan amendments.

In 2004, the Edmonton Region Home Builders Association studied building and development costs across the Edmonton region. This study found that St. Albert had the highest total development and building fees of the six municipalities studied. Table 3 compares these municipalities and the total fees assessed:

Table 3 – Municipal fees comparison (2004)

Municipality	Total fees ($)	Rank
St. Albert	8,914	1
Edmonton	8,899	2
Strathcona County	6,968	3
Fort Saskatchewan	4,986	4
Leduc	4,003	5
Spruce Grove	3,954	6

The same study ranked St. Albert in the following categories:

- first in land dedication fees, development fees, and other charges and taxes,
- second in infrastructure charges, and,
- third in building permit fees.

Property taxes

A component of the ongoing cost of housing is property taxation. In St. Albert, residential property taxes are composed of three portions based on the assessed market value of the home: municipal property taxes, school board property taxes, and a special tax to support the Multipurpose Leisure Centre. Table 4 lists the total residential property taxes charged based on varying assessed values:

Table 4 – Total Residential Property Taxes by Assessed Value (2005)

Assessed Value ($)	Total Taxes ($)
128 788	1,872
185 454	2,695
386 363	5,615

A low-income household residing in a house valued at $128,788 would be required to pay $1,872 in property taxes, or $156 per month, in addition to mortgage, utility, and maintenance costs.

Report Structure

This report will examine five financial incentives that the City of St. Albert could use to promote the development of affordable housing. The incentives will be defined, with examples provided to demonstrate how they are used by other municipalities, and their appropriateness for use in St. Albert will be examined. These incentives include:

- grants and loans,
- land deals,
- planning and development fee exemptions,
- property tax exemptions, and,
- tax increment financing.

These incentives are pure financial instruments; other incentives like density bonuses and relaxed engineering standards, which do reduce the costs of development, are not considered in this report because of their land use planning implications.

These financial incentives will be presented to the City of St. Albert's Affordable Housing Advisory Board for consideration. After analysis, the Board may recommend courses of action to Council.

Legality of Financial Incentives

As laid out in Canada's constitutional framework, the City of St. Albert is governed by the laws of the Province of Alberta. As such, the City's range of policy options is constrained by the Municipal Government Act, which outlines what municipalities in Alberta may and may not do.

The financial incentives examined in this report comply with Provincial law to a degree. The relevant statutes and sections are summarized in the table below:

Incentive	Summary of What the Current Legislation Permits
Grants and loans	*Municipal Government Act*, Sections 248, 264 – 268 • 248 allows municipalities to make budgeted expenditures, which should include grants • 264 – 268 allows and governs the ability of municipalities to lend money and guarantee loans to their controlled corporations and to non-profit organizations
Land deals	*Municipal Government Act*, Section 70 • Allows municipalities to transfer land for less than market value to non-profit organizations without advertisement
Planning and development fee exemptions	*Municipal Government Act*, Section 630.1 • Allows a municipality to establish and charge fees for planning and development matters
Property tax exemptions	*Municipal Government Act*, Section 364 • Allows a municipality to exempt property held by a non-profit organization from taxation
Tax increment financing	*Municipal Government Amendment Act, 2005*, Section 14 • Allows municipalities to pass bylaws creating community revitalization levies

Depending on the nature of the financial incentives, changes to provincial legislation may need to be pursued.

Grants and Loans

Overview

Many Canadian municipalities offer grants and loans to affordable housing agencies, including private and non-profit developers, to help pay for residential unit planning and development. Grants and loans may be given in many forms for a wide range of purposes.

The advantage of a grant or loan is that conditions can be placed upon the usage of the money. For example, a municipality may give a conditional grant for the specific purpose of studying local household needs and available services. In addition, loans also have the added advantage of generating interest payments, which can be used by a municipality to establish a revolving fund for future loans. Loans are typically interest-free or are negotiated at below-market rates.

Examples

Housing Hamilton Innovations Fund

Established by the City of Hamilton, Ontario, this fund promotes the development of community-based affordable housing supply initiatives. This $100,000 fund provides grants and interest-free loans to non-profit and private organizations to build new housing units, as well as to conduct research that promotes affordable housing development. Successful applicants have 18 months to complete their affordable housing projects in order to keep the funding.

Canada-Alberta Affordable Housing Program

This funding partnership between the Government of Canada and the Province of Alberta promotes the development of affordable housing projects. The federal government's contribution of $67.12 million, which is matched by the province, provides grants to housing agencies in high-growth, high-need communities. Many municipalities, including Fort McMurray, Grand Prairie, Leduc, and Red Deer, provide grants to assist in the development of local housing projects.

Let's Build Program

Let's Build, a City of Toronto initiative, is a comprehensive affordable housing development program that provides land, grant funding, tax incentives, and waivers of development fees. Grant funding is provided out of the City's $11 million Capital Revolving Fund for Affordable Housing. This program has assisted in the construction of more than 650 affordable housing units in Toronto.

Applicability to St. Albert

The City of St. Albert has the legal jurisdiction to provide grants to affordable housing agencies. This may be a highly effective tool for promoting the development of affordable housing in St. Albert. In addition, the City may also issue and underwrite loans, but only to non-profit corporations. Using these powers, the City could provide funding assistance for projects such as:

- affordable housing research and feasibility studies,
- seed funding for the creation of non-profit housing agencies, and,
- grants and loans for non-profit housing development.

Land Deals

Overview

Many municipalities promote the development of affordable housing by making land deals with housing agencies. These deals usually involve giving, selling, or leasing municipal surplus lands at less than market value to housing developers. In some cases, the municipality will ensure the long-term affordability of the land either by controlling it through a long-term lease, or by entering into restrictive covenants dealing with future resale prices with the new landowners.

Examples

Action Ottawa

Offered by the City of Ottawa, Ontario, this program is a comprehensive package of incentives for non-profit and private affordable housing developers. Along with development fee relief, tax reductions, and capital grants, Action Ottawa also provides long-term leases on City-owned surplus lands. Since its inception in 2002, this program has created 368 affordable housing units.

The Lease or Sale of City-Owned Land for Social Housing Development

The City of Edmonton has created policy and procedure statements outlining how the City will lease or sell its lands in support of affordable housing development. These statements outline the kinds and rates of discount for various social housing agencies, including the City's own non-profit housing corporation, non-profit social housing agencies, and other developers.

Surplus City Property Ordinance

This San Francisco municipal ordinance directs the City to identify and transfer surplus city lands to the Mayor's Office of Housing with the goal of assisting the development of affordable housing. This ordinance allows the Office of Housing to enter into deals to lease or sell the lands to affordable housing agencies for less than market value, and to enter into covenants to preserve the long-term affordability of the land.

Applicability to St. Albert

Land deals are an effective way of reducing the cost of affordable housing development. However, these deals require municipalities to carry a supply of surplus lands. Unfortunately, the City of St. Albert does not have this supply available, and would need to purchase land or make some sort of deal with landowners to acquire properties. Providing land deals is currently not a viable incentive tool that the City of St. Albert could use to promote affordable housing development.

Planning and Development Fee Exemptions

Overview

Planning and development fees charged by municipalities often add considerably to the cost of residential projects. To provide a financial incentive for affordable housing development, many municipalities waive these fees for low-income housing.

Some planning and development fees that North American municipalities waive include:

- official plan amendment, zoning bylaw amendment, and variance application fees,
- development permit application and approval fees,
- building and demolition permit fees, and,
- other fees and levies associated with utilities, community amenities, etc.

Examples

Pinellas County Affordable Housing Incentives

Pinellas County, Florida, which includes the cities of Clearwater and St. Petersburg, has a section within its *Land Development Code* that outlines the county's affordable housing incentives. Asides from land use and non-financial incentives like expedited permit processing, the County Administrator is authorized to waive or subsidize all impact and review fees except where legal covenants and constraints prevent such waiving.

Municipal Applications Fee Refund, Development Charge Exemption, and Five Percent Parkland Dedication Fee Refund

These three programs, offered by the City of Hamilton and the Regional Municipality of Hamilton-Wentworth, provide refunds and exemptions of local planning and development fees. The refunds are given for affordable housing developments that require applications such as official plan changes, zoning bylaw changes, site plan approvals, and building permits. The exemptions are more general in nature, applying to both commercial and residential developments in the downtown area.

Housing Incentives and Regulatory Provisions

Amongst other provisions such as density bonuses and secondary units, the *Municipal Code* of the City of Santa Cruz, California allows housing developers to apply for waivers of utility connection fees, planning application fees, building permit fees, park and open space in-lieu fees, parking deficiency fees, and fire fees when developing residential units affordable to low- and very-low-income households.

Applicability to St. Albert

As noted in the introduction, fees in the City of St. Albert are higher than in the surrounding municipalities. A deferment or waiver of these charges by the City would reduce the cost of building new affordable housing units. This would be legally justifiable given that the City is permitted to determine how much to assess for these planning and development fees.

Property Tax Exemptions

Overview

Property tax exemptions are provided by municipalities to promote various local development initiatives. By exempting property from taxation, it reduces the ongoing costs of an agency's operations. For example, a municipality may promote the development and rehabilitation of affordable multi-family housing units by providing a long-term tax exemption to a property owner.

Examples

Property Tax Exemption for Multifamily Housing Program

This program, offered by the City of Seattle, Washington, is designed to stimulate the construction or rehabilitation of affordable multi-family housing units. The value of the multi-family housing unit improvements is exempted under this program for 10 years, and is transferable to new property owners. Housing developers have three years to complete their projects in order to receive tax abatements.

Tax Exemption for Non-Profit Organizations Program

Administered by the Halifax Regional Municipality in Nova Scotia, this program provides property tax reductions and exemptions to non-profit agencies in general. This program is geared towards providing tax exemptions and reductions to agencies that provide a service or program that replaces a municipal program. Special provisions for property tax exemption are made for non-profit agencies that provide shelter and affordable housing.

Limited Tax Abatement Programs

The Portland Development Commission administrates several tax abatement programs on behalf of the City of Portland, Oregon. These programs provide tax abatement for residential improvements and developments such as transit-oriented developments, rental unit rehabilitation, multiple-unit housing construction, and low-income non-profit housing development.

Region of York Property Tax Policy

York Region, located north of Toronto, has taken advantage of the Province of Ontario's *Fair Municipal Finance Act, 1998* to provide tax breaks to new multi-family housing units. The Act allows for new multi-family housing units to be assessed a property tax rate equal to the rate assessed to single-detached homes for a period of 35 years. In York Region, this tax rate is set at just over 0.54 percent for both property classes, but older multi-family units are assessed at a rate slightly less than 0.90 percent.

Applicability to St. Albert

The provision of property tax exemptions to affordable housing developments would be an effective tool for keeping low-income housing units affordable. By eliminating a significant ongoing cost, low-income households could spend less on meeting their housing needs.

However, property tax exemptions may not be a politically viable policy option for the City of St. Albert. In the recent discussions regarding the 2005 property tax rates and reassessment, City Council felt that the provision of property tax exemptions to low-income seniors would be a form of income redistribution that is not within Council's mandate. This Council decision could be extended to include all low-income households to prevent potential policy conflicts and community opposition.

Tax Increment Financing

Overview

Tax increment financing (TIF) allows municipalities to dedicate future property tax gains to funds that support specific programs or projects. Municipalities across North America do this by creating a TIF district that encompasses a number of properties to be redeveloped. This freezes the amount of taxes that the local authorities (e.g. the municipality, the school board) receive at the level before redevelopment. The assessed value of the property then increases after redevelopment, which increases the amount of tax paid by the property owner. The difference in the tax amount paid before and after redevelopment is diverted to a separate TIF authority.

TIFs can be used to support the development of affordable housing. A municipality can divert the property tax gains associated with redevelopment to an affordable housing agency, such as a housing trust fund or a municipal loan program, for use on future housing programs and projects.

Examples

Core Area Rehabilitation & Redevelopment Grant Program

> This City of Thunder Bay, Ontario program assists property owners in the downtown area to rehabilitate and redevelop buildings. Because TIF districts are not permitted by the Province of Ontario, no separate TIF authority exists to receive tax gains. Instead, the City simply provides a grant to the property owner for 100 percent of any increase in its municipal taxes over a ten year period to help pay for property redevelopment costs.

Tax Increment Financing Commission

> This Commission exercises TIF powers in Kansas City, Missouri to encourage the redevelopment of blighted properties. This is done by abating property tax increases associated with property improvements for up to 23 years. Instead, property owners are required to make payments in lieu of taxes and to pay 50 percent of future sales, utility, and earnings taxes to a special allocation fund. This fund is then used to reimburse developers for redevelopment costs.

Tax Increment Financing Program

> In 1994, the Massachusetts Economic Assistance Coordinating Council allowed the City of Somerville to use TIF mechanisms in support of job creation and commercial tax base growth. Under this program, business that plan to make substantial improvements are allowed to phase in the increased tax amounts due to increased assessments over a number of years. This acts as a financial incentive for commercial development.

Applicability to St. Albert

The Province of Alberta, through the *Municipal Government Amendment Act, 2005*, recently made it legal for municipalities to assess community revitalization levies. This amendment, which received Royal Assent on 10 May 2005, allows municipalities to pass bylaws designating specific redevelopment areas where property assessment values will be held at current rates for up to 20 years. In return, municipalities are permitted to issue debentures to cover the immediate costs of redevelopment, and then use the increase in taxes collected to pay for the debenture over time.

The City of St. Albert is permitted to use community revitalization levies, but this may not be an effective incentive for affordable housing development. TIF policies focus on the redevelopment of properties. Because St. Albert does not have any significant areas in need of redevelopment, an affordable housing strategy that depends on these opportunities would not be viable.