

Finding the Right Balance

Options for
Changing Land
Development
Practices

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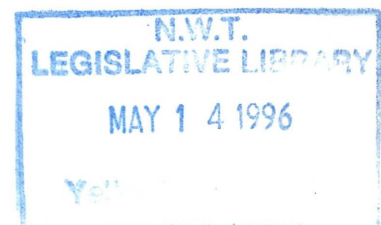
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Finding the Right Balance: Options for Changing Land Development Practices

Department of Municipal and Community Affairs
April 1996



Minister's Message

The nature of government in the Northwest Territories is changing rapidly. The upcoming division of the Northwest Territories, ongoing land claims and self-government negotiations, and fiscal challenges are all driving these changes.

To reflect these changes, the Department of Municipal and Community Affairs is looking forward at ways to make community governments more self-sufficient and self-reliant and to spend limited financial resources more effectively. Land development is one program area where opportunities exist to achieve this.

Changes to how land development is currently done should be guided by principles of affordability, cost recovery, and fairness within and among communities. It is important to focus on finding the right balance between all interests to create strategies for land development strategy which meet the needs of governments and community residents

The objectives of this Options Paper and consultation process are to generate discussions and receive comments on the issues and options related to land development and pricing. The Department would like to hear your comments on how to enable and support community governments to do land development and land administration and, in the transition, how land should be developed and priced until lands are devolved to community governments.

Your comments on the issues and options are important. The comments received will guide the department in forming strategies for land development. Staff will be available to meet with councils and the public, and will answer questions arising from these discussions.

I am confident that, working together, the right balance between all interests can be found and the Department will better serve the residents of the Northwest Territories.

Manitok Thompson
Minister of Municipal and Community Affairs



Table of Contents

Minister's Statement

Executive Summary.....	i
A. Introduction.....	1
B. The Current Situation: Land Development and Pricing.....	2
C. Principle/Objectives.....	6
D. Strengthening Community Control: GNWT Initiatives.....	7
1. Community Government Managing Land Development Projects.....	7
2. Devolution of Land Ownership.....	7
3. Land Administration Services and Funding.....	7
4. Training.....	8
5. Review Municipal Lands Policy.....	8
6. Amend Legislation.....	8
7. Land Development Policy.....	8
8. Easing the Transition: Municipal Land Development in 1996-97.....	9
9. Recovering Costs on Commissioner's Land.....	9
E. Changing Land Development Practices: Issues and Options.....	10
• How can community governments or the GNWT fund land development?.....	10
• How should the GNWT and community governments recover land development costs?.....	11
• How can an individual afford a lot?.....	12
• How can land be priced within communities to be fair to all consumers?.....	14
• How can lots be priced among communities in a fair manner ?.....	15
F. Finding the Right Balance.....	17

Questionnaire

Executive Summary

The Department of Municipal and Community Affairs is reviewing with all community governments how land should be developed, financed and priced.

This review attempts to increase opportunities for local control over the process, at the same time acknowledging that increasingly limited financial resources must be used in the most effective manner. This review will discuss current problems in the provision of building lots and, through discussion with communities, work jointly to find solutions, reduce barriers and eliminate obstacles.

In 1995 the GNWT spent \$6,000,000 to develop approximately 300 lots and the normal lease payments for these lots are \$250 per year. This program is providing to EVERYBODY, regardless of financial position, a big subsidy. This is a subsidy which is not readily seen, and as such, most people do not know how much building lots cost. Depending on the community, trucked service lots cost from \$5,000 to \$33,000 each and lots with water and sewer pipes cost from \$40,000 to \$80,000.

In cities, towns and villages, land development is done by community governments and the full cost of new lots is recovered from the sale or lease of these lots. Community governments own land in Nunavut now. In the West, where land claims are settled, community governments will also have the opportunity to own land. How can the GNWT assist these community governments to develop land?

It does not make sense for the GNWT or community governments to continue to provide a subsidy to those who can afford to pay the cost of lot development.

Change must occur based on certain key principles, aimed at striking a balance between the interests of governments and land users. Land pricing should reflect the full cost of land development, but building lots should be affordable to community residents. Any subsidies provided should be only for those in need.

Change must also provide community governments with more authority over land development. The Department is moving on a number of fronts to help community governments in this regard, including i) promoting municipal control over GNWT land development projects ii) encouraging the transfer of land to municipalities (where claims are settled) iii) reviewing legislation to assist hamlets and charter communities to finance land development projects iv) providing training in the management of land development projects v) leveling the playing field between the GNWT and

community governments by eliminating subsidies in the pricing of Commissioner's land and administration services.

While the Department is moving ahead on these issues, there remains a number of challenges and opportunities in providing building lots in communities. Several questions serve as a focus for discussion of these matters:

How can community governments and the GNWT fund land development?

The primary sources of funding for new development will be from lease and/or sale revenues and from loans.

How should community governments and the GNWT recover land development costs?

To ensure that loans are repaid, full cost recover is necessary. Costs can be recovered in full, up front - or they can be recovered over time. If payments are made over time interest must be paid.

Cost recovery can be for only those acquiring new lots, or payments for existing lots can be increased as well.

How can an individual afford a lot?

Most individuals obtain a mortgage, or loan, to buy a house. The price of a building lot could be included in the amount to be borrowed.

For those needing financial assistance, a subsidy can be provided which helps make the lot affordable.

How can land be priced within communities to be fair to all consumers?

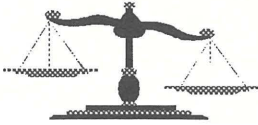
Assuming that new lots are priced at full development cost, there may be a real difference in the price of lots within a community depending on whether the payments for existing lots are based on the cost of producing a similar lot today, or on historical development costs.

How can lots be priced among communities in a fair manner?

There is a wide range of development costs throughout the Territories. A maximum lot price subsidy would help in those cases with very high development costs.

The goal of the paper is to promote discussion about opportunities for finding the right balance between the interests of governments and land users. The paper concludes with a review of the advantages and disadvantages of these opportunities.

To discuss these matters further, or to respond to any of these issues, contact the nearest office of Municipal and Community Affairs, or phone (403) 873-7569 in Yellowknife.



*Finding the Right Balance:
Options for Changing Land Development Practices*

A. Introduction

In the recent discussion paper entitled Empowerment and Accountability, the Department of Municipal and Community Affairs (MACA) outlined its strategic direction to "... support and encourage community government self-sufficiency and self-reliance" to reflect the changing nature of government in the Northwest Territories. The Department wants to assist community governments in achieving greater levels of self-reliance and self-sufficiency.

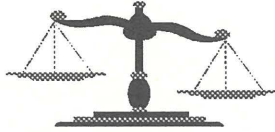
MACA's Land Development Program, which provides for the design, engineering and construction of roads and building lots, is one program area where opportunities exist to achieve this. With more community governments owning more land and with increasing pressure to reform the way government operates, it is time to take a new look at how land development should be done. Successful land development strategies will ultimately lead to a community-centred land development process in which communities are self-sufficient.

In developing strategies for land development, affordability issues for the GNWT, community governments, and the land user must be considered. There must also be equal treatment of land users, whether the land is developed by the GNWT or by a community government. The challenge is to find the right balance between the interests of governments and the needs of land users, in terms of both affordability and equity.

This Options Paper will:

- outline the current land development and pricing process;
- outline principles for a land development strategy;
- discuss land development and pricing issues; and
- provide an overview of the options available for a land development process which strengthens community control and addresses affordability issues (GNWT, community governments, and land user).

The objectives of this Options Paper and consultation process are to inform all community councils and other community organizations of land development and pricing issues, options for new land development strategies, and to obtain feedback and direction on the options available to achieve a land development strategy.



*Finding the Right Balance:
Options for Changing Land Development Practices*

B. The Current Situation: Land Development and Pricing

Currently, municipalities exercising taxing authority (tax-based municipalities) are responsible for land development. Land development projects are financed by the municipality through debenture loans from the GNWT and loans from a bank.

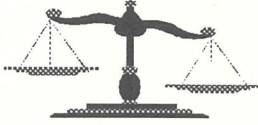
Debenture loans are repayable with interest (the cost of borrowing money) and are secured by debentures issued by the municipality and held by the GNWT. This financing option requires approval from the Minister of Finance and money must be expended consistent with a debenture agreement.

A tax-based municipality can also finance a land development project by obtaining a loan from a bank. In order to borrow money from a bank, approval of a borrowing by-law must be obtained from the Minister of MACA and the municipality must provide security (guarantee of repayment) for the loan. The loan must be repaid with interest.

Land development costs are recovered by charging the consumer the full cost of land development, including interest. The Town of Iqaluit uses equity leases to recover land development costs. An equity lease is a lease of land which allows the lessee's annual payments to accumulate as equity toward eventual full payment of the land development costs. Other tax-based municipalities usually get an agreement for sale to purchase land and land development costs are recovered immediately. Most often, consumers finance the cost of land development by obtaining a mortgage from a bank. A mortgage involves a bank lending money to a consumer. The consumer provides security, such as the land and/or building, for the loan and must pay the money back over an agreed upon time period. The consumer will be charged interest (cost of borrowing money) on the balance of the loan throughout the term of the loan until the balance is paid in full.

In communities not exercising taxing authority (hamlets, charter communities, and settlements), or non-tax-based communities, the GNWT is the only developer of lots for residential, commercial, and industrial uses. The GNWT spends approximately \$6 million per year in order to provide developed lots while only \$1,350,000 in revenue is generated per year from all new and existing leases.

The GNWT's Land Valuation Policy determines the price of a lot on Commissioner's land. According to this policy, only half the cost of roadworks may be charged to a lot. Yet, development costs include many factors such as planning and engineering design, road construction, land fill, powerlines, piped water and sewer lines, legal survey, and interest payments. Therefore, lot prices are less than the actual cost to develop the lot.



*Finding the Right Balance:
Options for Changing Land Development Practices*

The cost of developing a trucked lot can range from approximately \$5,000 to \$33,000 and a piped lot can range from approximately \$40,000 to \$80,000 per lot. In contrast, annual lease payments have been very low, usually \$250 per year although all leases provide for a review of the rate every 5 years. The GNWT offers a hidden subsidy which is applied to everyone, regardless of ability to pay.

Most lots have been leased in the past, due mainly to outstanding land claims over the years, although sales are common in Tuktoyaktuk and Fort McPherson. In Nunavut, community residents have decided to continue leasing for the next 20 years. Land development has previously been done on Commissioner's land however, since the ratification of the Nunavut land claim, this work has been done on land owned by municipalities. The GNWT spent over \$5 million in the 1995/96 fiscal year on land development in Nunavut. In 1996-97, Nunavut municipalities will receive all revenue from land that has been developed since 1993.

Currently, non-tax-based municipalities are limited in their ability to obtain their own financing for land development. Nunavut municipalities have ownership of land however, Iqaluit is the only tax-based community in Nunavut having both ownership of land and the ability to borrow money. As ownership of land and the revenue from sales and/or leases is devolved to municipalities, it will be necessary for local governments to examine how developed lots will be provided.

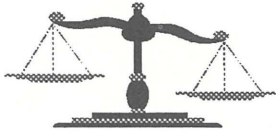
Implications

The current pricing of land does not match the cost of developing a lot. After 25 years of making yearly lease payments of \$250, the consumer will have made payments of only \$6,250.

**Figure 1
Total Lease Fees Paid Over Time**

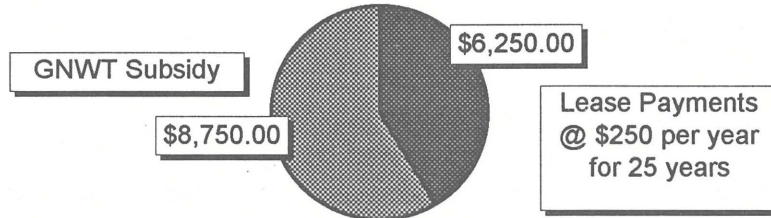
Time (years)	Total Paid
10	\$2500
15	3750
20	5000
25	6250

At current lease rates, it would take approximately 60 years to pay for a lot which cost \$15,000 dollars to develop and that does not include any interest costs (the cost of borrowing money over a period of time)! Currently, land development costs that are not covered by lease payments or sales are being absorbed by the GNWT. In the above example, the GNWT is providing a \$8750 subsidy.



*Finding the Right Balance:
Options for Changing Land Development Practices*

**Figure 2:
Subsidized Land Development Costs for a \$15,000 Lot
(without interest costs)**



Although interest is often overlooked when considering costs, it is a real cost which contributes to the total cost of land development. At an interest rate of 9% and with payments spread out over 25 years, the total cost of a \$15,000 lot would be \$37,260. In this example, the interest charges more than the double of the original cost of the lot (\$22,260 in interest charges)!

**Figure 3:
Total Cost of Lot Over 25 Years
(At 9% Interest Rate)**

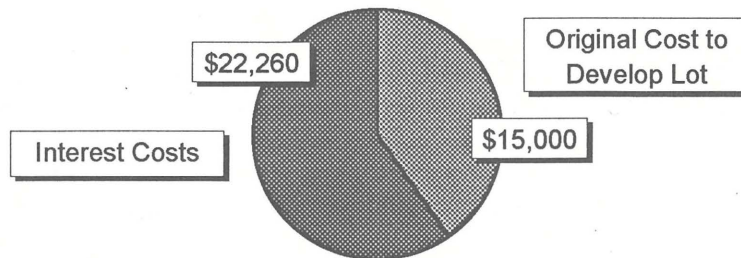
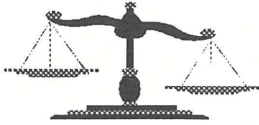
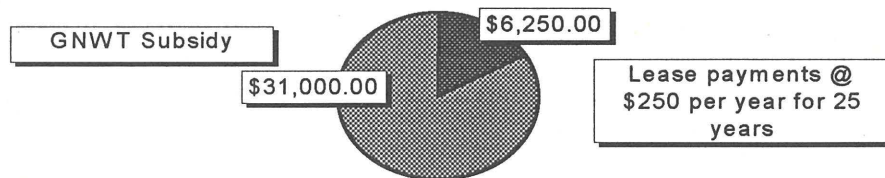


Figure 4 shows an example of the current subsidy provided by the GNWT when interest costs are included.



*Finding the Right Balance:
Options for Changing Land Development Practices*

Figure 4:
**Subsidized Land Development Costs for a \$15,000 Lot
(with interest costs)**

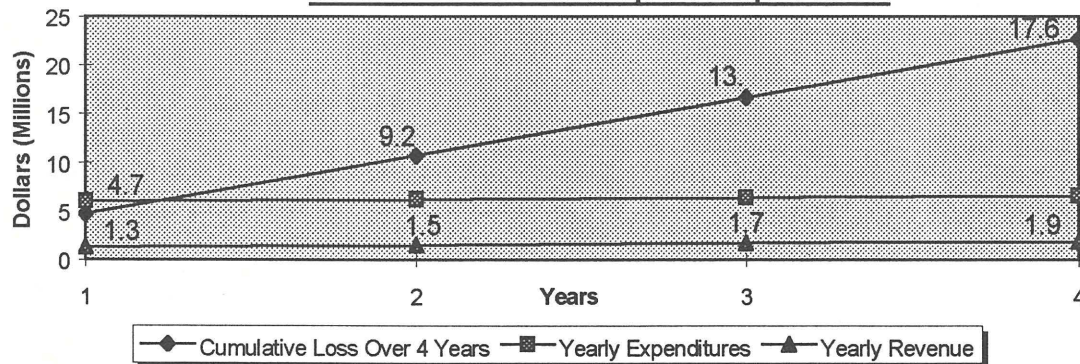


Total Payments made towards the lot @ 9% interest rate over 25 years = \$37,260.00

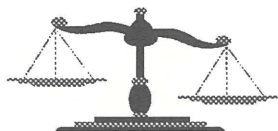
After making payments for 25 years the consumer has paid only \$6250 of the \$37,260 total cost for the lot.

If a land developer spent \$6 million in one year to build 300 lots and consumers of the lots paid the current \$250 per year, it would take **85 years** to pay the land development costs (not to mention the substantial interest charges) from lease payments. For example, if \$6 million is spent in Year 1 to develop lots and revenues from leases and sales total 1.3 million, the total loss (difference between expenditures and revenue) in year one is \$4.7 million. If \$6 million is spent every year (over 4 years) to develop lots and revenue from leases and sales slowly grows from 1.3 million, the loss accumulated over just 4 years is nearly \$18 million.

Figure 5:
Unrecovered Land Development Expenditures



These examples show how the GNWT's land development process currently operates. A community government could not afford to do land development in the same manner.



*Finding the Right Balance:
Options for Changing Land Development Practices*

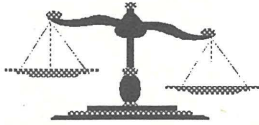
Given the current level of land development subsidies, there is no incentive for community governments to become more involved in land development as it would be difficult for a community government to maintain current pricing levels and finance land development projects. Yet, land ownership is being passed on to communities and it will be necessary to provide developed lots to community residents.

With the current demands for dwindling government funds in all program areas, it does not make sense for the GNWT or community governments to provide a subsidy to those who can afford to pay the cost of land development. The GNWT and community governments must consider methods of moving toward cost recovery in a fair and affordable manner.

C. Principles/Objectives

A land development strategy should reflect the following principles, which will help in striking the right balance among the interests of governments and land users:

- community government autonomy should be maximized;
- land pricing should be fair, easy to understand, simple to administer, consistent, and should reflect the full cost of land development;
- land should be affordable to community residents (consumers should pay no more than 30% of household income for housing, including the cost of land);
- the land development process should promote fairness between all community governments and the Government of the Northwest Territories;
- consumers of lots should be responsible for their land development costs;
- changes to land pricing should be phased in, in order to allow a transition period; and
- subsidies should be visible, targeted to those most in need, and must encourage cost-effective land development practices.



D. Strengthening Community Control: GNWT Initiatives

In order to provide community governments with more authority and control over land development, the GNWT is already pursuing some initiatives which are as follows:

1. Community Governments Managing Land Development Projects

Community governments have had the opportunity manage some MACA capital projects. The Department will now be actively encouraging community governments to take on management of land development projects. Capital funds would be transferred to community governments and managed through contribution agreements. The Department of Public Works and Services assistance is available if requested by the community government.

2. Devolution of Land Ownership

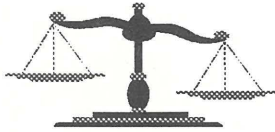
Ownership of land within municipal boundaries is an important aspect of enabling community governments to become more self-sufficient and self-reliant. In Nunavut, this has already taken place pursuant to the Nunavut Land Claims Agreement. As of July 1996, municipal corporations will have title to municipal lands within the built up area of the municipality. In the western NWT, *where claims are settled*, the GNWT is implementing an initiative to transfer ownership of land to interested community governments over the next 3 years.

3. Land Administration Services and Funding

In order to assist Nunavut municipalities in the transition to full control and responsibility of land administration, the GNWT is currently providing land administration services on land owned by the municipality. The GNWT does not currently recover the administration cost of preparing and maintaining land contracts such as leases, sales, and assignments.

MACA will continue to provide land administration services until April 1, 1997. However, in Nunavut and for some communities in the west, funding will be available for municipalities to do land administration. In these cases, MACA will not be providing land administration services after April 1, 1997 unless the service is requested by the community government. If MACA services are requested, costs will be fully recovered. This will provide an incentive to community governments to take over land administration. In all cases, MACA will continue to provide ongoing assistance, advice, and support to community governments.

The GNWT is also assisting community governments to develop the capability to manage and administer their lands. For example, the GNWT offers the Community Land Administration Certificate Program which provides the necessary training and skills to become a land administrator. The GNWT has also provided incentives to community governments to sponsor a student in the program.



*Finding the Right Balance:
Options for Changing Land Development Practices*

4. Training

Training is an essential component of any initiative that is aimed at promoting self-reliant community governments. MACA training programs will be targeted to management of the various phases in a land development project. Current training initiatives of MACA include the Community Land Administration Certificate Program and handbooks such as the Councillor's Guide to Municipal Land Development, Municipal Land Administration Handbook, and the Subdivision Agreement Handbook.

5. Review Municipal Lands Policy

In order to maximize community autonomy in land disposal and pricing, the GNWT will be reviewing the Municipal Lands Policy to establish the level of control the GNWT should have in how municipalities dispose of land.

6. Amend Legislation

MACA is examining how GNWT legislation should be amended to allow non-tax-based communities to borrow money to do land development. The current GNWT legislation (ie. *Hamlets Act and Charter Communities Act*) does not allow non-tax-based communities to borrow money. This limits the options available to community governments to finance land development.

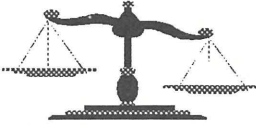
MACA is also conducting a Municipal Legislation Review. This review will be examining ways to increase community government flexibility and autonomy.

7. Land Development Policy

In changing legislation to allow community governments to borrow money, consideration must be given to how decisions on requests for loans are made as well as the criteria to be used to determine loan approval. This has been an important issue with tax-based communities. For example, the Town of Inuvik undertook a land development project without a market for the lots. A land developer cannot pay back loans when there are not enough customers who can afford the lots. A set of guidelines for proper review of proposed land development projects would provide a safeguard for communities and the GNWT from loan defaults.

The Land Development Policy will outline how the GNWT will assist municipalities to do land development including level of financial assistance, type of substantiation required for land development loans, and criteria for review of loans.

Community governments (tax-based and non-tax-based) and the GNWT will need to work together to review the issues in order to ensure that safeguards from defaulting on loans are in place.



*Finding the Right Balance:
Options for Changing Land Development Practices*

8. *Easing the Transition: Municipal Land Development in 1996-97*

The GNWT is transferring approximately 3900 developed lots, at no charge, to the municipalities of Nunavut. At a conservative estimate of \$15,000 to develop each lot, the total value of these lots would be \$59 million.

The 1996-97 construction season will be a transition period for community governments in terms of making choices as to how new developed lots will be provided. The municipality will have the opportunity to do part of the project, contract any part of the project, or agree to let the GNWT do the project.

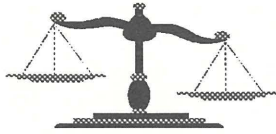
When the GNWT is requested by the community government to do land development, there must be an agreement with the community government to ensure that the contribution can be recovered as the GNWT can no longer charge lessees for land development costs. Payments will be deferred until 1997/98 as municipalities will not receive the collected lease payments for 1996-97 until the end of the year.

The GNWT will continue to provide assistance in financing land development projects in the 1996-97 construction season. This will ensure that there will be no disruption in land development plans and will provide a gradual transition for community governments.

9. *Recovering Costs on Commissioner's Land*

The current pricing of Commissioner's land does not reflect the actual cost to build new lots. A large hidden GNWT subsidy is provided to all consumers of Commissioner's land. This subsidy provides little incentive for community governments or the private sector to become more involved in land development.

Having a full cost recovery pricing policy in place prior to the transfer of land to community governments will provide incentive to community governments to become more involved in land development and devolution of land ownership and will provide a smooth transition to community control of land and the land development process.



E. Changing Land Development Practices: Issues and Options

The GNWT is working toward assisting communities to achieve greater levels of self-sufficiency. The changing nature of community government and increasing pressure to reform the way government operates in the NWT has created many challenges and opportunities. Although some of these challenges place limitations on the options available, there are many options which provide opportunities for increasing community authority and responsibility and improving the fairness and effectiveness of the current land development and pricing process. The following five questions will provide a discussion of the options for changing land development practices. The challenge is to consider which options strike the right balance between the interests of governments and land users.

• How can community governments and the GNWT fund land development?

Revenues from Existing Land

Revenue from lease or sale of land is one source of funding. As community governments become land owners, they will retain more of the revenues from land leases and sales in a separate fund. In the long term, this fund can be used to build new subdivisions. The amount of revenue in the fund will be determined by the pricing choices made by the municipality.

GNWT Capital Contributions

The GNWT could continue to provide a contribution as part of the five year capital planning process. This contribution would be fully recovered, including interest payments, as revenues are generated from the lots.

Loans

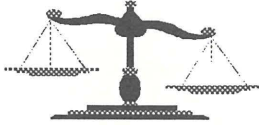
If hamlets and charter communities were able to borrow money, land development could be financed through loans, as is done by tax-based municipalities, and land development costs could be recovered through lease or sale of the lots. There are two sources for loans available:

Loans from the GNWT- are secured by debentures and require a borrowing by-law approved by the Minister of MACA;

Loans from a Bank- also requires a borrowing by-law approved by the Minister of MACA and may require a greater degree of liability.

Private Land Development

Land could be developed by a private land developer. The private developer would take the risks and recover the costs of land development. However, it is necessary that the community government retain some controls in order to prevent land speculation. Community governments



*Finding the Right Balance:
Options for Changing Land Development Practices*

could also enter into a partnership with a private land developer whereby risk and cost recovery are shared by both parties.

Summary

Regardless of the financing strategy chosen by the community governments, it is important to forecast development needs before proceeding with funding a land development project. In the case of borrowing the money for a land development project, forecasting development needs will ensure that income will be available to pay off the loan.

Community governments should have choice as to how they will fund land development projects. Which approaches will work best for community governments and the GNWT?

• How should GNWT and community governments recover land development costs?

Short Term

One option is to recover 100% of the cost of land development in the first or second year. The purchaser (user) of the lot could obtain private financing to lease or buy the lot by obtaining a mortgage from a bank or through the NWTHC.

If the full price of a lot is paid up front, community government financing is easier and risks are reduced. Immediate opportunities for community government and even private participation emerge. This approach has been exercised successfully in tax-based communities.

Long Term

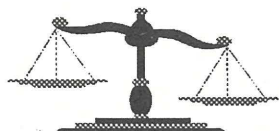
A community government or the GNWT could act as a financing source for the consumer by providing long term payment options. This would provide flexible payment options but would also increase the risk for the lender (community government or GNWT). With the cost of land development spread over time, interest costs must be considered. If interest costs are not built into the payment options, the lender must cover the costs.

New Lots

Land development costs could be recovered solely from new lots. Existing lots would continue under the original terms (not full cost recovery).

New and Existing Lots

Land development costs could be recovered through new and existing lots. As existing lease rates are reviewed every five years, a plan for the recovery of development costs on existing leases could be implemented in the year of the rent review.



*Finding the Right Balance:
Options for Changing Land Development Practices*

Equity Lease

Equity leases could be offered on all lots in order to recover land development costs. An equity lease is a lease of land which allows annual payments to accumulate as equity toward eventual full payment of the land development costs (lot price). An equity lease can be spread over varied time periods. For example, if a community government chose to recover land development costs immediately, a two year equity lease could be used. However, if a community government chose to provide long term financing for a consumer, a 15 year equity lease could be used. Equity leases have been used successfully by the Town of Iqaluit.

• **How can an individual afford a lot?**

According to current NWTHC standards, a consumer should pay no more than 30% of household income for shelter costs. Shelter costs for housing include development costs, power, heat, water and sewer, insurance, and maintenance. There are various options available to ensure that individuals can afford a lot.

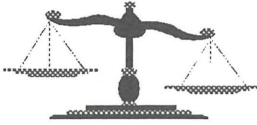
Mortgage

Consumers can finance the cost of a lot by obtaining a mortgage (refer to discussion on page 2) from a bank or through the NWTHC. The same mortgage could be used for the house and the cost of land (lease or sale). A mortgage enables the consumer to spread payments over a time period which is suitable to income level. As shown in figure 6, payments are less as the mortgage is spread over longer periods of time.

Figure 6
Mortgage Payments for \$15,000 Lot Over Time
at Interest Rate of 9%

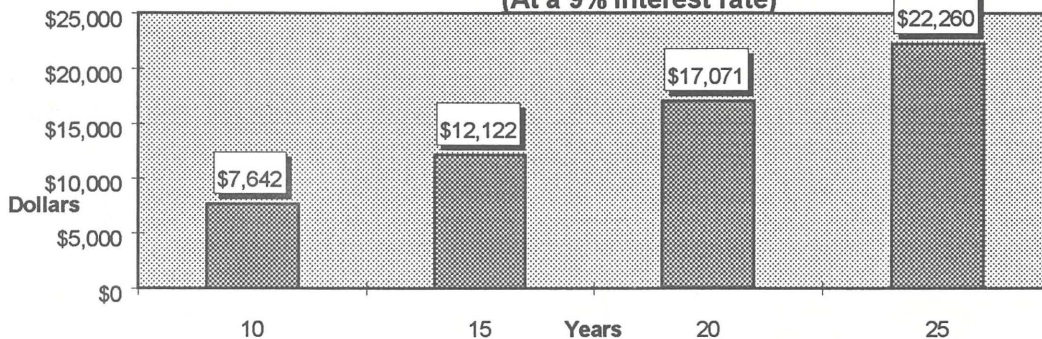
Time (years)	Monthly Payments	Yearly Payments	Total Cost of Lot
10	188.69	2264.00	22,642.00
15	150.68	1808.00	27,122.00
20	133.38	1600.00	32,011.00
25	124.20	1490.00	37,260.00

However, if a \$15,000 lot is mortgaged over 25 years with an interest rate of 9%, the total cost for the lot would be \$37,260. The total cost of the lot increases as the payments are spread over longer periods of time.



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Options for Changing Land Development Practices*

Figure 7:
Total Interest Costs for a \$15,000 Lot
(At a 9% interest rate)



For a \$15,000 lot mortgaged over 25 years, the total paid in interest is \$22,260. The same lot mortgaged over 10 years would result in only \$7,642 in paid interest. Therefore, although mortgage payments are less when spread out over time, the cost of interest is a lot higher resulting in a higher total cost for the lot.

Subsidies

There are many types of subsidies issues which can address various affordability issues. For example, the present land development process includes an untargeted, hidden subsidy to the lot purchaser. The subsidy is untargeted because everyone receives the subsidy, regardless of ability to pay. The consumer pays the subsidized amount for the lot (e.g. \$250 per year) and the true cost of developing the lot is not known by the consumer.

- Subsidy to Developer

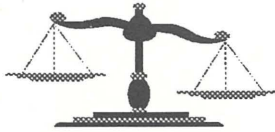
A subsidy provided to the land developer is also invisible and not targeted at individual need. However, it would assist a land developer to provide community lots.

- Subsidy aimed at Lots

A subsidy could be applied directly to the lot. For example, certain lots could be designated for applicants that meet eligibility requirements based on income. This would target the subsidy where it is needed but the actual lot cost may not be visible to the consumer.

- Direct Subsidy to Consumer

A subsidy can also be visible and targeted at need. For example, the consumer of a lot could be charged the full cost of developing a lot and then be subsidized for a portion of that cost. Eligibility for the subsidy and the amount of the subsidy could be determined based the financial need of the consumer using the current NWTCH formula. This would target the subsidy where it is needed.



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Options for Changing Land Development Practices*

• **How can land be priced within communities to be fair to all consumers?**

New Lots

New lots will be priced based on full recovery of land development costs.

Current Replacement Cost

The price of existing lots could be based on current replacement cost, i.e. the cost of developing a similar lot today. This would raise existing lots to new lot prices.

Historic Replacement Cost

Historic replacement costs could be calculated for existing leases. This cost would be based on what the cost of developing the lot **was** with the rate of inflation discounted.

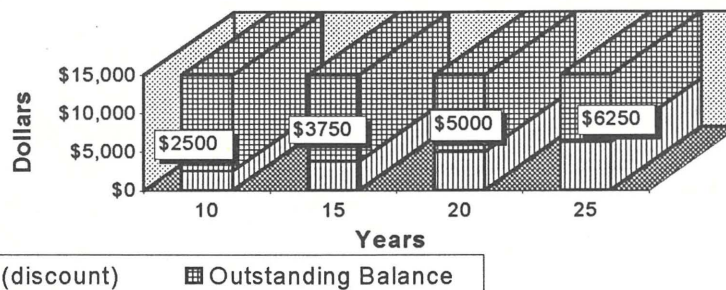
Annual Standard Lot Price

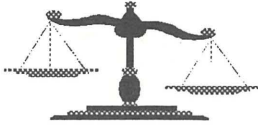
Using available cost information for building lots as a guide, uniform prices could be set for existing lots. This rate would be paid on existing lots and would have no direct relation to the cost of developing individual lots.

Credit for Previous Lease Payments

For existing lots, previous lease payments made on the lot could be credited against the current replacement costs, historic replacement costs, or standard lot price in an equity lease. For example, if a lessee has made lease payments for 10 years on a \$15,000 lot, \$2500 would be discounted (10 years x \$250) leaving \$12,500 outstanding (without interest). The outstanding balance is based on cost minus previous lease payments.

**Figure 8:
Credit for Previous Lease Payments**





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Options for Changing Land Development Practices*

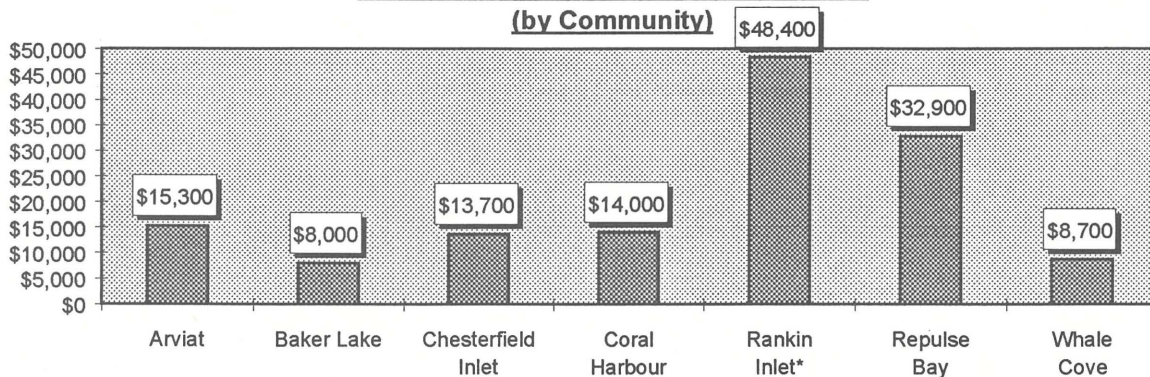
Summary

As existing lease rates are reviewed every five years, a plan to raise lot prices could be implemented in the year of the rent review and new lease fees could be based on a certain percentage of the current replacement cost, historic replacement cost, or standard lot price.

• **How can lots be priced among communities in a fair manner?**

As stated, development costs differ considerably. For example, the cost of developing a trucked lot can range from \$5,000 to \$33,000 and is influenced by factors such as gravel prices. The following is a sample of the differing costs for lots in one area of the NWT, the Keewatin Region:

**Figure 9:
Development Costs for Keewatin Region
(by Community)**



* Piped Lots

With this wide range of development costs throughout the NWT, the following options emerge for pricing lots:

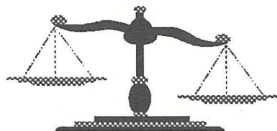
Cost to Develop Lot

The price of a lot could be based on the actual cost of developing that lot.

Maximum Lot Price

The GNWT could provide a maximum lot price subsidy to assist communities that have extremely high lot prices. A maximum lot price could be set and a subsidy could be provided for lots which exceed the maximum.

The subsidy could be visible by pricing the lot based on the full cost of land development and then offering a subsidy for any amount over and above the maximum lot price. For example, if the

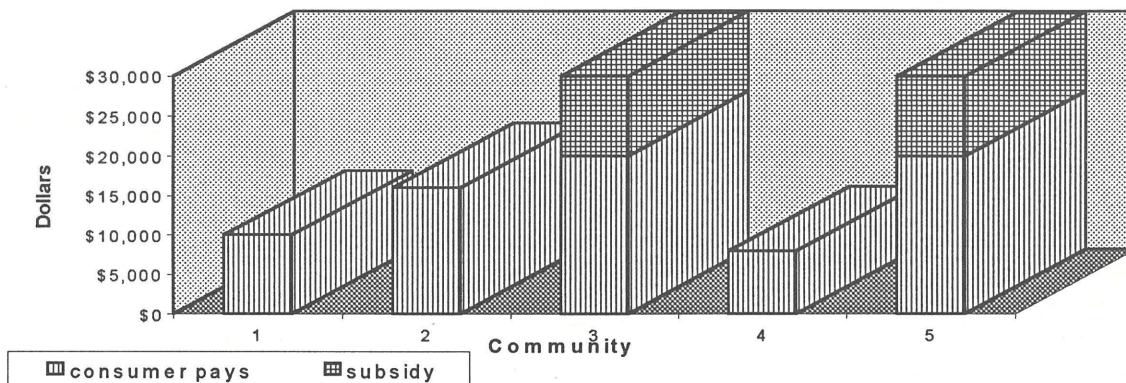


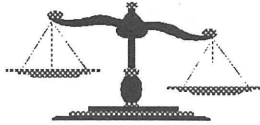
*Finding the Right Balance:
Options for Changing Land Development Practices*

subsidy is based on a ceiling lot price of \$25,000 for a trucked lot and the actual price of the lot based on development cost is \$30,000, the consumer would be eligible for a \$5000 subsidy.

Another method of providing the subsidy is to apply the subsidy to the lot. This would reduce the lot cost for the consumer to the maximum lot price (\$25,000).

**Figure 10:
Maximum Lot Price**





*Finding the Right Balance:
Options for Changing Land Development Practices*

F. Finding the Right Balance

The goal of this discussion is to find approaches to land development which strike the right balance between the interests of governments and land users. This approach should address land development issues based on the principles and objectives outlined above; including community empowerment, cost recovery, and affordability. The following section provides a summary of the advantages and disadvantages of the options for changing land development practices. Many of these options can work together. For example, land development can be funded through loans *and* revenues from existing leases.

HOW CAN LAND DEVELOPMENT BE FUNDED?

Revenues from Existing Land

Advantages/Disadvantages

- provides steady revenue source for land development
- limited initial revenues may hamper ability to supply lots in response to need
- may be seen as charging existing lessees to pay for new lots

GNWT Capital Contributions

Advantages/Disadvantages

- assists communities in the transition to full control and responsibility
- continued reliance on GNWT funds limits community control - funding ability may not meet community priorities

Loans

Advantages/Disadvantages

- more flexibility in obtaining funding
- the GNWT could be liable for any loan defaults
- puts tax-based and non-tax-based communities on a level playing field

Private Land Development

Advantages/Disadvantages

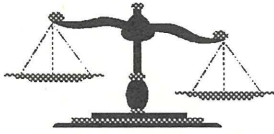
- private land developer takes the risk as opposed to municipalities
- controls necessary in order to limit land speculation

HOW SHOULD LAND DEVELOPMENT COSTS BE RECOVERED?

Short Term

Advantages/Disadvantages

- community government able to pay off loans with minimal interest
- full payment provides opportunity for private developers to be considered
- community residents would need to borrow money to pay for lots, and pay interest
- may make land unaffordable for some residents
- may not allow for a transition period
- works in a lease or sale environment



*Finding the Right Balance:
Options for Changing Land Development Practices*

Long Term

Advantages/Disadvantages

- community government provides financing (acts as a banker) for community residents
- reduces cash flow to construct new lots
- community residents would not need to qualify to borrow money for lot payments
- yearly payments result in a higher cost in the long run because of interest
- not as attractive to private land developers because of increased risk
- community government needs to administer collection of revenue on lease

New Lots

Advantages/Disadvantages

- revenue base limited to new lots
- large price difference between new lots and existing lots is a disincentive to acquire new lots
- current land users will not be affected

New and Existing Lots

Advantages/Disadvantages

- land development costs recovered from all lessees
- using larger revenue base
- current land users will have increased costs

Equity Lease

Advantages/Disadvantages

- lease payments accumulate as equity (toward full payment)
- creates value (equity) for lessee, which can be transferred when buildings are sold
- higher payments easier for community governments to introduce because they build value (equity) for lessee
- can be used in different situations, e.g. when the land developer is recovering land development costs immediately or over time (2- 15 years)

HOW CAN AN INDIVIDUAL AFFORD A LOT?

Mortgage

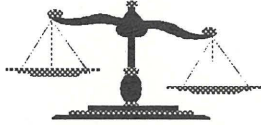
Advantages/Disadvantages

- costs spread over time resulting in more affordable payments
- yearly payments would include interest charges - higher cost in long run

Subsidy to Developer

Advantages/Disadvantages

- provides developer with funds to develop affordable lots
- all community residents able to have more affordable lots
- not targeted at individual need
- no guarantee if and how subsidy will be passed on by land developer to consumer



*Finding the Right Balance:
Options for Changing Land Development Practices*

Subsidy aimed at Lots

Advantages/Disadvantages

- subsidy not visible to consumer - actual price of lot is not known to the consumer
- subsidy aimed at need - applicant must meet eligibility to obtain lot subsidy
- subsidy stays with the lot so future users will benefit

Direct Subsidy to Consumer

Advantages/Disadvantages

- subsidy is only for those in need rather than applied to everyone
- actual price of developing the lot is visible to the consumer
- consumer may profit from the subsidy when building or land is sold

HOW CAN LAND BE PRICED WITHIN COMMUNITIES TO BE FAIR TO ALL CONSUMERS?

New Lots

Advantages/Disadvantages

- consumer pays actual cost of developing lot
- could lead to large difference in lot prices between old and new lots, and between new subdivisions built in different areas

Current Replacement Cost

- by basing rates on current replacement costs, lessees of existing and new lots would pay similar rates
- current land users will have increased costs

Historic Replacement Cost

Advantages/Disadvantages

- community residents would be charged the actual cost of development not replacement cost
- price will be discounted for inflation
- results in less revenue for municipality than current replacement cost
- current land users will have increased costs

Standard Lot price

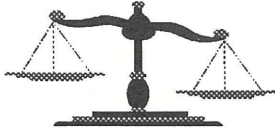
Advantages/Disadvantages

- everyone pays the same amount
- easy to administer and understand
- payments no directly related to cost of lots e.g. individuals may pay more or less than development cost
- current land users will have increased costs

Credit for Existing Lease Payments

Advantages/Disadvantages

- previous lease payments can be applied to the cost of land development
- recognition that payments have been made on existing leases
- less revenue for community government



*Finding the Right Balance:
Options for Changing Land Development Practices*

HOW CAN LOTS BE PRICED AMONG COMMUNITIES IN AN FAIR MANNER?

Cost to Develop Lot

Advantage/Disadvantages

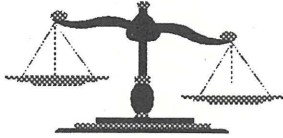
- community residents paying the true cost of the service (lot) they receive
- high priced communities will be disadvantaged

Maximum Lot Price

Advantages/Disadvantages

- benefits communities with higher land development costs
- setting a maximum lot price does not address individual affordability issues
- may promote inefficiencies (inflating price)

What combination of options do you feel strikes a balance between all the issues involved in changing land development practices (i.e. more local control, the need to recover land development costs, have affordable lots, fairness in land pricing with and between communities, land development practices which promote fairness between all community governments and the GNWT, etc.)?



Finding the Right Balance: Options for Changing Land Development Practices

This questionnaire follows the subject areas - the main issues - of the Discussion Paper. The Department of Municipal and Community Affairs is interested in receiving comments from you and your responses will help identify the views of the people of the Territories on these issues. Feel free to detach this questionnaire to provide your comments and/or copy this questionnaire for anyone you feel may be interested in the issues discussed.

Please identify which community you live in? (optional)

How should land development be funded?

Municipal governments should be able to borrow money to finance land development projects.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Private land developers should finance land development.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Other suggestions:

How should governments recover land development costs?

Short Term (1-2years)- consumer can obtain private financing to pay for lot from a bank or the NWTHC.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Long Term- community government or GNWT recover provide financing source (act as banker) for consumer.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

New lots- development costs should be recovered only on new lots.

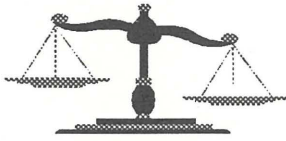
agree strongly___ agree somewhat___ disagree___ strongly disagree___

New and Old Lots- developments costs should be recovered from new and old lots.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Equity Lease- land developer could recover costs through an equity lease- payments accumulate as equity toward eventual full payment of lot.

agree strongly___ agree somewhat___ disagree___ strongly disagree___



Finding the Right Balance: Options for Changing Land Development Practices

Other suggestions:

How to Make Building Lots Affordable - If a subsidy is provided for land development it should be given to:

Consumer - the community resident who can't afford to pay the price of the lot can apply for a subsidy.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Land developer- land developer uses subsidy to lower price of all lots developed.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Lot- eligible community residents can apply for designated subsidized lot.

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Other suggestions:

How to can lots be priced within communities to be fair to all consumers?

New lots- priced at full development costs

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Current Replacement Cost- existing lots priced the same as new lots

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Historic Replacement Cost- existing lots priced at original development cost with inflation discounted

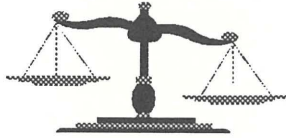
agree strongly___ agree somewhat___ disagree___ strongly disagree___

Standard Lot Price- standard price set for existing lots

agree strongly___ agree somewhat___ disagree___ strongly disagree___

Other suggestions:

How to can lots be priced among communities in a fair manner?



***Finding the Right Balance:
Options for Changing Land Development Practices***

The cost of each individual land development project should be the basis for pricing the lots.

agree strongly ___ agree somewhat ___ disagree ___ strongly disagree ___

Should there be a subsidy for lots in communities where land development is unusually expensive?

agree strongly ___ agree somewhat ___ disagree ___ strongly disagree ___

Other suggestions:

Which of the above issues is the most important?

What other issues related to land development are important? We invite further comment:

