

DRAFT

YUKON DEVELOPMENT STRATEGY

CONSTRUCTION AND HOUSING

Y U K O N . 2 0 0 0

Building the Future

Yukon
Government

Construction and Housing Strategy

A Progress Report ■ April, 1987

The construction industry includes industrial, commercial and institutional building contractors, civil contractors specializing in highway and municipal services construction, and companies and individuals involved in housing construction and rehabilitation.

Directions

The Yukon Statistical Review for the third quarter of 1986 estimated that more than 6% of those in full-time employment in Yukon were active in the construction industry. Activity in the construction and housing industries results in a significant amount of direct and indirect employment. Some directions to guide the development of this sector are outlined below.

1. Government's role in the construction industry should be to support and encourage the development of private sector Yukon businesses as entrepreneurs and employers, not to compete with them. This can be accomplished by:

- tailoring government construction contracts to the capabilities of local companies.
- compensating for higher costs by providing a "competitive edge" for Yukon companies in comparison to out-of-territory firms.
- developing programs to assist with access to capital for Yukon business.

YUKON 2000 GOALS

The option to stay in the Yukon

Control of our future

YUKON DEVELOPMENT STRATEGY

YUKON 2000
Building the Future
Yukon

Equality of opportunity for all Yukoners

An acceptable quality of life

2. Use construction as a tool of government for economic and community development by:

- encouraging the development of employment and business opportunities for Yukoners, including those in the communities, by adhering to a local preference policy in hiring.
- providing training opportunities so that local residents can take advantage of developing employment opportunities.
- ensuring that community members are participants in community planning for government-sponsored housing and other construction projects to maximize local input into decision-making.

3. Use the construction industry to stabilize economic activity by:

- spreading larger projects over time, for example by building a number of social housing units a year for five years, rather than all the required units in one year. This would maximize the longer term employment and business opportunities and reduce the need to import tradespeople and other workers from out of the Yukon.

4. Develop the links between construction and other sectors of our economy by:

- encouraging the use of local materials such as dimensional lumber, siding and other construction materials.
- encouraging the use of locally-made cabinets and other construction-related items.



Constraints

- * short construction season
- * fluctuating capital budgets
- * shortage of qualified tradespeople
- * contract security requirements
- * cost of construction, purchase and maintenance of housing
- * property tax increases with improvements to property
- * unknown size of housing market



Options

1. Break large projects down into smaller contracts.

This option would enable smaller companies to participate more in construction activity. It may increase the involvement of Yukon-based companies. It does offer the potential for cost and time-savings on large construction projects.

Small companies have problems bidding on large projects because of a lack of large project management expertise, and a lack of experience generally. They also have difficulties in meeting contract security requirements. Large projects could be broken down into smaller components to allow smaller firms and specialized companies to take advantage of opportunities. Contracts could be broken down into components according to the capabilities of the industry in Yukon. This would involve no cost increase, but the management of building projects would become more complex because of the number of contractors involved in large projects. The benefits, particularly for large projects include potential cost and time-savings. It may be possible also to assist Yukon-based companies to become involved in the management of construction.

2. Provide government-guaranteed contract security to a specified amount for companies who are unable to obtain bonding through traditional means.

This option would make it easier for smaller, new or expanding companies to bid on contracts during the construction season.

Construction contracts awarded by the government require contract securities in the form of bid bonds, performance bonds or security deposits according to the value of the contract. The Yukon Government's Contracts Directive requires the provision of security deposits amounting to 10% of the value of contracts up to \$50,000, and 20% of the value of contracts up to \$500,000. (Security deposit requirements may be reduced or waived for contracts amounting to less than \$50,000.) Small companies, first time contractors and those wishing to expand their operations, may experience problems in obtaining bonding unless they have a substantial "track record."

One option for these companies is to provide cash security deposits or a letter of credit from a bank. Cash security deposits tie up significant amounts of capital, thereby limiting the number of contracts which can be bid on.

The Yukon Government, for example, through the Business Development Offices' Business Advisory Board, could assess the viability of companies unable to obtain bonding, and guarantee the companies' contract security by issuing a letter of credit which would be dependent on criteria such as the size, assets, and financial viability of the company. This would provide security for the purposes of a bid bond only; it would not be the intent to provide assistance for performance bonds.

The development of such a program would require the drafting of a business assistance act and regulations to replace the Business Loans Act which does not allow for the provision of security. The program could be offered on a pilot basis, and would be limited to contracts originating with federal, territorial and municipal governments and crown corporations. The cost would be minimal, given the low incidence of default. The money paid by Government in a case of default would be amortized as a loan over a set period of time, and repaid by the defaulting company.

3. Provide information to construction companies about bonding; how to acquire it; and the advantages of bonding as opposed to other forms of security.

This would encourage and make it easier for companies to take advantage of, and obtain bonding.

4. Tender government contracts as soon as the capital budget has been approved by the legislature.

This option would allow construction on new projects to begin as soon as the new year's money was released on April 1st of each year. It could potentially extend the construction season for government projects.

The shortness of the construction season creates particular problems when contracts are tendered late.

The capital budget is normally approved in the fall, however the money associated with it is not available until April 1st of the next fiscal year. Once the construction projects have been

approved, Government Services can put projects out for tender and award the contracts immediately after April 1st. Contracts could not actually be signed until April 1st, and construction could therefore not begin until that date. This would require some internal adjustment in government, since all departments would be required to budget for design costs in one fiscal year and construction costs in a subsequent fiscal year.

5. Stagger the closure dates for tenders let by Government Services.

The staggering of closure dates would enable companies to better plan their activities over a construction season to avoid a work shortfall. It would also reduce the difficulties resulting from contract security requirements.

Construction companies experience difficulty when the dates for the closure of tenders are the same. Companies may find difficulty in tendering for more than one project because of the contract security requirements. Difficulties may be experienced also when one bid is unsuccessful, and other tenders have already closed. Closure dates could be staggered in such a way that the effects of Option #4 would not be negated.

6. Publicize government capital construction projects in advance.

Fluctuating capital budgets make it difficult for companies to plan their activities. The earlier tendering of construction projects should help in this area, however government could release some information about potential capital projects up to three years in advance. This may help companies to plan their activities, but the information would only be suggestive of potential projects at best. Projects are approved by the legislature each year, and capital plans can change significantly. This is especially true with the fluctuating economy in the Yukon.

Planned projects, for example the construction of social housing units in a community, could be planned for completion over several years. This would stabilize the local construction industry, and provide a minimum level of economic activity for a longer period.

If this information was made available it would have to be made very clear that the information was subject to change in order to avoid encouraging speculation and building

expectations. The information would be obtained from one source, possibly the Department of Economic Development through Whitehorse and other communities.

7. Provide a financial assistance program to assist in building, purchasing, or upgrading and owning property.

The provision of a second mortgage loan fund would enable more people to enter the housing market, and could potentially increase the number of new houses built.

The high cost of housing, and the problems associated with obtaining mortgage funding in some communities limits the number of people who are able to buy and build houses. A second mortgage program could be used by people who wanted to build their own homes, and those who may be unable to obtain mortgage funding from conventional sources.

A second mortgage program could be administered by the Yukon Housing Corporation as a revolving loan fund. Loans could be made at favourable interest rates, repayable over a ten year period for example. The Yukon Housing Corporation is now reviewing the potential for the development of a widely applicable second mortgage program.

It is difficult to obtain the interim financing required for house construction in some communities. Home insurance rates are also very high. Government could explore ways to reduce or assist with these costs.

8. Provide an incentive for home improvement through the property tax system.

Significant home improvements, such as additions of garages or extra rooms, now result in an increase in property taxes levied on the homeowner. This is considered by some to be a deterrent to those who might wish to improve their properties. The Yukon Government is responsible for assessing the value of a property, and the municipalities set the property tax rate, based on the assessed value of that property.

An incentive program could provide a grant to homeowners equivalent to the increase in property taxes resulting from a property's improvement. Such a grant system would have to be administered by the Yukon Government rather than the municipalities to ensure that Yukoners living in all areas were also eligible.

It would not result in a loss to municipalities, because municipalities would still levy taxes on the full assessed value of the property.

The effectiveness of such a program is questionable because the amounts of money involved may be very small. For example, the addition of a garage or similar structure may result in a tax increase of only \$50.00. It is debatable whether a grant of this size would be a real incentive to those wishing to improve their property. It would be unlikely to significantly increase the business available to construction companies or contractors. The amount of money made available to individual property owners would be small, however, the amount of money spent by government may be quite large if a lot of people were to apply for grants.

9. Increase the available pool of skilled labour in the territory.

The Department of Education has announced the development of two initiatives intended to improve the skills available in the community. The Trades and Technical Trades Survey will assess the projected training needs for industry. This will be completed in the Spring of 1987.

The Joint Apprenticeship Study will review the Yukon apprenticeship program in order to recommend improvements in the trades training area and ways in which apprenticeship training could accommodate the needs of women and Indian people. This study is in the planning stages, and will be conducted jointly with unions, governments and industry. It is expected to be completed by April 1988.

The intent of these initiatives is to suggest ways to maximize the pool of skilled labour in the Yukon, and maintain high standards comparable to those found in other parts of Canada.

The Department of Education is also planning to offer business management programs in the communities outside Whitehorse using a mobile trailer. This will increase local business management skills which may assist the industry as a whole.

Contractors' ability to take on new projects may be limited by a shortage of skilled labour during a busy construction season. The population in Yukon is still quite transient. Some individuals who wish to take part in apprenticeship programs may be unable to find

willing employers; on the other hand there may be a reluctance on the part of potential trainees or apprentices to enter a long training program in a fluctuating market with an uncertain employment future.

10. Conduct a survey of the housing market in Yukon.

Information about the housing market would enable builders to make more informed decisions.

The size of the housing market is unknown across Yukon. It has been suggested that a market survey be carried out to determine the potential for building houses "on speculation" for purchase. Individual companies may be able to receive some assistance from the Business Development Office's "Opportunity Identification Program" to conduct feasibility studies in this area. Funding may also be available from the Department of Regional

Industrial Expansion for Indian-owned companies.

This type of market survey is probably better carried out by the industry or company which would be taking the risk of building houses for future sale. However, this approach would result in the production of fragmented information which may remain unavailable to all interested companies. If a survey were sponsored by government, the information would be more complete and could be regularly updated and made available to all interested companies and individuals. The survey could include basic information about vacancy rates and population trends which could be interpreted by individual companies for their own use. A full assessment of the information available for the Yukon Governments' Bureau of Statistics should be completed before embarking on a survey in order to ensure that resources are not wasted in collecting information which already exists.