
Amendments to Council Policy No. C09-001, Residential Lot Sales – Contractor Allocations

Recommendation

That the Standing Policy Committee on Finance recommend to City Council:

1. That the proposed amendments to Council Policy No. C09-001, Residential Lot Sales – Contractor Allocations, be approved; and
2. That the City Clerk be requested to update Council Policy No. C09-001 as outlined in the report of the CFO/General Manager, Asset and Financial Management Department, dated August 7, 2018.

Topic and Purpose

The purpose of this report is to obtain City Council approval of the proposed amendments to Council Policy No. C09-001, Residential Lot Sales – Contractor Allocations (Policy) and address Recommendation No. 8 of the Saskatoon Land Internal Audit.

Report Highlights

1. Home builders who fail to make final payment by the 16-month deadline are suspended from purchasing.
2. Currently, new builder applicants must complete a probationary process that has no consideration for builder experience.
3. Saskatoon Land requires all Eligible Contractors to submit an annual application form which then forms the builder list and ranking each year.
4. Saskatoon Land is proposing changes to the Policy as recommended by the Internal Auditor, and from matters brought forward by customers.
5. Housekeeping updates to the Policy are being proposed to better clarify contractor criteria and for ease of understanding.

Strategic Goals

This report supports the long-term strategy of increasing productivity by being more efficient in the way the City of Saskatoon (City) does business under the Strategic Goal of Continuous Improvement.

This report also supports the long-term strategy of creating a business-friendly environment where the economy is diverse and builds on the city and region's competitive strengths under the Strategic Goal of Economic Diversity and Prosperity.

Background

At its August 28, 2017 meeting, when considering the Saskatoon Land Internal Audit report, City Council resolved, in part:

- “4) That the Administration adhere to approved policy in the administration of Saskatoon Land, and bring forth recommendations for policy changes when necessary.”

Recommendation No. 8 of the Internal Audit related to sales to contractors with outstanding accounts and stated:

“With the new non-manual system in place to track outstanding accounts, given current policy as written, IA recommends that Saskatoon Land adhere strictly to the requirements with respect to outstanding accounts and be diligent in suspending contractors from further purchases once the 16-month limit is reached, regardless of extenuating circumstances. Under current policy as written, our recommendations would be that no additional purchases be made without actual settlement of the outstanding account, as the commitment to settle an outstanding account is not equivalent to actual settlement of the account. If there is a level of discretion that the SPCF is comfortable having Saskatoon Land exercise with respect to allowing additional purchases to contractors with outstanding accounts at the time of the proposed purchase, IA recommends that this be incorporated into existing policy or, if full discretion is desired, that this requirement be removed from policy altogether.”

Report

Outstanding Accounts

Payment terms for lot sales are approved by the Standing Policy Committee on Finance when considering pricing requests for new lot allocations. Standard terms, including all allowable payment extensions, require full payment on lot sales within 16 months of lot possession. Builders who do not meet this timeline are suspended from purchasing any additional lots. When that situation occurs, Saskatoon Land staff begin the procedure to collect on overdue accounts and go to great lengths to communicate with the purchaser to achieve a positive outcome.

Occasionally, Eligible Contractors who are suspended due to overdue payments will request to make an over-the-counter purchase as they have a signed contract in place for a new build on an available lot. These situations have the potential to benefit both the builder and Saskatoon Land for the following reasons:

- provides home builder with additional cash flow that can be used against outstanding accounts;
- allows home purchaser to have their preferred builder construct their home; and

- provides Saskatoon Land with an over-the-counter lot sale and additional revenue.

New Home Builder Applicants

New applicants wanting to become a home builder in Saskatoon Land developments must complete a probationary process as outlined in the Policy. This process is used to confirm applicants have the knowledge and commitment to become a new homebuilder in the market. The current Policy does not have a provision to recognize well established builders from other jurisdictions whom have been building homes professionally for several years. In most instances, this type of builder applicant has already proven themselves as a professional homebuilder and as such it is not practical to use the same probationary process otherwise used to qualify new, inexperienced applicants.

The Administration is proposing that instead of going through the probationary process, experienced new home builder applicants must meet the Eligible Contractor criteria as outlined in Section 3.3, and also meet the following criteria which will be added to the Policy to demonstrate they are, and have been, an established homebuilder with experience in other Canadian jurisdictions:

- applicant company must demonstrate expertise in homebuilding, proving a minimum of 5 recent years of professional homebuilding experience, measured by corporate profile report or other means acceptable to the Administration;
- minimum of 25 new home builds in Canadian homebuilding market;
- two qualified homebuilding industry references; and
- two customer references.

Established applicants would be considered full Eligible Contractors with Saskatoon Land and would qualify to purchase lots from any new public lot allocations, as well as lots over the counter. As there would be no purchase history for ranking the new applicant on the builder list, they would have to start at the bottom of the list and work their way up through purchasing lots the same as any other new or probationary applicant.

Eligible Contractor Application

Saskatoon Land requires all Eligible Contractors to submit an annual Eligible Contractor application form. This form is used to ensure that all builder information is up to date, determine which builders will be included on the website builder list, and allow for ranking of builders on the list for new public lot allocations. Under current Policy, the application form is due by February 28, and builders who miss the deadline are unable to participate in Saskatoon Land activities for the year. This static deadline is used to ensure the builder ranking is not constantly changing and to give builders assurance of their annual ranking and allocation percentage for new lot offerings.

As the main purpose of the deadline is to validate the builder rankings in lot draws, Saskatoon Land is recommending that builders who miss the deadline in a given year become ineligible for only participation in new lot allocations rather than all Saskatoon Land activities. This would mean they may still be eligible to purchase lots from inventory as long as they continue to meet all other contractor criteria. These builders would then be able to submit the application the following year for complete Eligible Contractor status and participation in new lot allocations.

Proposed Changes to Policy

Consistent with the Internal Auditor's recommendations and communications from builder customers, Saskatoon Land is proposing amendments to several sections of the Policy as follows:

- Section 3.4 to allow new applicants who demonstrate they are experienced home builders full Eligible Contractor status under defined criteria outlined in written procedures and the New Contractor Eligibility Application Form (Attachment 1);
- Section 3.4 to remove specific details of probationary requirements from Policy and contained within Saskatoon Land's Probationary Applicant Procedure. The details would continue to be outlined in the Probationary Contractor Eligibility Application Form (Attachment 2);
- Section 3.9 to provide limited discretion to the Administration when considering settlement of outstanding accounts and the potential sale of over-the-counter inventory under the following conditions:
 - i) Eligible Contractor has signed agreement/contract with customer for construction of a home;
 - ii) All interest is paid up on outstanding accounts;
 - iii) A payment plan is agreed to by Saskatoon Land and the purchaser on the outstanding accounts; and
 - iv) Approval of the Director of Saskatoon Land.
- Section 3.10 to allow over-the-counter purchases for contractors who are late in filing the annual application form and no longer eligible for new public lot allocations.

Housekeeping Items

Section 3.8, Home Warranty, and Section 3.11, Insurance Coverage of Council Policy No. C09-001, relate to Eligible Contractor criteria that pertains to Section 3.3 of the Policy. The Administration is recommending that these two sections be moved as subsections under Section 3.3 to provide more clarity and easier understanding of the criteria required to maintain Eligible Contractor status.

Attachment 3 shows all proposed amendments to the Policy.

Options to the Recommendation

City Council can choose not to proceed with the recommended policy amendments. The Administration does not recommend this option as the purpose of the amendments address potential areas for improvement brought forward by builder customers and the Internal Auditor.

Public and/or Stakeholder Involvement

The Saskatoon and Region Home Builders' Association was consulted on the proposed changes to the probationary applicant process in relation to experienced builders bypassing the probationary process. Attachment 4 is a letter from the Saskatoon and Region Home Builders' Association, indicating their general support of the change in allowing an exemption to experienced builders.

Policy Implications

Pending City Council approval, Council Policy No. C09-001 will be amended.

Other Considerations/Implications

There are no financial, environmental, privacy, or CPTED implications or considerations, and a communication plan is not required.

Due Date for Follow-up and/or Project Completion

There is no follow-up required.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. 2018 Application Form – Experienced Builder New Contractor Eligibility Form
2. 2018 Application Form – Probationary Contractor Eligibility
3. Proposed Amendments – Council Policy No. C09-001, Residential Lot Sales – Contractor Allocations
4. Saskatoon & Region Home Builders' Association Letter – July 25, 2018

Report Approval

Written by: Jeremy Meinema, Finance and Sales Manager
Reviewed by: Brad Murray, Acting Director of Saskatoon Land
Approved by: Mike Voth, Acting General Manager, Asset and Financial Management Department